

KIPP NASHVILLE

**AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION**

JUNE 30, 2013

KIPP NASHVILLE

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Independent Auditor's Report

To the Board Directors
KIPP Nashville
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP Nashville (the "School"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP Nashville as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the financial statements, the School has adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KIPP 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 schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Tennessee and are also not a required part of the basic financial statements.



To the Board of Directors
KIPP Nashville

The combining nonmajor fund financial statements and schedules of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedules of expenditures of federal awards and state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Crosslin & Associates, P.C.

Nashville, Tennessee
September 30, 2013

KIPP NASHVILLE MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of KIPP Nashville's annual financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2013. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The School's governmental activities total assets increased by \$1,177,931 in 2013 or 46.9%, while total revenues for the School increased by \$753,059 or 17.8%. The School's governmental activities total program costs (student instruction and services) for 2013 increased \$206,573 or 6.7%. Overall, the School's 2013 change in net position, \$1,071,681, was \$554,610 or 107.3% more than the prior year.

For the General Purpose School Fund there was a net change in fund balance of \$760,285. The General Purpose School Fund - fund balance at fiscal year-end was \$2,563,023.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REPORTING THE SCHOOL AS A WHOLE

In general, users of these financial statements want to know if the School is in a better or worse financial position as a result of the year's activities. The Statement of Net Position and Statement of Activities report information about the School as a whole and about the School's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 11.

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

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

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

The School's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at 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 Position and the Statement of Activities, and governmental funds, as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances is reconciled in the basic financial statements on pages 14 and 16.

SCHOOL-WIDE FINANCIAL ANALYSIS

The School's assets exceeded the School's liabilities and deferred inflows of resources at the close of the fiscal year, resulting in net position of \$3,228,471. The School's net position includes \$2,183,530 of cash and investments, a portion of which, \$162,760 is subject to external restrictions that limit how the amounts may be used. Another portion, \$151,495, is intended to be used for the upcoming 2013, 2014 school year. Another portion is restricted to an endowment scholarship fund, which is \$114,415. The remainder of the cash is available to meet the School's ongoing operating activities and growth strategy.

As of June 30, 2013, the School had invested a total of \$1,232,587 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 2013-2014 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. For the next year, the school will operate in a temporary location, while the Highland Heights Facility undergoes renovations. Additional information on property and equipment is located in the notes to the financial statements.

The School is currently renting educational space (Ewing Park School, 3410 Knight Drive, Nashville, TN 37207) from Metropolitan Nashville Public Schools. The current lease term ends June 30, 2014. The School has no debt as of the end of the fiscal year.

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

A schedule of the School's net position as of June 30, 2013 and 2012, is as follows:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------|--------------------|--------------------|
| Current assets | \$3,177,415 | \$2,280,741 |
| Capital assets | <u>509,943</u> | <u>228,686</u> |
| Total assets | <u>3,687,358</u> | <u>2,509,427</u> |
| Current liabilities | <u>307,392</u> | <u>352,637</u> |
| Deferred inflows of resources | <u>151,495</u> | <u>-</u> |
| Net position: | | |
| Invested in capital assets | 509,943 | 228,686 |
| Restricted | 284,395 | 132,278 |
| Unrestricted | <u>2,434,133</u> | <u>1,795,826</u> |
| Total net position | <u>\$3,228,471</u> | <u>\$2,156,790</u> |

The School's total net position increased \$1,071,681 during the 2013 fiscal year. The increase in the School's net position indicates that the School had more incoming revenues than outgoing expenses during the year.

Total revenues generated from government grants, governmental funds, foundation grants and donations were \$4,925,158 during the 2013 fiscal year, which is \$731,112, or 17.4% increase over 2012. Contributions from individuals and organizations of \$1,027,406 were higher than 2012 due primarily to continued support from existing individual and corporate donors and the identification of new individual donors. In addition, District funding increased 11% versus 2012. The main driver of this increase is increased district funding per student. Finally, Federal funding increased because of higher funding from Race to the Top and Charter School Planning grants.

Total expenses were \$3,901,355 during the 2013 fiscal year, which was \$198,449 higher than 2012. The majority of this increase is directly related to occupancy costs, which increased from the move to a new building, where janitorial services are in addition to rent in the new space. Staff development costs also increased with an effort to increase training for staff.

The change in net assets of \$1,071,681 is \$554,610 better than 2012. While operating expenses increased in 2013, increases in revenue from contributions and Federal grants more than offset this increase in expense.

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

A schedule of the School's revenue and expenses for the years ended June 30, 2013 and 2012, is as follows. The schedule is for the School as a whole, not for the governmental funds.

| | <u>2013</u> | <u>2012</u> |
|----------------------------|---------------------|-------------------|
| Revenues | | |
| Contributions | \$ 1,027,406 | \$ 836,088 |
| District funding | 2,789,140 | 2,511,308 |
| Federal and state grants | 1,108,612 | 846,650 |
| Interest | 13,828 | 12,601 |
| Other | <u>34,050</u> | <u>13,330</u> |
| Total revenues | <u>4,973,036</u> | <u>4,219,977</u> |
| Expenses | | |
| Instructional | 227,693 | 251,399 |
| Occupancy | 451,378 | 314,177 |
| Office | 89,293 | 71,954 |
| Organizational development | 41,884 | 37,057 |
| Other | 78,928 | 81,045 |
| Service fees | 122,044 | 128,143 |
| Employee compensation | 2,669,819 | 2,613,311 |
| Staff development | 72,560 | 40,784 |
| Transportation | 72,802 | 48,347 |
| Depreciation | <u>74,954</u> | <u>116,689</u> |
| Total expenses | <u>3,901,355</u> | <u>3,702,906</u> |
| Change in net position | <u>\$ 1,071,681</u> | <u>\$ 517,071</u> |

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the Balance Sheet on page 13, report a combined fund balance of \$2,677,438. The majority of the School's total funds are in the General Purpose School Fund, which is the chief operating fund of the School. The School has two other major funds consisting of the Restricted Contribution and Federal and State Grants Funds.

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 year-ended June 30, 2013, the differences consist of capital assets, which are not reported in the School's funds, and amounts for the year not received within 60 days of year-end.

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

SCHOOL ACTIVITIES

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

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

Feinberg and Levin developed the KIPP education model which has proven for more than nineteen years that the time-honored values of hard work and no excuses, discipline, and a relentless focus on results combined with more time in school is not only the right formula for overall student academic success, but is most especially needed to engage students who are at-risk and failing academically. Today, there are 141 KIPP schools serving over 50,000 students across the United States in urban and rural low-income communities located in 20 states and the District of Columbia. KIPP believes that investments in human capital development are required to bring about widespread and lasting change within our country's education system, and are paramount to ensuring that all KIPP students receive a quality, college-preparatory education. All KIPP schools are founded and led by talented, passionate and effective educators who complete rigorous, in-depth KIPP training programs. KIPP School Leaders in turn effectively attract, develop, and retain talented teachers and give them the tools, support and ongoing professional development to grow as professionals and close achievement gaps among students.

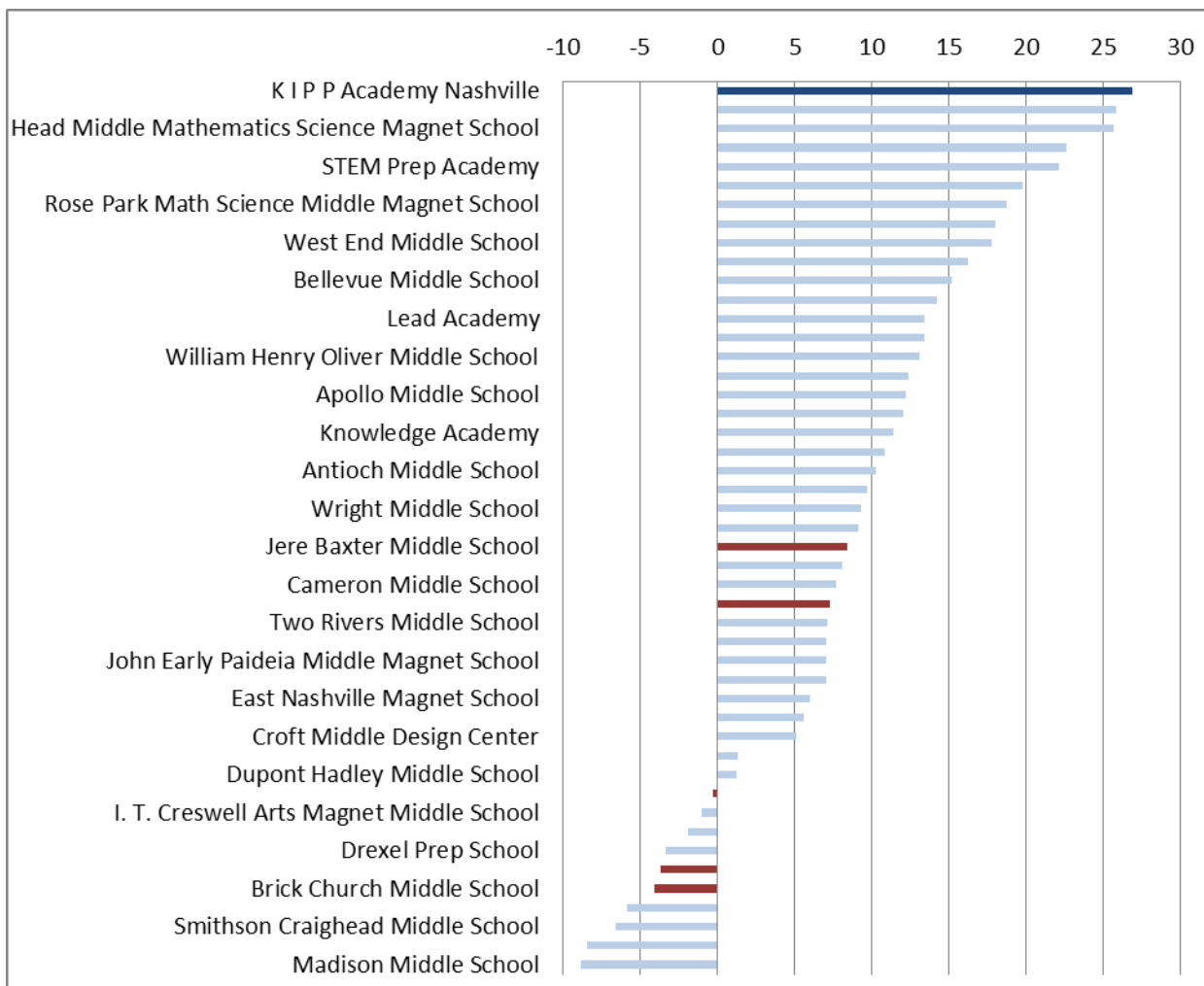
Current census data confirms KIPP Nashville has a significantly higher percentage of economically disadvantaged families than most area public schools. Ninety percent of KIPP Nashville students qualify for federal free or reduced price meals; all are zoned to under-performing neighborhood middle schools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

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

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

The 2012-13 academic growth of KIPP Nashville students grow more rapidly than peers from district middle schools, demonstrated by the value-added graph below (note: neighboring schools in red):

2012 – 2013 TVAAS Composite Growth



*Per the Tennessee Value-Added Assessment System (TVAAS). TVAAS is a statistical analysis of achievement data measuring how much students have grown in each academic year. Each student is compared to his/her own performance, eliminating the impact of demographic variables such as economic status or racial/ethnic group.

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

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Fiscal year 2014 enrollment is projected to be just over 340 students for KIPP Academy Nashville. KIPP Nashville will also launch its second middle school, KIPP Nashville College Prep, and projected enrollment is expected to be 96 students. KIPP Nashville schools will serve approximately 440 students in East and North Nashville. The school anticipates that total Basic Education Program (BEP) funding will increase, because of increased enrollment. Additionally, the school expects per pupil BEP funding to remain the same for the 2013-14 school-year. For fiscal year 2014, the organization expects to raise approximately \$1,100,000 in non-government funds. KIPP believes a continued focus on cultivating the existing donor base, the successful execution of the annual community fundraising breakfast and a larger Board of Directors committed to hitting fundraising targets will help the school reach this goal. These non-government resources are an important funding source to fill the current funding gap of KIPP Nashville, and to fuel the strategic growth plans for KIPP Nashville.

For fiscal year 2014, in addition to serving KIPP's current student population of 440 students, KIPP plans to invest in the organization's long-term growth plan for opening new KIPP schools in Nashville. These investments will include hiring additional staff, increasing professional development, and making general and administrative expenditures specific to the further development and execution of the KIPP Nashville strategic growth plan.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students' parents, Davidson County taxpayers, donors, creditors, grant funding authorities and agencies tasked with oversight of Metropolitan Nashville Public Schools with a general overview of the organization's finances and to demonstrate the School's accountability for the money it receives. For questions about this report or additional financial information, contact the organization's Director of Finance, Anika Baltimore, at 3410 Knight Drive, Nashville, TN 37207, by telephone at (615) 226-4484 or email abaltimore@KIPPNashville.org.

KIPP NASHVILLE
STATEMENT OF NET POSITION
JUNE 30, 2013

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 2,069,115 |
| Investments | 114,415 |
| Receivables | 823,905 |
| Other current assets | 169,980 |
| Capital assets, net | <u>509,943</u> |
| Total assets | <u>3,687,358</u> |
| LIABILITIES | |
| Accounts payable | 22,863 |
| Accrued expenses | 121,769 |
| Advance contributions and grants | <u>162,760</u> |
| Total liabilities | <u>307,392</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>151,495</u> |
| NET POSITION | |
| Net investment in capital assets | 509,943 |
| Restricted - expendable for special purposes | 29,367 |
| Restricted - nonexpendable | 255,028 |
| Unrestricted | <u>2,434,133</u> |
| Total net position | <u>\$ 3,228,471</u> |

See accompanying notes to financial statements.

KIPP NASHVILLE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

| | | Functions | | |
|------------------------------------|--------------|--|----------------|-------------|
| | | Student Instruction and Services | Administration | Fundraising |
| GOVERNMENTAL ACTIVITIES: | Total | | | |
| EXPENSES | | | | |
| Instructional | \$ 227,693 | \$ 227,693 | \$ - | \$ - |
| Occupancy | 451,378 | 383,671 | 67,707 | - |
| Office | 89,293 | 84,828 | 4,465 | - |
| Organizational development | 41,884 | - | - | 41,884 |
| Other | 78,928 | 51,303 | 27,625 | - |
| Professional services and fees | 122,044 | 24,409 | 97,635 | - |
| Employee compensation | 2,669,819 | 2,312,204 | 357,615 | - |
| Staff development | 72,560 | 68,932 | 3,628 | - |
| Transportation | 72,802 | 72,802 | - | - |
| Depreciation | 74,954 | 44,972 | 29,982 | - |
| Total expenses | 3,901,355 | 3,270,814 | 588,657 | 41,884 |
| PROGRAM REVENUES | | | | |
| Operating grants and contributions | 1,058,612 | 1,058,612 | - | - |
| Capital grants and contributions | 50,000 | 50,000 | - | - |
| Net program expenses | 2,792,743 | \$ 2,162,202 | \$ 588,657 | \$ 41,884 |
| GENERAL REVENUES | | | | |
| Contributions | 1,027,406 | | | |
| District funding | 2,789,140 | | | |
| Other | 34,050 | | | |
| Interest | 13,828 | | | |
| Total general revenues | 3,864,424 | | | |
| CHANGE IN NET POSITION | 1,071,681 | | | |
| NET POSITION, June 30, 2012 | 2,156,790 | | | |
| NET POSITION, June 30, 2013 | \$ 3,228,471 | | | |

See accompanying notes to financial statements.

KIPP NASHVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

| | General Purpose School Fund | Restricted Contribution Fund | Federal and State Grants Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|--------------------------------------|------------------------------------|--|-----------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,754,860 | \$ 314,255 | \$ - | \$ - | \$ 2,069,115 |
| Investments | - | - | - | 114,415 | 114,415 |
| Receivables | 130,587 | 137,682 | 555,636 | - | 823,905 |
| Due from other funds | 693,318 | - | - | - | 693,318 |
| Other current assets | 169,980 | - | - | - | 169,980 |
| Total assets | <u>\$ 2,748,745</u> | <u>\$ 451,937</u> | <u>\$ 555,636</u> | <u>\$ 114,415</u> | <u>\$ 3,870,733</u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ 22,863 | \$ - | \$ - | \$ - | \$ 22,863 |
| Accrued expenditures | 121,769 | - | - | - | 121,769 |
| Due to other funds | - | 137,682 | 555,636 | - | 693,318 |
| Advance contributions and grants | - | 162,760 | - | - | 162,760 |
| Total liabilities | <u>144,632</u> | <u>300,442</u> | <u>555,636</u> | <u>-</u> | <u>1,000,710</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>41,090</u> | <u>151,495</u> | <u>-</u> | <u>-</u> | <u>192,585</u> |
| FUND BALANCES | | | | | |
| Nonspendable | 169,980 | - | - | 85,048 | 255,028 |
| Restricted | - | - | - | 29,367 | 29,367 |
| Unassigned | <u>2,393,043</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,393,043</u> |
| Total fund balances | <u>2,563,023</u> | <u>-</u> | <u>-</u> | <u>114,415</u> | <u>2,677,438</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 2,748,745</u> | <u>\$ 451,937</u> | <u>\$ 555,636</u> | <u>\$ 114,415</u> | <u>\$ 3,870,733</u> |

See accompanying notes to financial statements.

KIPP NASHVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2013

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

| | |
|--|---------------------|
| Total governmental fund balances above | \$ 2,677,438 |
| Deferred inflows of resources for unavailable revenues | 41,090 |
| Capital assets not reported above | <u>509,943</u> |
| Net position of governmental activities in the statement of net position | <u>\$ 3,228,471</u> |

See accompanying notes to financial statements.

KIPP NASHVILLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

| | General Purpose School Fund | Restricted Contribution Fund | Federal and State Grants Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------------|------------------------------------|--|-----------------------------------|--------------------------------|
| REVENUES | | | | | |
| Contributions | \$ 803,126 | \$ 208,501 | \$ - | \$ 12,600 | \$ 1,024,227 |
| District funding | 2,789,140 | - | - | - | 2,789,140 |
| Federal and state grants | - | 137,682 | 970,930 | - | 1,108,612 |
| Interest | 12,836 | - | - | 992 | 13,828 |
| Other income | 20,683 | - | - | 13,367 | 34,050 |
| Total revenues | <u>3,625,785</u> | <u>346,183</u> | <u>970,930</u> | <u>26,959</u> | <u>4,969,857</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Instructional | 181,991 | 32,708 | 12,994 | - | 227,693 |
| Occupancy | 451,229 | - | 149 | - | 451,378 |
| Office | 38,511 | 17,090 | 33,692 | - | 89,293 |
| Organizational development | 41,884 | - | - | - | 41,884 |
| Other | 78,928 | - | - | - | 78,928 |
| Professional services and fees | 122,044 | - | - | - | 122,044 |
| Employee compensation | 1,765,746 | 190,111 | 713,962 | - | 2,669,819 |
| Staff development | 27,482 | 1,850 | 43,228 | - | 72,560 |
| Transportation | 72,802 | - | - | - | 72,802 |
| Capital outlay | <u>84,883</u> | <u>104,424</u> | <u>166,905</u> | <u>-</u> | <u>356,212</u> |
| Total expenditures | <u>2,865,500</u> | <u>346,183</u> | <u>970,930</u> | <u>-</u> | <u>4,182,613</u> |
| NET CHANGE IN FUND BALANCES | 760,285 | - | - | 26,959 | 787,244 |
| FUND BALANCES, June 30, 2012 | <u>1,802,738</u> | <u>-</u> | <u>-</u> | <u>87,456</u> | <u>1,890,194</u> |
| FUND BALANCES, June 30, 2013 | <u>\$ 2,563,023</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 114,415</u> | <u>\$ 2,677,438</u> |

See accompanying notes to financial statements.

KIPP NASHVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - CONTINUED
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

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

| | |
|--|---------------------|
| Net change in fund balances as reported in the governmental funds statements | \$ 787,244 |
| Amounts which are not available to pay for current period expenditures, and therefore, are unavailable revenues in the funds: | |
| Deferred inflows of resources for unavailable revenues | 3,179 |
| Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements: | |
| Capital outlays | 356,212 |
| Expenses in the school-wide statements not included in the governmental funds: | |
| Depreciation expense | <u>(74,954)</u> |
| Change in net position of governmental activities | <u>\$ 1,071,681</u> |

See accompanying notes to financial statements.

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KIPP Nashville was incorporated October 22, 2003, as a Tennessee nonprofit corporation to operate KIPP Academy Nashville (the School). Pursuant to Section 6(b)(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 Board of Public Education of Nashville and Davidson County 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.

Basic Financial Statements

School-wide financial statements

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

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

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

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund financial statements

The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows or inflows of resources, fund balance, revenues and expenditures.

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

The General Purpose School 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 Restricted Contribution Special Revenue Fund is used to account for the receipt and disbursement of private contributions restricted for specific purposes, time periods, or both.

The Federal and State Grants Special Revenue Fund is used to account for the receipt and disbursement of federal and state grants where unused balances, if any, are returned to the grantor at the close of specified project periods.

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

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

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

Basis of Accounting

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

The School is considered a special purpose governmental entity engaged in governmental type activities and is not a component unit of another governmental entity. Therefore, the financial statements are prepared in the same manner as general purpose governments.

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

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

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

Cash and Cash Equivalents

The School considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents.

Receivables

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

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.

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

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School had no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The School has two types of items that qualify for reporting in this category. The first, which arises only under a modified accrual basis of accounting, is *unavailable revenue*, which is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from amounts that are deferred and recognized as an inflow of resources in the period that the amounts become available. The second arises due to contributions and grants which have time requirements for future periods.

Income Taxes

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

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

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

Fair Value of Financial Instruments

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

Interfund Balances

Transactions which constitute reimbursement of expenditures initially made from a fund, which are properly applicable to another fund, are recorded as expenditures, as appropriate, in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Implementation of Accounting Pronouncement - GASB No. 65

During fiscal year 2013, the School implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 had the impact of reclassifying certain items previously reported as deferred revenues to deferred inflows of resources.

B. DEPOSITS AND INVESTMENTS

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

The School's investments consist of mutual funds recorded in its donor-restricted endowment fund. The endowment fund includes \$29,367 of net appreciation, which is presented in restricted fund balance in the School's permanent fund and is available for authorization for expenditure by the Board at year-end.

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

C. CAPITAL ASSETS

Capital assets activity for governmental activities for the year was as follows:

| | Balance July 1, 2012 | Additions | Retirements | Balance June 30, 2013 |
|--------------------------|-------------------------|-------------------|-------------|--------------------------|
| Computer equipment | \$ 206,093 | \$ 197,170 | \$ - | \$ 403,263 |
| Furniture and fixtures | 95,412 | 18,430 | - | 113,842 |
| Machinery and equipment | 125,392 | 73,870 | - | 199,262 |
| Textbooks | 113,241 | - | - | 113,241 |
| School buses | 259,998 | 66,742 | - | 326,740 |
| Library | 64,339 | - | - | 64,339 |
| Website | 11,900 | - | - | 11,900 |
| Subtotal | 876,375 | 356,212 | - | 1,232,587 |
| Accumulated depreciation | (647,690) | (74,954) | - | (722,644) |
| Capital assets, net | <u>\$ 228,685</u> | <u>\$ 281,258</u> | <u>\$ -</u> | <u>\$ 509,943</u> |

Depreciation was charged to governmental activities as follows:

| | |
|----------------------------------|-----------------|
| Student instruction and services | \$44,972 |
| Administration | 29,982 |
| Fundraising | - |
| | <u>\$74,954</u> |

D. LINE-OF-CREDIT

The School has a \$350,000 line-of-credit agreement with a financial institution. The line-of-credit bears interest at a variable rate of the financial institution's index rate and expires in March 2014. As of June 30, 2013, no amounts were outstanding under the agreement.

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

E. LEASE ARRANGEMENTS

The School's facilities are provided under a lease arrangement with the Metropolitan Nashville Board of Public Education and Metropolitan Government of Nashville and Davidson County. The lease was for a period of one year, ending on June 30, 2013. The lease has been renewed through June 30, 2014. The lease includes building operations and interior and exterior support services. The lease arrangement requires the School to pay rent in equal monthly installments. Total rent expense for fiscal year 2013 was \$233,500. The lease also requires the School to pay for certain operating and janitorial services. Under the terms of the renewed lease, minimum required lease payments total \$268,275 for the year ended June 30, 2014.

F. FUND BALANCES

The General Purpose School Fund includes fund balance amounts presented as nonspendable as they are not in spendable form. The nonspendable fund balance amount in the KIPP Alumni Scholarship Permanent Fund is contractually required to be maintained intact, whereas restricted fund balance in the fund is restricted by donors to be used for scholarships.

G. RELATED PARTY TRANSACTIONS

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

The School pays a licensing fee to KIPP Foundation equal to 1% of state and local per-pupil funding received, 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, 2013, were \$26,830.

H. CONCENTRATION

The School received 52% of its funding for operations from MNPS based on the State of Tennessee's Basic Education Program (BEP). BEP funding is designated to schools based on student attendance. Gross BEP funding for the year ended June 30, 2013, was \$2,789,140. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

I. RETIREMENT PLANS

Teacher Plan Description

The School contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan participants and their beneficiaries. Benefits are determined by a formula using the participant's high five-year average salary and years of service. Participants become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested participants who are at least 55 years of age or have 25 years of service. Disability benefits are available to active participants with five years of service and who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the participant was in the performance of duty.

Participants joining the plan on or after July 1, 1979, are vested after five years of service. Participants joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statutes found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if CPI increases less than one-half percent. The annual COLA is capped at three percent. TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHPEPP. 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 ended June 30, 2013, was 8.88% of annual covered payroll.

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

I. RETIREMENT PLANS - Continued

Non-Teacher Plan Description

The School contributes to the Metropolitan Government of Nashville and Davidson County's Division B Pension Plan (Metro Plan), a defined benefit single-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. Benefits are determined by a formula using the participant's highest 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%. Vesting occurs after 5 years for employees employed on or between October 1, 2001 and December 31, 2012, and after 10 years for employees employed on or after January 1, 2013. No separate financial reports are issued for the Metro Plan. The Metro Plan financial and required supplementary information is included in The Metropolitan Government of Nashville and Davidson County Comprehensive Annual Financial Report. That report may be obtained by writing to the Tennessee Department of Finance, Division of Accounts, 1 Public Square, Suite 106, Nashville, Tennessee 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 ended June 30, 2013, was 15.938% of annual covered payroll.

The School's contributions for both teachers and non-teachers are not refundable to either the School or employee. The School's expense, related to both plans for the years ended June 30, 2013, 2012 and 2011, totaled \$202,811, \$214,411 and \$163,255, respectively.

KIPP NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

J. COMMITMENTS AND CONTINGENCIES

The School receives awards and financial assistance through federal, state, local 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 Purpose School Fund or Federal and State Grants Fund. 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, and accordingly, no provision has been made within the financial statements.

K. SUBSEQUENT EVENT

KIPP Nashville opened a second charter School, KIPP Nashville Collegiate Middle School, effective for the 2013 - 2014 school year.

OTHER INFORMATION

KIPP NASHVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

| <u>Program Name</u> | <u>CFDA Number</u> | Balance July 1, 2012 (Receivable) <u>Payable</u> | <u>Receipts</u> | <u>Expenditures</u> | Balance June 30, 2013 (Receivable) <u>Payable</u> |
|--|------------------------|---|------------------|---------------------|--|
| U.S. DEPARTMENT OF EDUCATION: | | | | | |
| Passed through Tennessee Department of Education | | | | | |
| ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants | 84.395 | \$(51,467) | \$200,335 | \$623,086 | \$(474,218) |
| Passed through Tennessee Department of Education, Passed through MNPS | | | | | |
| Title I, Part A Cluster Title I Grants to Local Educational Agencies | 84.010 | (23,929) | 81,130 | 91,561 | (34,360) |
| Special Education Cluster (IDEA) Special Education - Grants to States | 84.027 | - | 89,617 | 93,072 | (3,455) |
| Passed through KIPP Foundation | | | | | |
| ARRA - Investing in Innovation (i3) Fund | 84.396A | (63,259) | 132,867 | 113,211 | (43,603) |
| | | <u>\$(138,655)</u> | <u>\$503,949</u> | <u>\$920,930</u> | <u>\$(555,636)</u> |

Note: The schedule of expenditures of federal awards includes the federal grant activity of the School. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 and the State of Tennessee.

See independent auditor's report.

KIPP NASHVILLE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2013

| <u>Grantor</u> | <u>State Contract Number</u> | Balance July 1, 2012 (Receivable) <u>Payable</u> | <u>Receipts</u> | <u>Expenditures</u> | Balance June 30, 2013 (Receivable) <u>Payable</u> |
|---|--------------------------------------|---|--------------------|---------------------|--|
| TENNESSEE DEPARTMENT OF EDUCATION: | | | | | |
| Basic Education Program | N/A | \$ - | \$ 50,000 | \$ 50,000 | \$ - |
| Passed through Metropolitan Nashville Public Schools | | | | | |
| Basic Education Program | N/A | <u>-</u> | <u>2,789,140</u> | <u>2,789,140</u> | <u>-</u> |
| | | <u>\$ -</u> | <u>\$2,839,140</u> | <u>\$2,839,140</u> | <u>\$ -</u> |

Note: The schedule of expenditures of state financial assistance includes the state grant activity of the School. The information in this schedule is presented in accordance with the requirements of the State of Tennessee.

See independent auditor's report.

KIPP NASHVILLE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

| | <u>Permanent</u> KIPP Alumni Scholarship Fund | <u>Total Nonmajor Governmental Funds</u> |
|---|---|--|
| ASSETS | | |
| Investments | \$ 114,415 | \$ 114,415 |
| Total assets | <u>\$ 114,415</u> | <u>\$ 114,415</u> |
| LIABILITIES | | |
| Accounts payable and accrued expenditures | \$ - | \$ - |
| Total liabilities | <u>-</u> | <u>-</u> |
| FUND BALANCES | | |
| Nonspendable | 85,048 | 85,048 |
| Restricted | 29,367 | 29,367 |
| Assigned | <u>-</u> | <u>-</u> |
| Total fund balances | <u>114,415</u> | <u>114,415</u> |
| Total liabilities and fund balances | <u>\$ 114,415</u> | <u>\$ 114,415</u> |

See independent auditor's report.

KIPP NASHVILLE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

| | <u>Permanent</u> KIPP Alumni Scholarship Fund | <u>Total Nonmajor Governmental Funds</u> |
|------------------------------|---|--|
| REVENUES | | |
| Contributions | \$ 12,600 | \$ 12,600 |
| Interest | 992 | 992 |
| Other income | <u>13,367</u> | <u>13,367</u> |
| Total revenues | <u>26,959</u> | <u>26,959</u> |
| EXPENDITURES | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | 26,959 | 26,959 |
| FUND BALANCES, June 30, 2012 | <u>87,456</u> | <u>87,456</u> |
| FUND BALANCES, June 30, 2013 | <u><u>\$ 114,415</u></u> | <u><u>\$ 114,415</u></u> |

See independent auditor's report.



Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board Directors
KIPP Nashville
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP Nashville (the "School") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 30, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



To the Board of Directors
KIPP Nashville

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Crosslin & Associates, P.C.

Nashville, Tennessee
September 30, 2013



Independent Auditor's Report on Compliance for the Major Program
and on Internal Control Over Compliance
Required by OMB Circular A-133

To the Board Directors
KIPP Nashville
Nashville, Tennessee

Report on Compliance for the Major Federal Program

We have audited KIPP Nashville's (the "School") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2013. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School's compliance.



To the Board of Directors
KIPP Nashville

Opinion on the Major Federal Program

In our opinion, the KIPP Nashville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crosslin & Associates, P.C.

Nashville, Tennessee
September 30, 2013

KIPP NASHVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified not considered to
be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified not considered to
be material weaknesses? yes x none reported

Type of auditor's report issued on compliance for
major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of Circular A-133? yes x no

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--|
| 84.395 | ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes x no

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.