

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

June 30, 2007

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 statement of financial position of KIPP East Nashville Preparatory dba KIPP Academy Nashville (the Organization) as of June 30, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP East Nashville Preparatory dba KIPP Academy Nashville as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2008, on our consideration of the Organization'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. This 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 3 through 7 is not a required part of the 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 performed for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying Schedule of Expenditures of State Financial Assistance, the Schedule of Findings and Responses and the Schedule of Prior Year Findings are presented for the purposes 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 are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Joseph DeCesimo and Company, PLLC

Nashville, Tennessee
January 9, 2008

KIPP EAST NASHVILLE PREPARATORY
DBA KIPP ACADEMY NASHVILLE
A METROPOLITAN NASHVILLE PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

This section of KIPP East Nashville Preparatory's, dba KIPP Academy Nashville (KAN), annual financial report presents our discussion and analysis of KAN's financial performance during the year ended June 30, 2007. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

KAN's total net assets increased \$367,855 during 2007. Revenues generated from government grants, governmental funds, foundation grants and donations were \$1,563,720 during the Audit Period. This total revenue is consistent with KAN's expectations and enabled KAN to offset the operating loss it would have otherwise incurred during the start-up phase of the school.

Net per-pupil funding was slightly lower than KAN expected. Specifically, the Metropolitan Nashville Public Schools' (MNPS) administrative service processing fee represented approximately 5.4% of per-pupil funding versus the historical range of 3.2% to 3.7% for such administrative service processing fees.

The state Planning and Implementation Grant funds were received as KAN expected and, with the deferral of \$84,120 from the 2005-2006 school year, KAN successfully executed its growth plan in preparation for adding the two remaining grades by the 2008-2009 school year. An additional \$40,000 was awarded to KAN through the state Planning and Implementation Grant.

Contributions from individuals and foundations were higher than expected primarily due to a \$150,000 transportation grant from the Anne Potter Wilson Foundation. This grant allowed KAN to grow our bus fleet in order to expand our educational program to neighborhoods where the absence of transportation otherwise prevented enrollment. Additionally, an anonymous grant of \$25,000 supplemented other fundraising efforts which enabled KAN to provide end of school year experiences for 80% of our students. These experiences, which this year included visits to Washington, DC and Colorado, are invaluable extensions of both our character and academic curriculums.

KAN staff spent approximately 325 hours during 2007 in development and marketing activities; approximately 70% of those hours were related to direct fundraising.

KIPP EAST NASHVILLE PREPARATORY
DBA KIPP ACADEMY NASHVILLE
A METROPOLITAN NASHVILLE PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

Operating Revenues

Governmental Funding

Metropolitan Nashville Public Schools	\$ 884,019
Grant - State of Tennessee	146,537
Other state funding	<u>61,825</u>
	<u>1,092,381</u>

Private Funding

Organizational giving	232,423
Donations	136,589
In-kind donations	<u>87,799</u>
	<u>456,811</u>

Miscellaneous Income

Student fees	12,035
Interest	<u>2,493</u>
	<u>14,528</u>

Total	\$ <u>1,563,720</u>
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During the year, general and administrative expenses represented 33.3% of total expenses compared to 45% in the prior period. Included in the 2006-2007 general and administrative expenses is the MNPS administrative fee, which represented 9.3% of total general and administrative expenses. Moreover, the 2006-2007 period general and administrative expenses included \$89,477, which includes over \$82,000 that was donated through in-kind donations. Legal expenses in the prior period were \$25,805. The significant increase was primarily the result of extensive legal services related to the interpretation of state and local laws affecting charter schools' student eligibility. KAN continues to have general and administrative expenses related to start-up activities, which are primarily funded by planning and implementation grants. Activities include marketing KAN to prospective students, hiring and training additional teachers and staff, and preparing space for additional classrooms. Per the KAN model, only one grade level of students enroll per year culminating in a total of four grade levels, fifth through eighth grades during the fourth operating year. As the final two grade levels are added, fixed costs will be further leveraged, significantly reducing the ratio of general and administrative expenses to total expenditures.

KIPP EAST NASHVILLE PREPARATORY
DBA KIPP ACADEMY NASHVILLE
A METROPOLITAN NASHVILLE PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

Functional Expenses

	Amount	Percentage
Program services	\$ 793,596	66.40 %
General and administrative	398,384	33.30
Fundraising	<u>3,885</u>	<u>0.30</u>
Total	\$ <u>1,195,865</u>	<u>100.00 %</u>

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to KAN's basic financial statements. The basic financial statements include the statement of financial position, statement of activities, statement of functional expenses, statement of cash flows, and notes to the financial statements.

The statements are followed by required supplementary information that further explains and supports the financial statements. The supplementary information includes the Schedule of Expenditures of State Financial Assistance, the Schedule of Findings and Responses and the Schedule of Prior Year Findings.

The statement of financial position reports all of KAN's assets and liabilities. The difference between KAN's assets and liabilities is reported as net assets. A for-profit entity would report retained earnings. The increase or decrease in net assets over time is one indicator of financial position and may indicate whether an entity's performance is improving or deteriorating. The increase in KAN's net assets to \$754,818 indicates that KAN acquired its assets through revenue sources versus debt. In particular, the implementation grants that KAN received from state and foundation sources allowed KAN to acquire needed property and equipment and pay expenses without debt except for a note payable from the KIPP Foundation. In future years, KAN will require increased funding in other areas to offset the decline in implementation grant funds. The assets KAN has acquired thus far will be available for such areas as school operations, future property and equipment additions and debt service.

The statement of activities reports operating revenue and expenses for the Audit Period. For-profit entities have a similar report titled statement of operations, which reports net income. The operating revenue and expenses do not reflect whether actual cash was received or paid, but whether KAN's revenues are sufficient to cover expenses and support continued operations.

KIPP EAST NASHVILLE PREPARATORY
DBA KIPP ACADEMY NASHVILLE
A METROPOLITAN NASHVILLE PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

The statement of functional expenses reports on all operating expenses in three major activities of the organization: a) general and administrative, b) program, and c) fundraising. The statement can help identify what portions of an organization's expenses are being spent on the main objective of the organization. KAN's general and administrative expenses are relatively high due to being a start-up entity, the required MNPS administrative fee, and certain non-recurring legal expenses associated with an eligibility dispute.

The statement of cash flows converts the results of operations of KAN to a cash basis and shows how those cash flows were spent during the period covered. The majority of KAN's cash was spent on operating expenses and purchases of property and equipment.

SCHOOL ACTIVITIES FOR THE PERIOD ENDING JUNE 30, 2007

KAN's mission is to cultivate in its students the character and academic skills needed to succeed in rigorous high schools and colleges, and to become productive citizens in the world beyond. Enrollment for 2006-2007 consisted of 111 fifth and sixth grade students. 93.7% of these students were African American and 85.6% qualified for the national free/reduced lunch program. 12.6% of KAN's students during this period were special education students. Attendance for the 2006-2007 school year was 97.7%

With a focus on high student performance and belief that with hard work all students will learn, KAN offers approximately 40% more class time through extended school days, weeks and year. The school year begins with three weeks of concentrated instruction in July. In 2006-2007, during the traditional school year, KAN provided instruction from 7:25-5:00 Monday-Thursday and on Friday from 7:25-3:30. KIPPsters attend Saturday school twice a month for enrichment activities. This additional time on task allows our students to make significant academic gains.

To measure our program's effectiveness, KAN 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 2007, members of the inaugural class improved from 27th percentile to 37th percentile in reading; from 31st percentile to 42nd percentile in math; and from 28th percentile to 48th percentile in language. As measured by the Tennessee Comprehensive Assessment Program (TCAP), at the end of the 2007 school year fifth and sixth grade KAN students were 90.2% proficient or advanced in Reading, and 82.1% proficient or advanced in Math. The fifth graders were 88.3% 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 2013 and 2014.

KIPP EAST NASHVILLE PREPARATORY
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A METROPOLITAN NASHVILLE PUBLIC SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

PROPERTY AND EQUIPMENT

As of June 30, 2007, KAN had invested \$445,190 in property and equipment. This investment includes instructional and support furniture, instructional computers for teachers, a mobile student computer lab, maintenance equipment and books for instructional purposes, the library and the enhancement of its reading program. KAN expects additional property and equipment investments through the next two school years as two more grades are added. With the addition of each grade there will be continued requirements for furniture, computers, equipment and transportation. However, KAN does not expect to add significant administrative personnel until the 2008-2009 school year. Additionally, the KAN facility is large enough to accommodate the projected growth of two additional grades. Additional information on property and equipment is located in the notes to the financial statements.

KAN is currently renting educational space from the Metropolitan Nashville Board of Public Education (MNPS). The building was originally built in the 1920s with a major addition in the 1960s. The current lease term ends June 30, 2008. Future lease terms are uncertain.

KAN purchased four school buses in FY 2007 to expand its educational program reach. KAN has approximately \$9,000 of designated transportation grant funds remaining. We expect these funds to be used to purchase cooling systems for the buses.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Enrollment: FY 2008 enrollment is projected to be 150. Revenues: We anticipate an increase in total Basic Education Program (BEP) funding as a result of increased enrollment from the addition of a new grade. Additionally, we expect a small increase in per-pupil BEP funding as a result of providing transportation services to students and because we expect the Metropolitan Nashville Administrative Services processing fee to be closer to the historical range of 3.2% to 3.7% of BEP funding versus the 5.4% in the 2006 to 2007 school year. In preparing the FY 2008 budget, we have not assumed a significant increase in contributions but expect to benefit from the balance of grant funds KAN was awarded in FY 2006 and FY 2007. Expenses: Student expenses should increase with the additional enrollment. We expect general and administrative expenses, however, to decline significantly as a percentage of total expenses given the reduction of start-up expenses and increased operating leverage of the administrative staff and facility.

CONTACTING KAN'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 KAN's finances and to demonstrate KAN's accountability of the money it receives. If you have questions about this report or need additional financial information, contact KAN's Assistant School Leader and Director of Operations, Jennifer Hill, at 123 Douglas Avenue, Nashville, TN 37207. Telephone at (615) 226-4484 or email jhill@kipacademynashville.org.

KIPP EAST NASHVILLE PREPARATORY
DBA KIPP ACADEMY NASHVILLE
STATEMENT OF FINANCIAL POSITION

June 30, 2007

	Unrestricted	Temporarily Restricted	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 216,280	\$ 163,042	\$ 379,322
Receivables	36,510	-	36,510
Prepaid expenses	<u>6,664</u>	<u>-</u>	<u>6,664</u>
Total current assets	259,454	163,042	422,496
PROPERTY AND EQUIPMENT, net	<u>393,121</u>	<u>-</u>	<u>393,121</u>
TOTAL ASSETS	<u><u>\$ 652,575</u></u>	<u><u>\$ 163,042</u></u>	<u><u>\$ 815,617</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 41,098	\$ -	\$ 41,098
Accrued expenses	12,507	-	12,507
Note payable	<u>7,194</u>	<u>-</u>	<u>7,194</u>
Total current liabilities	60,799	-	60,799
NET ASSETS	<u>591,776</u>	<u>163,042</u>	<u>754,818</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 652,575</u></u>	<u><u>\$ 163,042</u></u>	<u><u>\$ 815,617</u></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, 2007

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES			
Metropolitan Nashville Public Schools	\$ 884,019	\$ -	\$ 884,019
Grant - State of Tennessee	146,537	-	146,537
Other state funding	61,825	-	61,825
Organizational giving	150,207	82,216	232,423
Donations	136,589	-	136,589
In-kind donations	87,799	-	87,799
Miscellaneous income	14,528	-	14,528
Net assets released from restrictions	<u>3,294</u>	<u>(3,294)</u>	<u>-</u>
Total operating revenues	<u>1,484,798</u>	<u>78,922</u>	<u>1,563,720</u>
OPERATING EXPENSES			
Program services	793,596	-	793,596
General and administrative	398,384	-	398,384
Fundraising	<u>3,885</u>	<u>-</u>	<u>3,885</u>
Total operating expenses	<u>1,195,865</u>	<u>-</u>	<u>1,195,865</u>
CHANGE IN NET ASSETS	288,933	78,922	367,855
NET ASSETS - beginning of year	<u>302,843</u>	<u>84,120</u>	<u>386,963</u>
NET ASSETS - end of year	<u>\$ 591,776</u>	<u>\$ 163,042</u>	<u>\$ 754,818</u>

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

KIPP EAST NASHVILLE PREPARATORY
DBA KIPP ACADEMY NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2007

	Program Services	General and Administrative	Fundraising	Total
Accounting fees	\$ -	\$ 44,093	\$ -	\$ 44,093
Depreciation	36,179	7,116	-	43,295
Dues and licenses	-	5,336	-	5,336
Employee benefits	56,492	29,730	-	86,222
Field lessons	40,832	-	-	40,832
Food service	20,452	-	-	20,452
Instructional materials	33,240	-	-	33,240
Insurance	11,845	2,090	-	13,935
Interest	-	569	-	569
Legal fees	-	89,477	-	89,477
Marketing and development	-	119	1,003	1,122
Meals and entertainment	1,233	2,196	846	4,275
Miscellaneous	345	36,909	-	37,254
Occupancy	83,498	14,735	-	98,233
Office expense	1,958	19,782	284	22,024
Payroll taxes	27,919	10,334	-	38,253
Printing	15,578	4,154	1,039	20,771
Salaries and wages	347,619	117,624	-	465,243
Special education services	29,479	-	-	29,479
Supplies	14,604	7,788	713	23,105
Transportation services	34,452	658	-	35,110
Travel and meetings	23,051	4,975	-	28,026
Uniform expense	10,860	-	-	10,860
Utilities	<u>3,960</u>	<u>699</u>	<u>-</u>	<u>4,659</u>
TOTAL FUNCTIONAL EXPENSES	\$ <u>793,596</u>	\$ <u>398,384</u>	\$ <u>3,885</u>	\$ <u>1,195,865</u>

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

KIPP EAST NASHVILLE PREPARATORY
DBA KIPP ACADEMY NASHVILLE
STATEMENT OF CASH FLOWS
Year Ended June 30, 2007

OPERATING ACTIVITIES

Change in net assets	\$ 367,855
Adjustments to reconcile change in net assets to net cash flows from operating activities -	
Depreciation	43,295
Changes in operating assets and liabilities -	
Receivables	27,223
Prepaid expenses	(5,579)
Accounts payable	7,992
Accrued expenses	<u>10,887</u>
Net cash flows from operating activities	451,673

INVESTING ACTIVITIES

Purchase of property and equipment	(328,818)
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FINANCING ACTIVITIES

Payments on note payable	<u>(22,540)</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS

100,315

CASH AND CASH EQUIVALENTS - beginning of year

279,007

CASH AND CASH EQUIVALENTS - end of year

\$ 379,322

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, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and practices followed by the Organization are as follows:

NATURE OF ACTIVITIES - KIPP East Nashville Preparatory dba KIPP Academy Nashville (the Organization) 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 Organization has been approved as a public charter school. Tennessee 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 Organization 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 Organization entered into a license agreement with KIPP Foundation, a California Public Charity, to assist the Organization 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 Organization began classes in July 2005 with a fifth grade class, added a sixth grade class in 2006-2007, and plans to add seventh and eighth grades in the next two school years.

FINANCIAL STATEMENT PRESENTATION - The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

NET ASSETS RELEASED FROM RESTRICTIONS - Net assets are released from donor restrictions by being used for Organization purposes as specified by the donors.

CASH AND CASH EQUIVALENTS - The Organization 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, 2007, the Organization's cash and cash equivalents were deposited in two financial institutions.

RECEIVABLES - Receivables consist of Title Vb revenue from the State of Tennessee Department of Education Charter School Grant. The Organization performs ongoing evaluations of its receivables. The Organization establishes, as necessary, an allowance for doubtful collections that is based on a review of outstanding receivables, historical collection information, and existing economic conditions. No allowance for doubtful collections has been established as of June 30, 2007.

PROPERTY AND EQUIPMENT - It is the Organization's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the useful lives of the various assets, ranging from three to seven years.

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

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

CONTRIBUTED SERVICES/GIFTS IN-KIND - During the year ended June 30, 2007, the value of contributed services meeting the requirements for recognition in the financial statements was \$82,134. These were all donated legal expenses. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the Organization's facilities, but these services do not meet the criteria for recognition as contributed services. The Organization received more than 1,000 volunteer hours during the above period. The Organization periodically receives gifts in-kind which consist of non-cash assets such as property, equipment, books and supplies. During the year ended June 30, 2007, the value of gifts in-kind received was \$5,665. The Organization has full discretion over all gifts in-kind received and recorded the value of gifts as contributions.

CONTRIBUTIONS - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. The Organization has elected to show restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

INCOME TAXES - The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

ESTIMATES AND UNCERTAINTIES - The preparation of financial statements in conformity with generally accepted accounting principles 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. Accordingly, actual results could differ from those estimates.

FUNCTIONAL EXPENSES - The costs of providing various programs and other services have been reported on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs, general and administrative and fundraising based on estimates made by management.

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

June 30, 2007

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2007:

Computer equipment	\$ 101,112
Furniture and fixtures	44,453
Machinery and equipment	50,496
Text books	47,151
School buses	197,841
Library	<u>4,137</u>
	445,190
Less accumulated depreciation	<u>(52,069)</u>
	\$ <u><u>393,121</u></u>

NOTE 3 - NOTE PAYABLE

The Organization's note payable consists of an unsecured 3% note payable to KIPP Foundation with principal and interest payments of \$2,510 due monthly. The outstanding balance, \$7,194 as of June 30, 2007, is due September 1, 2007.

NOTE 4 - LINE OF CREDIT

The Organization has a \$125,000 line of credit with a bank which expires May 8, 2008. As of June 30, 2007, no amounts were borrowed under the line.

NOTE 5 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets as of June 30, 2007, were available for the following:

Transportation	\$ 9,568
Library	60,623
Scholarships	12,025
Other	<u>80,826</u>
	\$ <u><u>163,042</u></u>

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

June 30, 2007

NOTE 5 - RESTRICTIONS ON NET ASSETS - continued

All temporarily restricted net assets are released from restriction when qualifying expenditures are made. The restrictions on net assets classified as Other are related to funds received through the Walton Family Foundation Implementation Grant. The grant is administered through KIPP Foundation. The grant covers start up and implementation cost.

NOTE 6 - FEDERAL FINANCIAL ASSISTANCE

The Organization has no direct Federal awards. All Federal monies were received as subrecipient funds. Total subrecipient dollars received from the Tennessee Department of Education were \$146,537 for the year ended June 30, 2007.

NOTE 7 - STATE FINANCIAL ASSISTANCE

The Organization has been awarded a Planning and Implementation Grant (Grant) by the Tennessee Department of Education. The Grant is to be disbursed over a three-year period. Total dollars awarded were \$546,000. Total dollars received from the Grant since inception through the period ended June 30, 2007 were \$413,027. Dollars invoiced, but not received as of June 30, 2007, were \$36,510. Under the Grant, the Organization is eligible to invoice \$96,463 during fiscal year 2008.

The Organization receives per-pupil funding from the Metropolitan Board of Public Education of Nashville and Davidson County. The per-pupil funding is disbursed under the Basic Education Program (BEP) of the Tennessee Department of Education. Gross BEP funding for the year ended June 30, 2007, was \$884,019.

NOTE 8 - DESCRIPTION OF LEASING ARRANGEMENTS

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 Organization to pay rent and insurance in equal monthly installments. In addition to allowing the Organization to occupy the facility, security, grounds maintenance, water, gas, electricity and DSL internet service to the premises are provided. Under the terms of the lease, the Organization paid rent and insurance costs of \$84,710 and \$1,514, respectively, for the year ended June 30, 2007.

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

June 30, 2007

NOTE 9 - 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 Organization 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, 2007, were \$8,840.

The Organization's cafeteria is operated by the Metropolitan Nashville Public School System (MNPS). The Organization reimburses MNPS for losses attributed to the sale of a la carte items such as ice cream, cookies and beverages. Total a la carte expenses paid to MNPS for the year ended June 30, 2007, were \$17,467.

NOTE 10 - CONCENTRATIONS

The Organization received 57% of its funding for operations from Metropolitan Nashville Public Schools (MNPS) based on the State of Tennessee's Basic Education Program. BEP funding is designated to schools based on student enrollment. 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 Organization's charter agreement, enrollment in the Organization 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 Organization may only enroll students in grades five through eight. Student enrollment may not exceed three hundred and twenty students.

The Organization routinely maintains deposit balances in excess of federally insured limits with certain financial institutions. As of June 30, 2007, deposits exceeded federally insured limits by approximately \$379,288.

The Organization's receivables consist solely of Title Vb revenue from the Statement of Tennessee Department of Education Charter School Grant.

NOTE 11 - RETIREMENT PLAN

All of the Organization's full time certified teachers, as a condition of employment, are members of the Tennessee Consolidated Retirement System (TCRS). The TCRS Plan is a defined benefit program. The benefits at retirement are based on a percentage of earnings times years of service. Each participant contributes five percent of his/her pay to the program. The Organization, as the employer, contributes the additional amount required to fund participants' retirement and income death benefits. The Organization's contributions are not refundable to either the Organization or employee. The Organization's expense, related to the TCRS, for the year ended June 30, 2007, was \$22,782.