KIPP EAST NASHVILLE PREPARATORY

DBA KIPP ACADEMY NASHVILLE

FINANCIAL STATEMENTS

June 30, 2009

KIPP EAST NASHVILLE PREPARATORY

DBA KIPP ACADEMY NASHVILLE

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DECOSIMO
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2009, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2009, 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 January 30, 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.

Joseph Decosimo and Company, PLLC

Nashville, Tennessee
January 30, 2010

KIPP EAST NASHVILLE PREPARATORY

DBA KIPP ACADEMY NASHVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

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, 2009. 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 $895,133
- Net assets decreased $107,209 during the year
- Outlays for new capital assets totaled $36,166
- Total revenues of $2,026,526 were comprised of Federal Passthrough Funds - 3%, District Funds - 83% and Charitable Giving/Other - 14%

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.

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 $895,133. The School's net assets include $626,092 of cash. A portion of the School's cash of $57,210 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, 2009, the School had invested $609,301 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. The School expects additional property and equipment investments in the 2009-2010 school year as student enrollment maximizes 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, 2010, but management intends to seek lease renewal at the end of the current lease.

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

KIPP EAST NASHVILLE PREPARATORY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

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

Current assets	$ 660,834
Capital assets	325,932
Total assets	986,766
Current liabilities	91,633
Net assets	
Invested in capital assets	325,932
Restricted	57,210
Unrestricted	511,991
Total net assets	$ 895,133

Changes in Net Assets

The School's total net assets decreased $107,209 during the 2009 fiscal year. The decrease in the School's net assets indicates that the School had more outgoing expenses than incoming revenues during the year. The School had budgeted a shortfall as a result of an expected increase in up front expenses to handle the addition of another grade and increased student population in the remaining grades. Total revenues generated from government grants, governmental funds, foundation grants and donations were $2,026,526 during the 2009 fiscal year. The overall shortfall in net assets was less than the expected shortfall since the School was able to decrease its expenses at a greater rate than the decrease in revenues.

Contributions from individuals and organizations of $257,823 were slightly lower than expected due primarily to the overall slowdown of the economy. These 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

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

Revenues	
Contributions	$ 257,823
District funding	1,680,206
Federal subrecipient grants	69,373
Interest	2,099
Other income	11,425
State and local funding	5,600
	2,026,526
Expenses	
Depreciation	136,148
Instructional	82,607
Occupancy cost	155,253
Office expense	17,801
Organizational development	14,805
Other expenses	49,584
Service fees	105,354
Salaries, wages and benefits	1,504,635
Staff development	54,645
Transportation	12,903
	2,133,735
Change In net assets	$ (107,209)

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 $557,827. 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, 2009 year end, the differences are minor and consist of capital assets which are not reported in the School's funds.

KIPP EAST NASHVILLE PREPARATORY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

SCHOOL ACTIVITIES

The School'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. Enrollment for 2008-2009 consisted of 200 fifth through eighth grade students. 92% of these students were African American and 92% qualified for the national free/reduced lunch program. 13% of the School's students during this period were special education students. Attendance for the 2008-2009 school year was 98% of possible attendance days.

With a focus on high student performance and belief that with hard work all students will learn, the School offers more than 30% class time through extended school days, weeks and year. The school year begins with three weeks of concentrated instruction in July. In 2008-2009, during the traditional school year, the School provided instruction from 7:25 - 5:00 Monday, Tuesday and Thursday and on Wednesday and 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, 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 12th percentile to 45th percentile in reading; from 16th percentile to 56th percentile in math; and from 12th percentile to 56th 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.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Enrollment: FY 2010 enrollment is projected to be 265. 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 2010, the School expects to raise approximately $415,000 in non-government funds. The FY 2010 budgeted increase in non-governmental sources from $257,823 received in FY 2009 is a result of several factors. These factors include increased administrative resources and volunteer personnel designated for fundraising, a larger Board of Directors, and the appointment of a Board committee with fundraising oversight. Also, entering its fifth year the School plans to continue to improve its communications and fundraising efforts with the hundreds of individual and numerous organizations who have visited the School since its inception. These non-government resources are an important funding source and will enable the 40% additional class time and end of school year experiences. Expenses: Student expenses should increase with the additional enrollment. We expect general and administrative expenses, however, to decline as a percentage of total expenses given the reduction of start-up expenses and increased operating leverage of the administrative staff and facility.

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@kippacademynashville.org.

KIPP EAST NASHVILLE PREPARATORY

DBA KIPP ACADEMY NASHVILLE

STATEMENT OF NET ASSETS

June 30, 2009

	Governmental Activities
ASSETS	
Cash	$ 626,092
Prepaid items	5,884
Receivables	28,858
Capital assets, net	325,932
Total assets	986,766
LIABILITIES	
Accounts payable	56,314
Accrued expenses	35,319
Total liabilities	91,633
NET ASSETS	
Invested in capital assets	325,932
Restricted	57,210
Unrestricted	511,991
Total net assets	$ 895,133

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, 2009

		Functions		
	Total	Student Instruction and Services	Administration	Fundraising
EXPENSES				
Depreciation	$ 136,148	$ 81,843	$ 54,305	$ -
Instructional	82,607	78,810	3,054	743
Occupancy cost	155,253	131,965	23,288	-
Office expense	17,801	7,207	10,594	-
Organizational development	14,805	3,464	1,156	10,185
Other expenses	49,584	30,366	19,218	-
Service fees	105,354	35,460	69,894	-
Salaries, wages and benefits	1,504,635	1,281,008	223,627	-
Staff development	54,645	44,448	10,197	-
Transportation	12,903	12,903	-	-
Total expenses	2,133,735	1,707,474	415,333	10,928
PROGRAM REVENUES				
Contributions	80,777	80,777	-	-
Federal subrecipient grants	69,373	69,373	-	-
Other income	11,425	11,425	-	-
State/local funding	5,600	5,600	-	-
Net program expenses	1,966,560	$ 1,540,299	$ 415,333	$ 10,928
GENERAL REVENUES				
Contributions	177,046			
District funding	1,680,206			
Interest	2,099			
Total general revenues	1,859,351			
CHANGE IN NET ASSETS	(107,209)			
NET ASSETS - beginning of year	1,002,342			
NET ASSETS - end of year	$ 895,133			

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

KIPP EAST NASHVILLE PREPARATORY

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BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2009

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash	$ 580,256	$ 45,836	$ 626,092
Prepaid items	5,884	-	5,884
Receivables	17,484	-	17,484
TOTAL ASSETS	$ 603,624	$ 45,836	$ 649,460
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 56,314	$ -	$ 56,314
Accrued expenses	35,319	-	35,319
Total liabilities	91,633	-	91,633
FUND BALANCES			
Restricted	-	45,624	45,624
Assigned	-	212	212
Unassigned	511,991	-	511,991
Total fund balances	511,991	45,836	557,827
TOTAL LIABILITIES AND FUND BALANCES	$ 603,624	$ 45,836	$ 649,460

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

KIPP EAST NASHVILLE PREPARATORY

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RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2009

Total Governmental Fund Balances	$ 557,827
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.	11,374
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	325,932
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 895,133

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

KIPP EAST NASHVILLE PREPARATORY

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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Year Ended June 30, 2009

	General Fund	Other Governmental Funds	Total
REVENUES			
Contributions	$ 224,698	$ 33,126	$ 257,824
District funding	1,680,206	-	1,680,206
Federal subrecipient grant	21,721	36,278	57,999
Interest	2,099	-	2,099
Other income	10,152	1,273	11,425
State and local funding	(16,121)	21,721	5,600
Total revenues	1,922,755	92,398	2,015,153
EXPENDITURES			
Instructional	48,799	33,808	82,607
Occupancy cost	155,253	-	155,253
Office expense	16,677	3,175	19,852
Organizational development	14,805	-	14,805
Other expenses	40,640	8,944	49,584
Professional and service fees	105,354	-	105,354
Salaries, wages and benefits	1,441,457	63,178	1,504,635
Staff development	46,715	7,930	54,645
Transportation	3,933	8,970	12,903
Capital outlays	25,034	11,131	36,165
Total expenditures	1,898,667	137,136	2,035,803
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	24,088	(44,738)	(20,650)
OTHER FINANCING SOURCES			
Sale of capital assets	2,050	-	2,050
NET CHANGE IN FUND BALANCES	26,138	(44,738)	(18,600)
FUND BALANCES - beginning of year	485,853	90,574	576,427
FUND BALANCES - end of year	$ 511,991	$ 45,836	$ 557,827

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

KIPP EAST NASHVILLE PREPARATORY

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	$ (18,600)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay, reported as expenditures in governmental funds are shown as capital assets in the statement of net assets.	36,165
Depreciation expense on governmental capital assets are included only in the governmental activities in the statement of activities.	(136,148)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	11,374
Total	(88,609)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (107,209)

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, 2009

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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict the guidance of the GASB pronouncements. Although the School has an option to apply FASB pronouncements issued after that date to it's business type activities and enterprise funds, the School has chosen not to do so.

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 both governmental and business 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 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 expenses are recognized when the related liability is incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIC FINANCIAL STATEMENTS - GOVERNMENT-WIDE STATEMENTS - The government-wide 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.

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 has elected early implementation of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (Statement 54). Statement 54 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 can not 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 which 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.

FUNCTIONAL ALLOCATION OF 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.

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, 2009, the School's cash and cash equivalents were deposited in one financial institution. 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, 2009.

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.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the statement of net assets, interest and penalties, accounting in interim periods, disclosure and transition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The School has elected this deferral and, accordingly, will be required to adopt FIN 48 in its 2010 annual financial statements. Prior to adoption of FIN 48, the School will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies*, which requires the School to accrue for losses it believes are probable and can be reasonably estimated. While management has not yet completed its analysis, it does not anticipate that the adoption of FIN 48 will have a material impact on its financial statements.

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 - For the year ended June 30, 2009, the School has evaluated subsequent events for potential recognition and disclosure through January 30, 2010, the date the financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Government-Wide			
	June 30, 2008	Additions	Deletions	June 30, 2009
Computer equipment	$ 127,715	$ 11,903	$ 8,571	$ 131,047
Furniture and fixtures	65,928	7,874	-	73,802
Machinery and equipment	56,595	6,408	-	63,003
Text books	71,615	149	-	71,764
School buses	197,841	8,121	-	205,962
Library	62,013	1,710	-	63,723
	581,707	36,165	8,571	609,301
Accumulated depreciation	(150,504)	(136,148)	(3,283)	(283,369)
	$ 431,203	$ (99,983)	$ 5,288	$ 325,932

NOTE 2 - PROPERTY AND EQUIPMENT - continued

Depreciation expense was charged to functions as follows:

Governmental activities:		
Student instruction and services	$	81,843
Administration		54,305
Fundraising		-
Total governmental activities depreciation expense	$	136,148

NOTE 3 - LINE OF CREDIT

The School has a $275,000 line of credit with a bank which expires February 26, 2010. As of June 30, 2009, no amounts were outstanding under the line.

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 receipts totaled $21,721 and $36,279, respectively, for the year ended June 30, 2009.

NOTE 5 - 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 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 $99,160 and $2,095, respectively, for the year ended June 30, 2009.

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, 2009, were $16,574.

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, 2009, were $363.

NOTE 7 - CONCENTRATIONS

The School received 81% of its funding for operations from Metropolitan Nashville Public Schools (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, 2009, was $1,654,148. 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

NOTE 8 - RETIREMENT PLAN - continued

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.

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 ending June 30, 2009, was 6.42% of annual covered payroll.

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.

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 ending June 30, 2009, was 16.66% 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 year ending June 30, 2009, totaled $91,326.

SUPPLEMENTARY INFORMATION

KIPP EAST NASHVILLE PREPARATORY

DBA KIPP ACADEMY NASHVILLE

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2009

	KIPP Alumni Scholarship Fund	Restricted Contribution Fund	Other Nonmajor Governmental Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 32,025	$ 13,599	$ 212	$ 45,836
FUND BALANCES				
Restricted	$ 32,025	$ 13,599	$ -	$ 45,624
Assigned	-	-	212	212
Total fund balances	$ 32,025	$ 13,599	$ 212	$ 45,836

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, 2009

	KIPP to College Fund	KIPP Alumni Scholarship Fund	Restricted Contribution Fund	Other Nonmajor Governmental Funds	Total Nonmajor Governmental Funds
REVENUES					
Contributions	$ 15,625	$ 12,000	$ 5,501	$ -	$ 33,126
Federal subrecipient grant	36,278	-	-	-	36,278
Other income	-	-	-	1,273	1,273
State and local funding	-	-	-	21,721	21,721
Total revenues	51,903	12,000	5,501	22,994	92,398
EXPENDITURES					
Instructional	-	-	20,017	13,791	33,808
Office expense	-	-	2,114	1,061	3,175
Other expenses	8,725	-	219	-	8,944
Salaries, wages and benefits	43,178	-	20,000	-	63,178
Staff development	-	-	-	7,930	7,930
Transportation	-	-	8,970	-	8,970
Capital outlays	-	-	11,131	-	11,131
Total expenditures	51,903	-	62,451	22,782	137,136
NET CHANGE IN FUND BALANCES	-	12,000	(56,950)	212	(44,738)
FUND BALANCES - beginning of year	-	20,025	70,549	-	90,574
FUND BALANCES - end of year	$ -	$ 32,025	$ 13,599	$ 212	$ 45,836

KIPP EAST NASHVILLE PREPARATORY

DBA KIPP ACADEMY NASHVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

Year Ended June 30, 2009

Federal Grantor/ Program Title/ Pass-through Grantor	CFDA #	Contract Number	Balance June 30, 2008	Receipts	Expenditures	Balance June 30, 2009
FEDERAL FINANCIAL ASSISTANCE						
Department of Education/Fund for the Improvement of Education Grant/through KIPP Foundation	84.215K	U215K080342	$ -	$ 36,279	$ 47,653	$ (11,374)
Department of Education/Title 1 Part A: Improving Basic Programs Operated by LEAs/ through Metropolitan Nashville Public Schools			-	21,721	21,721	-
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ -	$ 58,000	$ 69,374	$ (11,374)

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.

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

The Board of 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, 2009, and have issued our report thereon dated January 30, 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 opinion 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential, will not be prevented or detected by the School's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses identified as items 2009-01 and 2009-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-01 to be a material weakness.

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 letter dated January 30, 2010.

The School's response 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.

Joseph Decosimo and Company, PLLC

Nashville, Tennessee
January 30, 2010

KIPP EAST NASHVILLE PREPARATORY

DBA KIPP ACADEMY NASHVILLE

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2009

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.

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.

2009-02 - Accounting for Passthrough Grant Funds

Condition and Criteria: The School did not account for passthrough grant funds from the 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.

Effect: Detailed revenue and expenditures were not recorded on the School's financial records. Some funds were lost because purchase orders were not fully processed by MNPS and the funds expired at the end of the year.

Cause: The School had a change in personnel and the new employee was unaware that the grant transactions should be recorded by the School, even in the absence of any cash or receipts of purchased goods. The system established by MNPS requires on going communication in order to ensure that purchase orders are completed. The School was under the assumption that all funds had been expended when in fact they had not due to purchase orders that were not completed by MNPS.

Auditor's Recommendations: We recommend 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 recommend 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.

School's Response: The School will inform its third-party accounting provider of any financial activity or possible financial activity to ensure that all proper accounting is taking place and being recorded in the financial records. The School will track all grant funding controlled by outside parties to ensure that funds are fully utilized.

KIPP EAST NASHVILLE PREPARATORY

DBA KIPP ACADEMY NASHVILLE

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2009

2008-01 - Maintaining Fixed Asset Depreciation

Condition and Criteria: The School does not maintain a fixed asset detail listing. Fixed assets are recorded on the School's books, but there is not a separate detailed listing of the School's fixed assets that contains the life and depreciation of the asset.

Auditor's Recommendations: We recommended that the School use a projected depreciation schedule as the basis of actual depreciation entries and that the School update projected depreciation as needed for new asset additions.

Current Status: Corrected: The School uses the projected depreciation report as the basis for depreciation entries and notifies its external auditors of any large additions that would materially affect depreciation.

2008-02 - Segregation of Duties

Condition and Criteria: The School did not have proper segregation of duties in the area of cash. The School's operations director has both approval authority and custody of cash. The School's third party book keeper has custody and ability to record transactions. Complete segregation of duties in the cash disbursement process would not allow any one individual to have two or more of the following: approval, custody or ability to record.

Auditor's Recommendations: We recommended that the School continue to review current procedures and when able, establish proper segregation of duties. We also recommended that the School Leader or a Finance Committee member other than the Assistant School Leader periodically obtain the bank statements unopened and review the statements to ensure the propriety of the transactions.

Current Status: Partially Corrected: As a small entity with a small number of support personnel, segregation of duties is difficult. The School realizes continues to improve policies and procedures to minimize the risks associated with a lack of segregation of duties.