

**KIPP EAST NASHVILLE PREPARATORY
DBA KIPP ACADEMY NASHVILLE**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2011

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE

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Independent Auditors' Report

To the Board Directors

KIPP East Nashville Preparatory dba KIPP Academy Nashville

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP East Nashville Preparatory dba KIPP Academy Nashville (the "School"), as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP East Nashville Preparatory dba KIPP Academy Nashville, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2011, 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 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.



To the Board of Directors

KIPP East Nashville Preparatory dba KIPP Academy Nashville

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KIPP East Nashville Preparatory dba KIPP Academy Nashville's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury's *Audit Manual for Local Governmental Units and Other Organizations* and is also not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules of expenditures of federal awards and state financial assistance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Crosslin & Associates, P.C.

Nashville, Tennessee

November 18, 2011

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of KIPP East Nashville Preparatory dba KIPP Academy Nashville's annual financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2011. 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 \$451,856 in 2011 or 31.4%, while total revenues for the School increased by \$866,891 or 31.9%. The School's governmental activities total program costs for 2011 increased \$853,181 or 36.2%. Overall, the School's 2011 change in net assets, \$379,148, was \$13,710 or 3.8% more than the prior year.

For the General Purpose School Fund there was a net change in fund balance of \$396,369. The General Purpose School Fund - fund balance at fiscal year-end was \$1,310,267.

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 Assets and Statement of Activities report information about the School as a whole and about the School's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 9.

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

The School's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 11. 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 Assets and the Statement of Activities, and governmental funds, as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances is reconciled in the basic financial statements on pages 12 and 14.

SCHOOL-WIDE FINANCIAL ANALYSIS

The School's assets exceeded the School's liabilities at the close of the fiscal year, resulting in net assets of \$1,639,719. The School's net assets include \$1,417,689 of cash and investments, a portion of which, \$63,316 is subject to external restrictions that limit how the amounts may be used. Another portion is restricted to an endowment scholarship fund, which is \$71,510. The remainder of the cash is available to meet the School's ongoing operating activities and growth strategy.

As of June 30, 2011, the School had invested a total of \$777,042 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 2011-2012 school year, as student enrollment maximizes at each grade level. With the additional students, there will be continued requirements for furniture, computers and equipment. The School facility is currently large enough to accommodate increased student enrollment for all grades, fifth through eighth. Additional information on property and equipment is located in the notes to the financial statements.

The School is currently renting educational space from the Metropolitan Government of Nashville. The building was originally built in the 1920's with a major addition in the 1960's. The current lease term ends June 30, 2012, but management intends to seek a long-term lease and facility improvements at the end of the current lease. The School has no debt as of the end of the fiscal year.

A schedule of the School's net assets as of June 30, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Current assets	\$1,644,242	\$1,165,109
Capital assets	<u>246,042</u>	<u>273,319</u>
Total assets	<u>1,890,284</u>	<u>1,438,428</u>
Current liabilities	<u>250,565</u>	<u>177,857</u>
Net assets:		
Invested in capital assets	246,042	273,319
Restricted	217,413	92,349
Unrestricted	<u>1,176,264</u>	<u>894,903</u>
Total net assets	<u>\$1,639,719</u>	<u>\$1,260,571</u>

The School's total net assets increased \$379,148 during the 2011 fiscal year. The increase in the School's net assets 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 \$3,588,109 during the 2011 fiscal year which is \$866,891 or 31.9% increase over 2010. Contributions from individuals and organizations of \$782,858 were higher than 2010 due primarily to continued support from existing individual and corporate donors and the identification of new individual donors. In particular, the school held its second annual community wide fundraising breakfast. The event was well attended and provided the school with the opportunity to update existing donors on KIPP's progress and introduce KIPP to prospective new donors. In addition, the school realized an increase in Federal funding as compared to 2010 as a result of being awarded Race To The Top funding mid-school year. This Federal grant is a 4-year grant and will continue to contribute to KIPP's revenue to support the growth plans. Finally, District funding increased 12% versus 2010. The main driver of this increase is increased student enrollment. KIPP focused on building enrollment through concerted recruiting and marketing efforts in the community and was able to increase starting enrollment to 310 from 260 in 2010.

Total expenses were \$3,208,961 during the 2011 fiscal year, which was \$853,181 higher than 2010. The majority of this increase is directly related to KIPP Nashville building out the regional office to plan and manage the launch of three more KIPP schools over the next five years. KIPP hired a number of new positions in 2011 including an Executive Director, COO, Chief Academic Officer, Director of Talent Development and Director of KIPP Through College. This regional office is responsible for building out the infrastructure and services to support multiple schools and leverage economies of scale. In addition, maintenance and repair costs increased as a result of occupying additional space in the building to accommodate increased enrollment. Finally, the overall medical costs per employee increased, an expense KIPP Nashville has little control over based on sourcing the medical benefits through the school district.

The change in net assets of \$379,148 is \$13,710 better than 2010. While operating expenses increased significantly in 2011 to fund the launch of the new regional office, increases in revenue from contributions and Federal grants more than offset this increase in expense.

A schedule of the School's revenue and expenses for the years ended June 30, 2011 and 2010, is as follows. The schedule is for the School as a whole, not for the governmental funds.

	<u>2011</u>	<u>2010</u>
Revenues		
Contributions	\$ 782,858	\$ 320,672
District funding	2,283,206	2,041,371
Federal and state grants	463,406	352,433
Interest	14,037	6,742
Other	<u>44,602</u>	<u>10,883</u>
Total revenues	<u>3,588,109</u>	<u>2,721,218</u>
Expenses		
Instructional	177,054	88,975
Occupancy	229,261	206,450
Office	49,312	26,660
Organizational development	48,692	61,848
Other	63,977	75,492
Service fees	133,593	106,399
Employee compensation	2,280,878	1,606,647
Staff development	76,084	48,494
Transportation	23,309	13,990
Depreciation	<u>126,801</u>	<u>120,825</u>
Total expenses	<u>3,208,961</u>	<u>2,355,780</u>
Change in net assets	<u>\$ 379,148</u>	<u>\$ 365,438</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the Balance Sheet on page 11, report a combined fund balance of \$1,393,677. 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 three other major funds consisting of the Restricted Contribution, Federal and State Grants Funds, and Nonmajor Governmental 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, 2011, the differences are minor and consist of capital assets, which are not reported in the School's funds, and amounts for the year not received within sixty days of year-end.

SCHOOL ACTIVITIES

KIPP Academy Nashville (KAN) opened in July 2005 as a middle school (5th through 8th grades) and has developed a highly successful program to serve students who need us the most and who we were founded 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.

KAN'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, who 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 seventeen 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 109 KIPP schools serving over 32,000 students across the United States in rural and low-income communities located in 20 states and D.C. 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 incredibly 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 Academy Nashville has a significantly higher percentage of economically disadvantaged families than most Metro Nashville public schools. 90% of KAN 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, KAN students emulate the academic success of their national cohorts by making significant progress and demonstrating academic excellence. KAN students must – and do – make on average 1.5 to 2 years of academic growth each year, and consistently score in the top half to top quartile among KIPP students nationwide. By the time KAN students enter high school, they are at grade level and prepared for continuing academic success.

The 2010-11 academic growth of KAN students as compared to district and state middle schools with similar student demographics (w/SSD)* is as follows:

Metro Nashville Public Middle Schools (18 w/SSD)	
<i>Subject</i>	<i>KIPP Academy Nashville Rank</i>
Reading	1
Math	3
Science	7
Social Studies	2

Public Middle Schools in Tennessee (62 w/SSD)	
<i>Subject</i>	<i>KIPP Academy Nashville Rank</i>
Reading	1
Math	7
Science	20
Social Studies	16

*Per the Tennessee Value-Added Assessment System (TVAAS), and schools with a student demographic of 80% federal free- or reduced-priced meals. 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.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Fiscal Year 2012 enrollment is projected to be over 310 students. The school anticipates an increase in total Basic Education Program (BEP) funding, as a result of increased enrollment across all grades. Additionally, the school expects per pupil BEP funding to remain flat for the 2011-12 school year. For fiscal year 2012, the School expects to raise approximately \$600,000 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 meet the current funding gap of KIPP Academy Nashville, and the strategic growth plans for KIPP Nashville.

For fiscal year 2011-2012, in addition to serving KIPP's current student population of over 310 students, KIPP plans to invest in the School'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, authorities over grant funding and agencies tasked with oversight of Metropolitan Nashville Public Schools with a general overview of the School'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 School's Director of Finance and Operations, Thomas Branch, at 123 Douglas Avenue, Nashville, TN 37207, by telephone at (615) 226-4484 or email tbranch@kippacademynashville.org.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,346,179
Investments	71,510
Receivables	193,966
Other current assets	32,587
Capital assets, net	<u>246,042</u>
Total assets	<u>1,890,284</u>
LIABILITIES	
Accounts payable	64,470
Accrued expenses	72,779
Deferred revenue	<u>113,316</u>
Total liabilities	<u>250,565</u>
NET ASSETS	
Invested in capital assets	246,042
Restricted - expendable for special purposes	124,878
Restricted - nonexpendable	92,535
Unrestricted	<u>1,176,264</u>
Total net assets	<u>\$ 1,639,719</u>

See notes to financial statements.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

GOVERNMENTAL ACTIVITIES:	Total	Functions		
		Student Instruction and Services	Administration	Fundraising
EXPENSES				
Instructional	\$ 177,054	\$ 177,054	\$ -	\$ -
Occupancy	229,261	194,872	34,389	-
Office	49,312	47,984	1,328	-
Organizational development	48,692	12,126	1,959	34,607
Other	63,977	41,170	22,807	-
Professional services and fees	133,593	27,524	106,069	-
Employee compensation	2,280,878	1,949,503	331,375	-
Staff development	76,084	71,001	5,083	-
Transportation	23,309	23,309	-	-
Depreciation	126,801	73,836	52,965	-
Total expenses	3,208,961	2,618,379	555,975	34,607
PROGRAM REVENUES				
Operating grants and contributions	409,756	409,756	-	-
Capital grants and contributions	53,650	53,650	-	-
Net program expenses	2,745,555	\$ 2,154,973	\$ 555,975	\$ 34,607
GENERAL REVENUES				
Contributions	782,858			
District funding	2,283,206			
Other	44,602			
Interest	14,037			
Total general revenues	3,124,703			
CHANGE IN NET ASSETS	379,148			
NET ASSETS, June 30, 2010, as restated	1,260,571			
NET ASSETS, June 30, 2011	\$ 1,639,719			

See notes to financial statements.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Purpose School Fund	Restricted Contribution Fund	Federal and State Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,282,863	\$ 63,316	\$ -	\$ -	\$ 1,346,179
Investments	-	-	-	71,510	71,510
Receivables	86,936	50,000	57,030	-	193,966
Due from other funds	57,030	-	-	-	57,030
Other current assets	20,687	11,900	-	-	32,587
Total assets	<u>\$ 1,447,516</u>	<u>\$ 125,216</u>	<u>\$ 57,030</u>	<u>\$ 71,510</u>	<u>\$ 1,701,272</u>
LIABILITIES					
Accounts payable	\$ 64,470	\$ -	\$ -	\$ -	\$ 64,470
Accrued expenditures	72,779	-	-	-	72,779
Due to other funds	-	-	57,030	-	57,030
Deferred revenue	-	113,316	-	-	113,316
Total liabilities	<u>137,249</u>	<u>113,316</u>	<u>57,030</u>	<u>-</u>	<u>307,595</u>
FUND BALANCES					
Nonspendable	20,687	11,900	-	59,948	92,535
Restricted	-	-	-	11,562	11,562
Unassigned	1,289,580	-	-	-	1,289,580
Total fund balances	<u>1,310,267</u>	<u>11,900</u>	<u>-</u>	<u>71,510</u>	<u>1,393,677</u>
Total liabilities and fund balances	<u>\$ 1,447,516</u>	<u>\$ 125,216</u>	<u>\$ 57,030</u>	<u>\$ 71,510</u>	<u>\$ 1,701,272</u>

See notes to financial statements.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2011

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

Total governmental fund balances above	\$ 1,393,677
Capital assets not reported above	<u>246,042</u>
Net assets of governmental activities in the statement of net assets	<u>\$ 1,639,719</u>

See notes to financial statements.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General Purpose School Fund	Restricted Contribution Fund	Federal and State Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Contributions	\$ 588,436	\$ 176,422	\$ -	\$ 18,000	\$ 782,858
District funding	2,283,206	-	-	-	2,283,206
Federal and state grants	-	-	463,406	-	463,406
Interest	13,687	-	-	350	14,037
Other income	36,682	-	-	7,920	44,602
Total revenues	<u>2,922,011</u>	<u>176,422</u>	<u>463,406</u>	<u>26,270</u>	<u>3,588,109</u>
EXPENDITURES					
Current:					
Instructional	185,736	29,985	31,440	-	247,161
Occupancy	220,423	-	8,838	-	229,261
Office	75,437	325	1,256	-	77,018
Organizational development	30,430	18,262	-	-	48,692
Other	63,977	-	-	-	63,977
Professional services and fees	127,183	-	6,410	-	133,593
Employee compensation	1,726,252	111,810	429,177	13,214	2,280,453
Staff development	70,759	5,325	-	-	76,084
Transportation	25,445	-	-	-	25,445
Total expenditures	<u>2,525,642</u>	<u>165,707</u>	<u>477,121</u>	<u>13,214</u>	<u>3,181,684</u>
NET CHANGE IN FUND BALANCES	396,369	10,715	(13,715)	13,056	406,425
FUND BALANCES, June 30, 2010, as restated	<u>913,898</u>	<u>1,185</u>	<u>13,715</u>	<u>58,454</u>	<u>987,252</u>
FUND BALANCES, June 30, 2011	<u>\$ 1,310,267</u>	<u>\$ 11,900</u>	<u>\$ -</u>	<u>\$ 71,510</u>	<u>\$ 1,393,677</u>

See notes to financial statements.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - CONTINUED
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

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

Net change in fund balances as reported in the governmental funds statements	\$ 406,425
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	99,524
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation expense	<u>(126,801)</u>
Change in net assets of governmental activities	<u>\$ 379,148</u>

See notes to financial statements.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KIPP East Nashville Preparatory dba KIPP Academy Nashville (the School) was incorporated October 22, 2003, as a Tennessee nonprofit corporation. Pursuant to Section 6(1)(a) of the Tennessee Public Charter School Act of 2002 (the Act), the School has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state's public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education. The School entered into a Charter School Agreement with the Metropolitan 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 assets resulting from the current year's activities. In the school-wide statement of net assets, 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 assets presents the financial condition of the School at year-end.

The School's net assets are reported in three categories – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. 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 EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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, reserves, fund equity, 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 governmental funds' focus 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 EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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 controller and personnel under the supervision of the controller tasked with financial recording responsibilities.

Unassigned - This classification consists of all fund balances in the General 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 EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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 grants or 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 deferred revenue.

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 EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Estimates and Uncertainties

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

The School receives awards and financial assistance through state and private agencies. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General 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.

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.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassification

During the year, the School determined that amounts held in the KIPP Alumni Scholarship Fund should be presented within a permanent fund and amounts contributed by the donor reflected as nonspendable fund balance. Fund investment balances in excess of the nonspendable amount are included in restricted fund balance per clarification of the donors' intentions.

New Accounting Pronouncements

The School adopted GASB Statement No. 59, *Financial Instruments Omnibus*, in fiscal 2011. The adoption of GASB Statement No. 59 did not have a material effect on the June 30, 2011, financial statements of the School.

B. DEPOSITS AND INVESTMENTS

The School does not have formal deposit policies that address its exposure to custodial credit risk. Deposit accounts in excess of insurance coverage amount to \$1,174,860 at year-end. The School's investments consist of mutual funds recorded in its donor-restricted endowment fund. The endowment fund includes \$11,562 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.

C. CAPITAL ASSETS

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

	Balance <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2011</u>
Computer equipment	\$ 147,888	\$ 41,473	\$ -	\$ 189,361
Furniture and fixtures	79,992	14,857	-	94,849
Machinery and equipment	78,148	22,239	-	100,387
Textbooks	92,289	18,819	-	111,108
School buses	214,862	2,136	-	216,998
Library	<u>64,339</u>	<u>-</u>	<u>-</u>	<u>64,339</u>
Subtotal	677,518	99,524	-	777,042
Accumulated depreciation	<u>(404,199)</u>	<u>(126,801)</u>	<u>-</u>	<u>(531,000)</u>
Capital assets, net	<u>\$ 273,319</u>	<u>\$ (27,277)</u>	<u>\$ -</u>	<u>\$ 246,042</u>

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

C. CAPITAL ASSETS - Continued

Depreciation was charged to governmental activities as follows:

Student instruction and services	\$ 71,332
Administration	55,469
Fundraising	<u>-</u>
	<u>\$126,801</u>

D. LINE-OF-CREDIT

The School has a \$350,000 line-of-credit with a bank, which expires February 7, 2012. As of June 30, 2011, no amounts were outstanding under the line.

E. LEASING EXPENSES

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 \$120,963 and \$2,451, respectively, during the year ended June 30, 2011.

F. 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, 2011, were \$23,549.

G. CONCENTRATIONS

The School received 62% 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, 2011, was \$2,283,206. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

G. CONCENTRATIONS - Continued

Per the School's charter agreement, enrollment in the School is open to any student within the MNPS 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 320 students.

H. 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 SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Funding Policy

Participants are required to contribute 5.00% of their salary to the plan. The employer contribution rate is based on the rate for Davidson County Schools, which is established at an actuarially determined rate. The employer rate for the year ended June 30, 2011, was 9.05% of annual covered payroll.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

H. 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 high five-year average salary and years of service. Participants become eligible to retire at the age of 60 once their age plus the completed years of service equal 85 or at age 65 with five years of service. A reduced retirement benefit is available to vested participants prior to the age of 60 or with less than an age plus years of service sum of 85. Reduced benefits are determined by reducing full benefits by 4% per year for each of the first five years by which the retirement date precedes the normal retirement age, and by 8% for each additional year beyond the first five years with a maximum reduction of 60%. Participants are vested after five years of service. No separate financial reports are issued for the Metro Plan. The Metro Plan financial and required 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, TN 37201 or can be accessed at www.nashville.org/finance/financial_reports.asp.

Funding Policy

The Metro Plan requires no participant contribution. The employer contribution is established at an actuarially determined rate. The employer rate for the year ended June 30, 2011, was 15.416% 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, 2011, 2010 and 2009, totaled \$163,255, \$95,514 and \$91,326, respectively.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

I. PRIOR PERIOD ADJUSTMENT

Beginning balances have been restated to reflect proper timing of revenue recognition on certain contributions, as follows:

	<u>Governmental Activities</u>	<u>General Purpose School Fund</u>
Net assets/fund balance, June 30, 2010, as previously reported	\$ 1,295,571	\$ 892,023
Revenue deferred	(35,000)	(35,000)
Revenue recognized	<u>-</u>	<u>56,875</u>
Net assets/fund balance, June 30, 2010, as restated	<u>\$ 1,260,571</u>	<u>\$ 913,898</u>

The restatement produced a \$35,000 decrease in the prior year results of operations for Governmental Activities and a \$21,875 increase in the prior year results of operations for the General Purpose School Fund.

SUPPLEMENTARY INFORMATION

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Balance July 1, 2010 (Receivable) Payable</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Passed through Tennessee Department of Education			
Child Nutrition Cluster			
Summer Food Service Program for Children	10.559		\$ <u>-</u>
U.S. DEPARTMENT OF EDUCATION:			
Passed through Tennessee Department of Education			
Fund for the Improvement of Education	84.215K	U215K080342	<u>(13,247)</u>
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants	84.395		<u>-</u>
Passed through Tennessee Department of Education, Passed through MNPS			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010		(6,703)
ARRA - Title I Grants to LEAs	84.389		<u>(7,013)</u>
			<u>(13,716)</u>
Special Education Cluster (IDEA)			
Special Education - Grants To States	84.027		-
ARRA - Special Education - Grants To States	84.391		<u>(18,994)</u>
			<u>(18,994)</u>
Improving Teacher Quality State Grants	84.367		<u>-</u>
			<u>\$(45,957)</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 the State of Tennessee.

<u>Receipts</u>	<u>Expenditures</u>	Balance June 30, 2011 (Receivable) <u>Payable</u>
<u>\$ 7,949</u>	<u>\$ 7,949</u>	<u>\$ -</u>
<u>13,247</u>	<u>-</u>	<u>-</u>
<u>80,191</u>	<u>137,221</u>	<u>(57,030)</u>
156,665	149,962	-
<u>7,013</u>	<u>-</u>	<u>-</u>
<u>163,678</u>	<u>149,962</u>	<u>-</u>
42,752	42,752	-
<u>87,392</u>	<u>68,398</u>	<u>-</u>
<u>130,144</u>	<u>111,150</u>	<u>-</u>
<u>3,474</u>	<u>3,474</u>	<u>-</u>
<u>\$398,683</u>	<u>\$409,756</u>	<u>\$(57,030)</u>

See independent auditors' report.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2011

<u>Grantor</u>	<u>State Contract Number</u>	<u>Balance July 1, 2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2011</u>
TENNESSEE DEPARTMENT OF EDUCATION:					
Basic Education Program	N/A	\$ -	\$ 53,650	\$ 53,650	\$ -
Passed through MNPS					
Basic Education Program	N/A	<u>-</u>	<u>2,283,206</u>	<u>2,283,206</u>	<u>-</u>
		<u>\$ -</u>	<u>\$2,336,856</u>	<u>\$2,336,856</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 auditors' report.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	Special Revenue	Permanent	
	KIPP to College Fund	KIPP Alumni Scholarship Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments	-	71,510	71,510
Total assets	<u>\$ -</u>	<u>\$ 71,510</u>	<u>\$ 71,510</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued expenditures	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	-	59,948	59,948
Restricted	-	11,562	11,562
Assigned	-	-	-
Total fund balances	<u>-</u>	<u>71,510</u>	<u>71,510</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 71,510</u>	<u>\$ 71,510</u>

See independent auditors' report.

KIPP EAST NASHVILLE PREPARATORY DBA KIPP ACADEMY NASHVILLE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2011

	<u>Special Revenue</u>	<u>Permanent</u>	
	KIPP to College Fund	KIPP Alumni Scholarship Fund	Total Nonmajor Governmental Funds
REVENUES			
Contributions	\$ -	\$ 18,000	\$ 18,000
Interest	-	350	350
Other income	-	7,920	7,920
Total revenues	<u>-</u>	<u>26,270</u>	<u>26,270</u>
EXPENDITURES			
Employee compensation	13,214	-	13,214
Staff development	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>13,214</u>	<u>-</u>	<u>13,214</u>
NET CHANGE IN FUND BALANCES	(13,214)	26,270	13,056
FUND BALANCES, June 30, 2010	<u>13,214</u>	<u>45,240</u>	<u>58,454</u>
FUND BALANCES, June 30, 2011	<u>\$ -</u>	<u>\$ 71,510</u>	<u>\$ 71,510</u>

See independent auditors' report.



Independent Auditors' 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 East Nashville Preparatory dba KIPP Academy Nashville

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP East Nashville Preparatory dba KIPP Academy Nashville (the "School"), as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 18, 2011. 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.

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 opinions 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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.



We consider the deficiency described below to be a material weakness:

CONTRIBUTIONS REVENUE RECOGNITION

Criteria, Condition, Context, Cause and Effect

Although ultimately resolved and corrected by the School, we identified certain contributions that were not recognized in accordance with accounting principles generally accepted in the United States of America. The primary reason for these errors was a lack of understanding of revenue recognition principles as prescribed by the Governmental Accounting Standards Board. Beginning net assets for Governmental Activities and beginning fund balance for the General Purpose School Fund were restated to correct the errors.

Recommendation and Benefit

We recommend that the School incorporate an evaluation of its contributions into its year-end closing procedures, along with a timely review, to ensure amounts are properly reflected in the School's financial statements in the correct accounting period.

Management's Response

Management acknowledges the finding and the position of the School's new audit firm on the revenue recognition issues referenced herein. Commencing in the current fiscal year, the School's management will incorporate an evaluation of its contributions into its year-end closing procedures, along with a timely review, to ensure amounts are properly reflected in the School's financial statements in the correct accounting period in accordance with applicable accounting principles as discussed with the auditor. Management believes that this process will ensure that future contributions are properly recognized.

Compliance and Other Matters

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

We also noted certain matters that we reported to the School's management in a separate letter dated November 18, 2011.



To the Board Directors

KIPP East Nashville Preparatory dba KIPP Academy Nashville

The School's response to the finding identified in our audit is described above. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board Directors, others within the School, pass-through entities, and the Comptroller of the Treasury, State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Crossin & Associates, P.C.

Nashville, Tennessee

November 18, 2011