

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**FINANCIAL STATEMENTS**  
**June 30, 2008**

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

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

We have audited the accompanying statement of financial position of KIPP East Nashville Preparatory dba KIPP Academy Nashville (the School) as of June 30, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. 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.

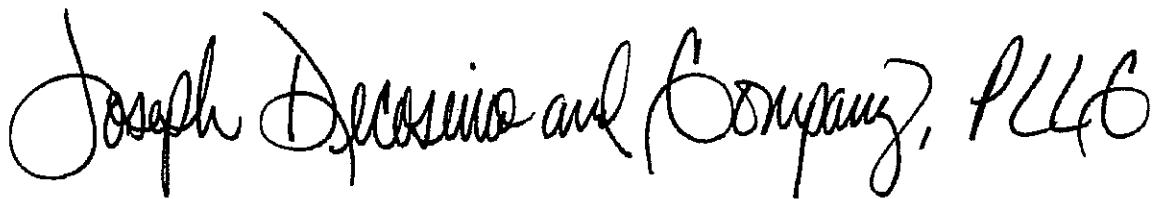
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP East Nashville Preparatory dba KIPP Academy Nashville as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2008, 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 six is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying Schedule of Expenditures of State Financial Assistance, the Schedule of Findings and Responses and the Schedule of Prior Year Findings are presented for the purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury, *Audit Manual for Local Governmental Units and Recipients of Grant Funds* and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Nashville, Tennessee  
October 17, 2008

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

**Year Ended June 30, 2008**

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This section of KIPP East Nashville Preparatory's, dba KIPP Academy Nashville, annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2008. This section should be read in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

**Operating Revenues:**

**Governmental Funding**

Metropolitan Nashville Public Schools	\$ 1,159,025
Grant - State of Tennessee	96,456
Other state funding	<u>41,098</u>
	<u>1,296,579</u>

**Private Funding**

Organizational giving	73,682
Donations	127,547
In-kind donations	<u>4,594</u>
	<u>205,823</u>

**Miscellaneous Income**

Student fees	7,714
Interest	5,942
Other	<u>435</u>
	<u>14,091</u>

<b>Total Operating Revenues</b>	<b><u>\$ 1,516,493</u></b>
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The School's total net assets increased \$247,524 during the 2008 fiscal year. Revenues generated from government grants, governmental funds, foundation grants and donations were \$1,516,493 during the 2008 fiscal year. While the total revenue is consistent with the expectations of the School's management, net per pupil funding was slightly lower than the School expected. Specifically, the Metropolitan Nashville Public Schools' (MNPS) administrative service processing fee represented approximately 4.7% of per pupil funding versus the historical range of 3.2% to 3.7% for such administrative service processing fees. The final state planning and implementation grant funds were received as the School expected.

Contributions from individuals and foundations of \$205,823 were consistent with management's expectations. These contributions are crucial to the School's ability to provide approximately 40% additional 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.

The School staff spent approximately 700 hours during 2008 in development and marketing activities; approximately 50% of those hours were related to direct fundraising.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2008**

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Also, during the 2007-2008 year the School successfully executed its growth plan in preparation for adding the final remaining grade by the 2008-2009 school year. In 2008-2009 the School is expected to educate over 200 students in grades 5th through 8th per its charter.

	<b>Amount</b>	<b>Percentage</b>
Functional Expenses		
Program services	\$ 983,842	77.5 %
General and administrative	282,613	22.3
Fundraising	<u>2,514</u>	<u>0.2</u>
Total	\$ <u>1,268,969</u>	<u>100.0 %</u>

During the year, general and administrative expenses represented 22.3% of total expenses compared to 33.3% in the prior period. The School continues to have general and administrative expenses related to start-up activities. These activities include marketing the School to prospective students, hiring and training additional teachers and staff and other activities related to planned growth. Per the School model, only one grade level of students enroll per year culminating in a total of four grade levels, fifth through eighth grades, during the fourth operating year. As the final grade level is added, fixed costs will be further leveraged, reducing the ratio of general and administrative expenses to total expenditures.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of financial position reports all of the School's assets and liabilities. The difference between the School's assets and liabilities is reported as net assets. A for-profit entity would report retained earnings. The School's net asset balance at year end represents available resources for future growth. The increase in the School's net assets to \$1,002,342 indicates that the School acquired its assets through revenue sources versus debt. In particular, the implementation grants that the School received from state and foundation sources allowed the School to acquire needed property and equipment and pay expenses without debt except for a note payable from the KIPP Foundation which was paid off in this year. In future years, the School will require increased funding from other sources to offset the decline in implementation grant funds. The assets the School has acquired thus far will be available for such areas as school operations, future property and equipment additions and debt service.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2008**

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

The statement of functional expenses reports operating expenses in three major activities of the School: a) general and administrative, b) program services, and c) fundraising. The statement can help identify what portions of the School's expenses are being spent on the main objective of the School. The School's general and administrative expenses are relatively higher than desired due to being a start-up entity.

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

**SCHOOL ACTIVITIES FOR THE PERIOD ENDING JUNE 30, 2008**

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 2007-2008 consisted of 143 fifth through seventh grade students. 91% of these students were African American and 86% qualified for the national free/reduced lunch program. 10% of the School's students during this period were special education students. Attendance for the 2007-2008 school year was 98%.

With a focus on high student performance and belief that with hard work all students will learn, the School offers approximately 40% more class time through extended school days, weeks and year. The school year begins with three weeks of concentrated instruction in July. In 2007-2008, during the traditional school year, the School provided instruction from 7:25-5:00 Monday-Thursday and on Friday from 7:25-3:30. KIPPsters attend Saturday school twice a month for enrichment activities. This additional time on task allows our students to make significant academic gains.

To measure our program's effectiveness, 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 2008, members of the inaugural class improved from 14th percentile to 41st percentile in reading; from 18th percentile to 50th percentile in math; and from 15th percentile to 47th percentile in language. As measured by the Tennessee Comprehensive Assessment Program (TCAP), at the end of the 2007-08 school year, KIPP Academy Nashville students were 92% proficient or advanced in Reading, and 91% proficient or advanced in Math. In addition, 91% 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 2013, 2014, and 2015.

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**Year Ended June 30, 2008**

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**PROPERTY AND EQUIPMENT**

As of June 30, 2008, the School had invested \$581,707 in property and equipment. 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 2008-2009 school year as the final grade is added. With the addition of a grade there will be continued requirements for furniture, computers, equipment and transportation. The School facility is currently large enough to accommodate fifth through eight grades. 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 1920s with a major addition in the 1960s. The current lease term ends June 30, 2009, but management intends to seek lease renewal at the end of the current lease.

The School runs a transportation program in order to expand the reach of its educational program. The School has approximately \$6,800 of designated transportation grant funds remaining. We expect these funds to be used to purchase air conditioning systems for the buses.

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

Enrollment: FY 2009 enrollment is projected to be 210. Revenues: We anticipate an increase in total Basic Education Program (BEP) funding as a result of increased enrollment from the addition of a new grade. Additionally, we expect a small increase in per pupil BEP funding and the Metropolitan Nashville Administrative Services processing fee to be closer to the historical range of 3.2% to 3.7% of BEP funding versus the 4.8% in the 2007 to 2008 school year. For FY 2009, the School expects to raise approximately \$400,000 in non-government funds. The FY 2009 budget increase from \$206,000 in non-governmental sources received in FY 2008 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 fourth year the School plans 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.



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**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**Year Ended June 30, 2008**

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**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 Assistant School Leader, Jennifer Hill, at 123 Douglas Avenue, Nashville, TN 37207, by telephone at (615) 226-4484 or email [jhill@kippacademynashville.org](mailto:jhill@kippacademynashville.org).

**KIPP EAST NASHVILLE PREPARATORY**  
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**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2008**

	Unrestricted	Temporarily Restricted	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 519,066	\$ 141,048	\$ 660,114
Prepaid expenses	<u>10,021</u>	<u>-</u>	<u>10,021</u>
Total current assets	529,087	141,048	670,135
<b>PROPERTY AND EQUIPMENT, net</b>	<u>431,203</u>	<u>-</u>	<u>431,203</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 960,290</u></u>	<u><u>\$ 141,048</u></u>	<u><u>\$ 1,101,338</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 70,339	\$ -	\$ 70,339
Accrued expenses	<u>28,657</u>	<u>-</u>	<u>28,657</u>
Total current liabilities	98,996	-	98,996
<b>NET ASSETS</b>	<u>861,294</u>	<u>141,048</u>	<u>1,002,342</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 960,290</u></u>	<u><u>\$ 141,048</u></u>	<u><u>\$ 1,101,338</u></u>

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

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

**Year Ended June 30, 2008**

	Unrestricted	Temporarily Restricted	Total
<b>OPERATING REVENUES</b>			
Metropolitan Nashville Public Schools	\$ 1,159,025	\$ -	\$ 1,159,025
Planning and implementation grant	96,456	-	96,456
Other state funding	40,369	729	41,098
Organizational giving	62,682	11,000	73,682
Donations	104,547	23,000	127,547
In-kind donations	4,594	-	4,594
Miscellaneous income	14,091	-	14,091
Net assets released from restrictions	<u>56,723</u>	<u>(56,723)</u>	<u>-</u>
 Total operating revenues	 <u>1,538,487</u>	 <u>(21,994)</u>	 <u>1,516,493</u>
<b>OPERATING EXPENSES</b>			
Program services	983,842	-	983,842
General and administrative	282,613	-	282,613
Fundraising	<u>2,514</u>	<u>-</u>	<u>2,514</u>
 Total operating expenses	 <u>1,268,969</u>	 <u>-</u>	 <u>1,268,969</u>
 <b>CHANGE IN NET ASSETS</b>	 269,518	 (21,994)	 247,524
 <b>NET ASSETS - beginning of year</b>	 <u>591,776</u>	 <u>163,042</u>	 <u>754,818</u>
 <b>NET ASSETS - end of year</b>	 <u>\$ 861,294</u>	 <u>\$ 141,048</u>	 <u>\$ 1,002,342</u>

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

**KIPP EAST NASHVILLE PREPARATORY**  
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**STATEMENT OF FUNCTIONAL EXPENSES**

**Year Ended June 30, 2008**

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	<b>Program Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Accounting fees	\$ -	\$ 46,178	\$ -	\$ 46,178
Depreciation	51,207	47,228	-	98,435
Dues and licenses	-	12,603	-	12,603
Employee benefits	75,218	25,073	-	100,291
Field lessons	63,505	-	-	63,505
Food service	29,157	2,147	-	31,304
Instructional materials	13,446	-	-	13,446
Insurance	15,917	2,809	-	18,726
Interest	-	111	-	111
Legal fees	-	2,868	-	2,868
Marketing and development	5,618	741	2,101	8,460
Meals and entertainment	1,938	342	-	2,280
Miscellaneous	755	1,580	-	2,335
Occupancy	124,652	21,997	-	146,649
Office expense	6,607	10,737	413	17,757
Payroll taxes	34,431	11,477	-	45,908
Salaries and wages	461,565	87,036	-	548,601
Special education services	31,694	-	-	31,694
Staff development	17,508	3,090	-	20,598
Supplies	14,547	3,862	-	18,409
Transportation services	13,771	-	-	13,771
Travel and meetings	6,312	1,114	-	7,426
Uniform expense	6,816	-	-	6,816
Utilities	9,178	1,620	-	10,798
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ <u>983,842</u></b>	<b>\$ <u>282,613</u></b>	<b>\$ <u>2,514</u></b>	<b>\$ <u>1,268,969</u></b>

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

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2008**

**OPERATING ACTIVITIES**

Change in net assets	\$ 247,524
Adjustments to reconcile change in net assets to net cash flows from operating activities -	
Depreciation	98,435
Changes in operating assets and liabilities -	
Receivables	36,510
Prepaid expenses	(3,357)
Accounts payable	29,241
Accrued expenses	<u>16,150</u>
<b>Net cash flows from operating activities</b>	<b>424,503</b>

**INVESTING ACTIVITIES**

Purchase of property and equipment	(136,517)
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**FINANCING ACTIVITIES**

Payments on note payable	<u>(7,194)</u>
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**NET CHANGE IN CASH AND CASH EQUIVALENTS**

280,792

**CASH AND CASH EQUIVALENTS - beginning of year**

379,322

**CASH AND CASH EQUIVALENTS - end of year**

\$ 660,114

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Interest paid	\$ 111
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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, 2008**

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

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

**NATURE OF ACTIVITIES** - 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. Tennessee public charter schools are part of the state's public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education. The 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, added a sixth grade class in 2006-2007, added a seventh grade class in 2007-2008, and plans to add eighth grade next school year.

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

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

**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. As of June 30, 2008, the School's cash and cash equivalents were deposited in one financial institution.

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

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

**June 30, 2008**

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

**CONTRIBUTED SERVICES/GIFTS IN-KIND** - During the year ended June 30, 2008, the value of contributed services meeting the requirements for recognition in the financial statements was \$3,169, consisting of donated legal and building maintenance services. In addition, many individuals volunteer their time and perform a variety of tasks that assist the School at the School's facilities, but these services do not meet the criteria for recognition as contributed services. The School received more than 1,000 volunteer hours during 2008. The School periodically receives gifts in-kind which consist of non-cash assets such as property, equipment, books and supplies. During the year ended June 30, 2008, the School recognized non-cash contributions totaling \$1,425. The School has full discretion over all gifts in-kind received.

**CONTRIBUTIONS AND GRANTS** - Contributions and grants received are recognized as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor or grantor restrictions. The School has elected to show restricted contributions whose restrictions are met in the same reporting period as unrestricted.

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

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

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

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

**June 30, 2008**

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30, 2008:

	June 30, 2007	Additions	Deletions	June 30, 2008
Computer equipment	\$ 101,112	\$ 26,603	\$ -	\$ 127,715
Furniture and fixtures	44,453	21,475	-	65,928
Machinery and equipment	50,496	6,099	-	56,595
Text books	47,151	24,464	-	71,615
School buses	197,841	-	-	197,841
Library	4,137	57,876	-	62,013
	445,190	136,517	-	581,707
Less accumulated depreciation	(52,069)	(98,435)	-	(150,504)
	<u>\$ 393,121</u>	<u>\$ 38,082</u>	<u>\$ -</u>	<u>\$ 431,203</u>

**NOTE 3 - LINE OF CREDIT**

The School has a \$175,000 line of credit with a bank which expires May 8, 2009. As of June 30, 2008, no amounts were borrowed under the line.

**NOTE 4 - RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets as of June 30, 2008, were available for the following:

Transportation	\$ 6,866
Library	8,626
Scholarships	20,025
Science lab	11,000
Public policy fellowship	15,000
Other	79,531
	<u>\$ 141,048</u>

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



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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

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**NOTE 5 - PLANNING AND IMPLEMENTATION GRANT**

The School has no direct Federal awards. All Federal monies were received as subrecipient funds through a Planning and Implementation Grant (Grant) by the Tennessee Department of Education. Total subrecipient revenue received during the year was \$96,456. The Grant is in the final year of a three year disbursement period. Total funds awarded over the life of the Grant were \$546,000.

**NOTE 6 - 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 \$94,753 and \$1,778, respectively, for the year ended June 30, 2008.

**NOTE 7 - 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, 2008, were \$12,146.

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, 2008, were \$25,817.

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

**June 30, 2008**

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**NOTE 8 - CONCENTRATIONS**

The School received 80% of its funding for operations from Metropolitan Nashville Public Schools based on the State of Tennessee's Basic Education Program. BEP funding is designated to schools based on student attendance. Gross BEP funding for the year ended June 30, 2008, was \$1,214,617. 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 and twenty students.

The School routinely maintains deposit balances in excess of federally insured limits with certain financial institutions. As of June 30, 2008, deposits exceeded federally insured limits by approximately \$581,376.

**NOTE 9 - RETIREMENT PLAN**

All of the School's full time certificated teachers, as a condition of employment, are participants of the Tennessee Consolidated Retirement System (TCRS). The TCRS plan is a defined benefit program. Employees are eligible upon hire and are fully vested after five years. The benefits at retirement are based on a percentage of earnings times years of service. Participants are required to contribute 5.00% of their salary to the program and the School is required to contribute 6.24%.

Non-certificated employees are required by Metropolitan Nashville Public Schools to participate in the Metropolitan Government of Nashville and Davidson County Tennessee Pension Plan (Metro Plan). The Metro Plan is a defined benefit program. The Metro Plan requires no participant contribution and an employer contribution of 16.66% of a participant's salary.

The School's contributions for both certificated and non-certificated employees are not refundable to either the School or employee. The School's expense, related to both plans, for the year ended June 30, 2008, was \$49,710.

## SUPPLEMENTARY INFORMATION

**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***

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, 2008, and have issued our report thereon dated October 17, 2008. 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 2008-01 and 2008-02 to be significant deficiencies in internal control over financial reporting.

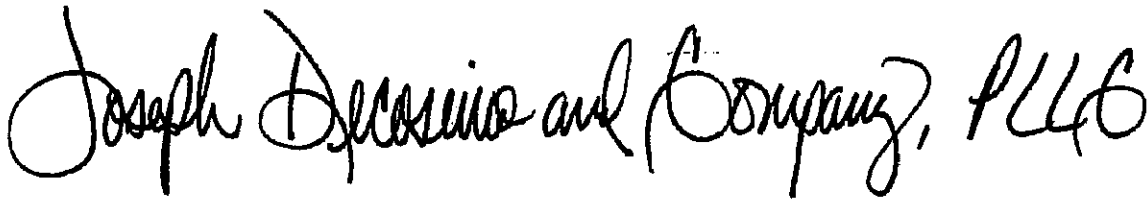
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

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 2008-02 to be a material weakness. In accordance with professional standards, we have issued a report to the management of the School in a separate report dated October 17, 2008.

### **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*.

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

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

Nashville, Tennessee  
October 17, 2008

# KIPP EAST NASHVILLE PREPARATORY

## DBA KIPP ACADEMY NASHVILLE

### SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Year Ended June 30, 2008

State Grantor/ Program Title/ Pass-through Grantor	CFDA #	Contract Number	Balance June 30, 2007	Receipts	Expenditures	Balance June 30, 2008
STATE FINANCIAL ASSISTANCE						
State of Tennessee Department of Education Charter School Grant	84.282A	GR-05-17193-00	\$ 36,510	\$ 97,056	\$ 133,566	\$ -
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>			<u>\$ 36,510</u>	<u>\$ 97,056</u>	<u>\$ 133,566</u>	<u>\$ -</u>

#### NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of State Financial Assistance includes the state 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 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.

**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2008**

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**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.

**Effect:** Recorded accumulated depreciation and depreciation expense is materially incorrect.

**Cause:** The School considered an estimate based on prior year depreciation and adjusted periodically for new assets to be adequate.

**Auditor's Recommendations:** We recommend that the School use a projected depreciation schedule as the basis of their depreciation entries. The School should also update the projected depreciation as needed for new asset additions.

**School's Response:** The School will use the projected depreciation report as the basis for depreciation entries.

**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.

**Effect:** Risk of misappropriation of assets.

**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. We also recommend 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.

**School's Response:** As a small entity with a small number of support personnel, segregation of duties is difficult. The School realizes this and will continue to improve policies and procedures to minimize the risks associated with a lack of segregation of duties.

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

**Year Ended June 30, 2008**

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**2007-01 - Record and Report Contributed Services**

**Condition and Criteria:** The School did not record contributed services or gifts in-kind at the time of the transactions throughout the year. The value of these services was recorded at year end. Contributed services that enhance non-financial assets or require specialized skills are required to be recognized as contribution income, at fair value, when received.

**Auditor's Recommendations:** We recommend that the School develop a procedure to track and record contributed services throughout the year.

**Current Status:** The School has a policy and procedure in place to track contributed services. An information sheet is completed on any contributed service and submitted to the assistant school leader. The assistant school leader records the transaction in the School's contribution software and then forwards it to be entered into the School's accounting software. Pro bono legal services are recorded per invoice.

**2007-02 - Accounting Policies and Procedures Manual**

**Condition and Criteria:** The School does not have a written accounting and financial policies and procedures manual.

**Auditor's Recommendations:** We recommend that the School complete a written comprehensive accounting and financial policies and procedures manual to clearly and effectively communicate to others their accounting policies and procedures.

**Current Status:** The School is in the process of completing an accounting and financial policies manual. Many current policies and procedures have been documented and flow charts have been developed for some processes. All documentation and flow charts have not yet been consolidated into a single manual.

**2007-03 - Sustaining Fixed Asset Listing**

**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.

**Auditor's Recommendations:** We recommend that the School maintain a fixed asset detail listing and conduct a periodic inventory of fixed assets.

**Current Status:** The School has established a fixed asset inventory sheet for each room and conducts an inventory based on these room sheets. A master list that agrees to the general ledger has not been developed. Bar codes are being used to track assets.



**KIPP EAST NASHVILLE PREPARATORY**  
**DBA KIPP ACADEMY NASHVILLE**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
**Year Ended June 30, 2008**

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**2007-04 - Segregation of Duties**

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

**Auditor's Recommendations:** We recommend that the School continue to review current procedures and when able, establish proper segregation of duties. We also recommend that the Principal or Finance Committee member, other than the Director of Operations, occasionally obtain the bank statements unopened and review the statements to ensure the propriety of the transactions.

**Current Status:** The School still lacks segregation of duties in many areas due to the size of the organization and capabilities or current employees.