

**KIPP ACADEMY NASHVILLE**  
**AUDITED FINANCIAL STATEMENTS**  
**AND OTHER INFORMATION**  
**JUNE 30, 2014**

KIPP ACADEMY NASHVILLE

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT.....	1 - 3
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED).....	4 - 10
BASIC FINANCIAL STATEMENTS	
School-wide financial statements	
Statement of net position .....	11
Statement of activities .....	12
Fund financial statements	
Balance sheet - governmental funds .....	13 - 14
Statement of revenues, expenditures and changes in fund balances - governmental funds .....	15 - 16
Notes to financial statements .....	17 - 29
OTHER INFORMATION	
Schedule of expenditures of federal awards .....	30
Schedule of expenditures of state financial assistance .....	31
Combining balance sheet - nonmajor governmental funds .....	32
Combining statement of revenues, expenditures and changes in fund balances - nonmajor governmental funds.....	33
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	34 - 35
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 .....	36 - 37
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	38



## Independent Auditor's Report

To the Board Directors  
KIPP Nashville  
Nashville, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP Academy Nashville (the "School"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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



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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP Academy Nashville as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

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



To the Board of Directors  
KIPP Nashville

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Crosslin & Associates, P.C.*

Nashville, Tennessee  
November 25, 2014

KIPP ACADEMY NASHVILLE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of KIPP Academy Nashville's annual financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2014. This section should be read in conjunction with the financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

The School's governmental activities total assets increased by \$1,476,036 in 2014 or 40.0%, while total revenues for the School increased by \$633,533 or 12.7%. The School's governmental activities total program costs (student instruction and services) for 2014 increased \$435,249 or 13.3%. Overall, the School's 2014 change in net position, \$1,073,584, was \$1,903 more than the change for prior year.

For the General Purpose School Fund there was a net change in fund balance of \$959,464. The General Purpose School Fund - fund balance at fiscal year-end was \$3,522,517.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### REPORTING THE SCHOOL AS A WHOLE

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

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

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

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

The School's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the school wide financial statements to report on the School as a whole. The relationship between governmental activities, as reported in the Statement of Net Position and the Statement of Activities, and governmental funds, as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances is reconciled in the basic financial statements on pages 14 and 16.

#### SCHOOL-WIDE FINANCIAL ANALYSIS

The School's assets exceeded the School's liabilities and deferred inflows of resources at the close of the fiscal year, resulting in net position of \$4,302,055. The School's net position includes \$3,937,887 of cash and investments, a portion of which, \$40,000 is subject to external restrictions that limit how the amounts may be used for the upcoming school year. Another portion is restricted to an endowment scholarship fund, which is \$151,595. The remainder of the cash is available to meet the School's ongoing operating activities and growth strategy.

As of June 30, 2014, the School had invested a total of \$1,457,713 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 2014-2015 school year, as student enrollment maximizes at each grade level. With the additional students there will be continued requirements for furniture, computers and equipment. For the 2013-2014 school year, the School rented educational space (Ewing Park School, 3410 Knight Drive, Nashville, TN 37207) from Metropolitan Nashville Public Schools (MNPS). The lease term ended June 30, 2014. For the next school year, the School will operate in the newly renovated and modernized Highland Heights Facility. This facility will be under lease with MNPS. Additional information on property and equipment is located in the notes to the financial statements. The School has no debt as of the end of the fiscal year.

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

A schedule of the School's net position as of June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Current assets	\$4,081,762	\$3,092,367
Other assets	453,689	85,048
Capital assets	<u>627,943</u>	<u>509,943</u>
Total assets	<u>5,163,394</u>	<u>3,687,358</u>
Current liabilities	<u>413,947</u>	<u>307,392</u>
Deferred inflows of resources	<u>447,392</u>	<u>151,495</u>
Net position:		
Invested in capital assets	627,943	509,943
Restricted	151,595	114,415
Unrestricted	<u>3,522,517</u>	<u>2,604,113</u>
Total net position	<u>\$4,302,055</u>	<u>\$3,228,471</u>

The School's total net position increased \$1,073,584 during the 2014 fiscal year. The increase in the School's net position indicates that the School had more incoming revenues than outgoing expenses during the year.

Total revenues generated from government grants, governmental funds, foundation grants and donations were \$5,297,931 during the 2014 fiscal year, which is \$372,773, or 7.6% increase over 2013. Contributions from individuals and organizations of \$1,276,641 were higher than 2013 due primarily to continued support from existing individual and corporate donors and the identification of new individual donors. In addition, District funding increased 10.9% versus 2013. The main driver of this increase is increased enrollment and district funding per student. Finally, Federal funding remained strong because of funding from Race to the Top and other grants.

Total expenses were \$4,383,128 during the 2014 fiscal year, which was \$481,773 higher than 2013. The majority of this increase is directly related to employee compensation and staff development costs with an effort to increase training for staff.

The change in net assets of \$1,073,584 is \$1,903 higher than 2013. While operating expenses increased in 2014, increases in revenue from contributions and Federal grants more than offset this increase in expense.

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

A schedule of the School's revenue and expenses for the years ended June 30, 2014 and 2013, is as follows. The schedule is for the School as a whole, not for the governmental funds.

	<u>2014</u>	<u>2013</u>
Revenues		
Contributions	\$ 1,276,641	\$1,027,406
District funding	3,093,863	2,789,140
Federal and state grants	927,427	1,108,612
Interest and investment income	28,373	13,828
Other	<u>280,265</u>	<u>34,050</u>
Total revenues	<u>5,606,569</u>	<u>4,973,036</u>
Expenses		
Instructional	292,818	227,693
Occupancy	390,075	451,378
Office	145,607	89,293
Organizational development	22,576	41,884
Service fees	474,980	200,972
Employee compensation	2,745,034	2,669,819
Staff development	131,272	72,560
Transportation	68,797	72,802
Depreciation	<u>111,969</u>	<u>74,954</u>
Total expenses	<u>4,383,128</u>	<u>3,901,355</u>
Transfer out of capital assets	<u>149,857</u>	<u>-</u>
Change in net position	<u>\$1,073,584</u>	<u>\$1,071,681</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the Balance Sheet on page 13, report a combined fund balance of \$3,663,688. The majority of the School's total funds are in the General Purpose School Fund, which is the chief operating fund of the School. The School has two other major funds consisting of the Restricted Contribution and Federal and State Grants Funds.

Due to the different basis of accounting, there is a difference between the amounts reported under the School's funds and the amounts reported as school-wide. For the year ended June 30, 2014, the differences consist of capital assets, which are not reported in the School's funds, and amounts for the year not received within 60 days of year-end.

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

## SCHOOL ACTIVITIES

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

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

Feinberg and Levin developed the KIPP education model which has proven for more than nineteen years that the time-honored values of hard work and no excuses, discipline, and a relentless focus on results combined with more time in school is not only the right formula for overall student academic success, but is most especially needed to engage students who are at-risk and failing academically.

Today, there are 162 KIPP schools serving more than 58,000 students across the United States in urban and rural low-income communities located in 20 states and the District of Columbia. KIPP believes that investments in human capital development are required to bring about widespread and lasting change within our country's education system, and are paramount to ensuring that all KIPP students receive a quality, college-preparatory education. All KIPP schools are founded and led by talented, passionate and effective educators who complete rigorous, in-depth KIPP training programs. KIPP School Leaders in turn effectively attract, develop, and retain talented teachers and give them the tools, support and ongoing professional development to grow as professionals and close achievement gaps among students.

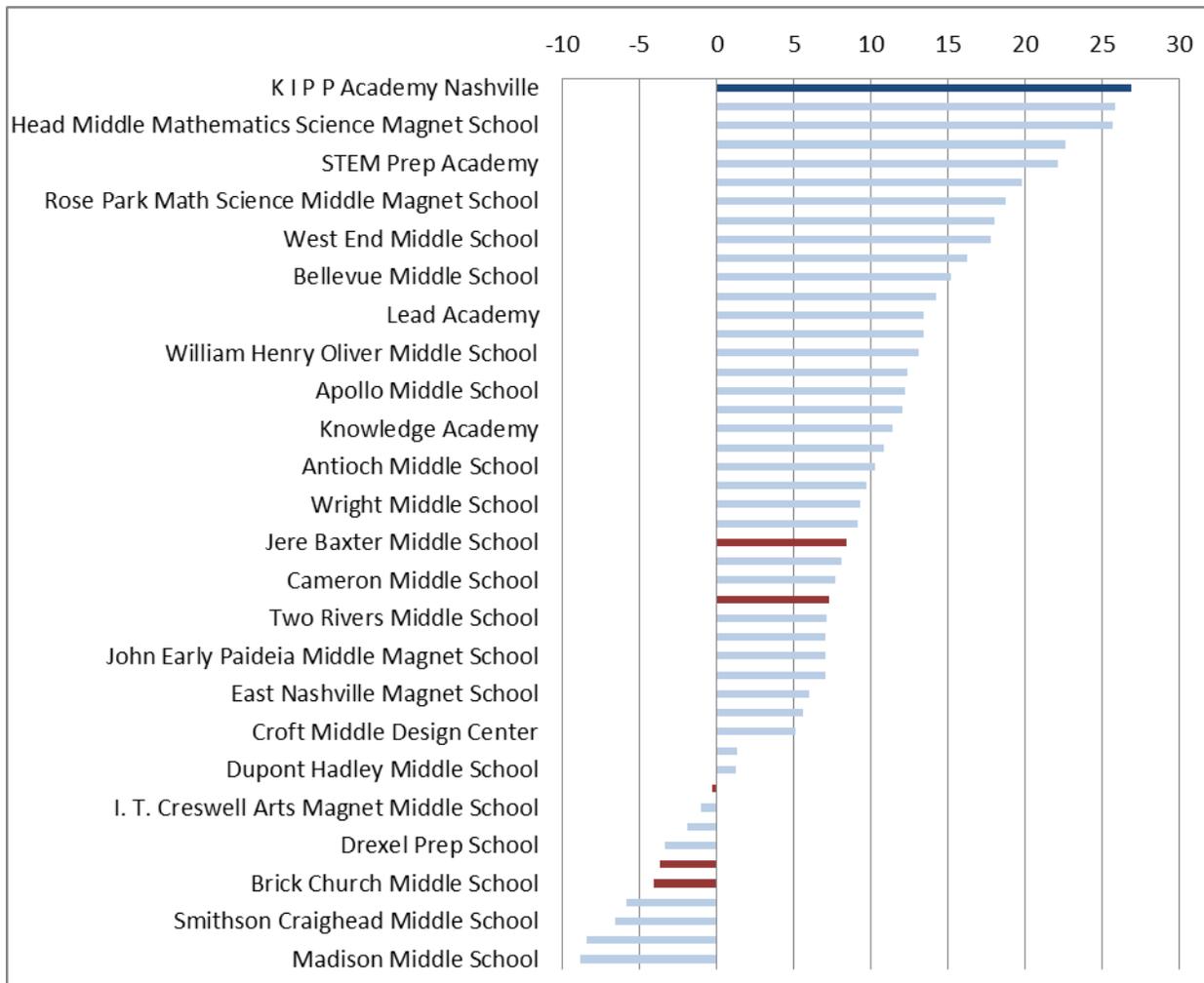
Current census data confirms that KIPP Nashville has a significantly higher percentage of economically disadvantaged families than most area public schools. Ninety percent of KIPP Nashville students qualify for federal free or reduced price meals; all are zoned to under-performing neighborhood middle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

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

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

The academic growth of KIPP Academy Nashville students has been more rapid than that of peers from district middle schools, as demonstrated by the value-added graph below (note: neighboring schools in red):

**2012 – 2013 TVAAS Composite Growth**



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

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

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Fiscal year 2015 enrollment is projected to be 350 students for KIPP Academy Nashville. During fiscal year 2014, KIPP Nashville also launch its second middle school, KIPP Nashville College Prep, and projected enrollment is approximately 90 students. Staring with 2014-2015, school year, KIPP Nashville opened KIPP Nashville Collegiate High School, serving students in grades 9-12 in East Nashville. KIPP Nashville also has plans for two elementary schools, serving grades K-4 to open in fiscal year 2016.

The School anticipates that total Basic Education Program (BEP) funding will increase, because of increased enrollment. Additionally, the School expects per pupil BEP funding to be slightly lower in the 2014-2015 school year based on State budget information. For fiscal year 2015, the organization expects to continue its strong fundraising efforts for non-government funds. KIPP believes a continued focus on cultivating the existing donor base, the successful execution of the annual community fundraising breakfast and a larger Board of Directors committed to hitting fundraising targets will help the School reach this goal. These non-government resources are an important funding source to fill the current funding gap of KIPP Nashville, and to fuel the strategic growth plans for KIPP Nashville.

For fiscal year 2015, in addition to serving KIPP's current student population of 440 students, KIPP plans to invest in the organization's long-term growth plan for opening new KIPP schools in Nashville. These investments will include hiring additional staff, increasing professional development, and making general and administrative expenditures specific to the further development and execution of the KIPP Nashville strategic growth plan.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

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

KIPP ACADEMY NASHVILLE  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,786,292
Investments	151,595
Receivables	537,375
Other current assets	60,189
Capital assets, net	627,943
Total assets	5,163,394
 <b>LIABILITIES</b>	
Accounts payable	245,212
Accrued expenses	128,735
Advance contributions and grants	40,000
Total liabilities	413,947
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
	447,392
 <b>NET POSITION</b>	
Net investment in capital assets	627,943
Restricted	151,595
Unrestricted	3,522,517
Total net position	\$ 4,302,055

See accompanying notes to financial statements.

KIPP ACADEMY NASHVILLE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014

<u>GOVERNMENTAL ACTIVITIES:</u>	Functions			
	Total	Student Instruction and Services	Administration	Fundraising
<b>EXPENSES</b>				
Instructional	\$ 292,818	\$ 265,531	\$ 27,287	\$ -
Occupancy	390,075	337,120	52,955	
Office	145,607	114,053	31,554	-
Organizational development	22,576	-	-	22,576
Professional services and fees	474,980	368,230	106,750	-
Employee compensation	2,745,034	2,410,270	334,764	-
Staff development	131,272	74,693	56,579	-
Transportation	68,797	68,797	-	-
Depreciation	<u>111,969</u>	<u>67,369</u>	<u>44,600</u>	<u>-</u>
Total expenses	4,383,128	3,706,063	654,489	22,576
<b>PROGRAM REVENUES</b>				
Operating grants and contributions	875,127	875,127	-	-
Capital grants and contributions	<u>52,300</u>	<u>52,300</u>	<u>-</u>	<u>-</u>
Net program expenses	<u>3,455,701</u>	<u>\$ 2,778,636</u>	<u>\$ 654,489</u>	<u>\$ 22,576</u>
<b>GENERAL REVENUES</b>				
Contributions	1,276,641			
District funding	3,093,863			
Other	280,265			
Interest and investment income	<u>28,373</u>			
Total general revenues	<u>4,679,142</u>			
Transfer of capital assets	<u>(149,857)</u>			
CHANGE IN NET POSITION	1,073,584			
NET POSITION, June 30, 2013	<u>3,228,471</u>			
NET POSITION, June 30, 2014	<u>\$ 4,302,055</u>			

See accompanying notes to financial statements.

KIPP ACADEMY NASHVILLE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	General Purpose School Fund	Restricted Contribution Fund	Federal and State Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,746,292	\$ 40,000	\$ -	\$ -	\$ 3,786,292
Investments	-	-	-	151,595	151,595
Receivables	454,342	-	83,033	-	537,375
Due from other funds	83,033	-	-	-	83,033
Other current assets	60,189	-	-	-	60,189
Total assets	<u>\$ 4,343,856</u>	<u>\$ 40,000</u>	<u>\$ 83,033</u>	<u>\$ 151,595</u>	<u>\$ 4,618,484</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 245,212	\$ -	\$ -	\$ -	\$ 245,212
Accrued expenditures	128,735	-	-	-	128,735
Due to other funds	-	-	83,033	-	83,033
Advance contributions and grants	-	40,000	-	-	40,000
Total liabilities	<u>373,947</u>	<u>40,000</u>	<u>83,033</u>	<u>-</u>	<u>496,980</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
	<u>447,392</u>	<u>-</u>	<u>10,424</u>	<u>-</u>	<u>457,816</u>
<b>FUND BALANCES</b>					
Nonspendable	60,189	-	-	106,298	166,487
Restricted	-	-	-	45,297	45,297
Unassigned	3,462,328	-	(10,424)	-	3,451,904
Total fund balances	<u>3,522,517</u>	<u>-</u>	<u>(10,424)</u>	<u>151,595</u>	<u>3,663,688</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,343,856</u>	<u>\$ 40,000</u>	<u>\$ 83,033</u>	<u>\$ 151,595</u>	<u>\$ 4,618,484</u>

See accompanying notes to financial statements.

KIPP ACADEMY NASHVILLE  
BALANCE SHEET  
GOVERNMENTAL FUNDS - CONTINUED  
JUNE 30, 2014

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

Total governmental fund balances above	\$ 3,663,688
Deferred inflows of resources for unavailable revenues	10,424
Capital assets not reported above	<u>627,943</u>
Net position of governmental activities in the statement of net position	<u>\$ 4,302,055</u>

See accompanying notes to financial statements.

KIPP ACADEMY NASHVILLE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014

	General Purpose School Fund	Restricted Contribution Fund	Federal and State Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Contributions	\$ 1,010,062	\$ 286,599	\$ -	\$ 21,250	\$ 1,317,911
District funding	3,093,863	-	-	-	3,093,863
Federal and state grants	-	-	917,003	-	917,003
Interest and investment income	8,443	-	-	19,930	28,373
Other income	280,265	-	-	-	280,265
Total revenues	<u>4,392,633</u>	<u>286,599</u>	<u>917,003</u>	<u>41,180</u>	<u>5,637,415</u>
<b>EXPENDITURES</b>					
Current:					
Instructional	165,381	101,724	25,713	-	292,818
Occupancy	390,075	-	-	-	390,075
Office	115,905	-	29,702	-	145,607
Organizational development	22,756	-	-	-	22,756
Other	-	-	-	4,000	4,000
Professional services and fees	470,980	-	-	-	470,980
Employee compensation	1,800,023	151,144	793,867	-	2,745,034
Staff development	110,805	-	20,467	-	131,272
Transportation	68,797	-	-	-	68,797
Capital outlay	288,417	33,731	57,678	-	379,826
Total expenditures	<u>3,433,139</u>	<u>286,599</u>	<u>927,427</u>	<u>4,000</u>	<u>4,651,165</u>
NET CHANGE IN FUND BALANCES	959,494	-	(10,424)	37,180	986,250
FUND BALANCES, June 30, 2013	<u>2,563,023</u>	<u>-</u>	<u>-</u>	<u>114,415</u>	<u>2,677,438</u>
FUND BALANCES, June 30, 2014	<u>\$ 3,522,517</u>	<u>\$ -</u>	<u>\$ (10,424)</u>	<u>\$ 151,595</u>	<u>\$ 3,663,688</u>

See accompanying notes to financial statements.

KIPP ACADEMY NASHVILLE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - CONTINUED  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014

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

Net change in fund balances as reported in the governmental funds statements	\$ 986,250
Amounts which are not available to pay for current period expenditures, and therefore, are unavailable revenues in the funds:	
Deferred inflows of resources for unavailable revenues	(30,666)
Transfer of capital assets recorded in the school-wide statements not included in the governmental funds:	
	(149,857)
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	379,826
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation expense	<u>(111,969)</u>
Change in net position of governmental activities	<u>\$ 1,073,584</u>

See accompanying notes to financial statements.

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

KIPP Nashville was incorporated October 22, 2003, as a Tennessee nonprofit corporation to operate KIPP Academy Nashville (the School). Pursuant to Section 6(b)(1)(A) of the Tennessee Public Charter School Act of 2002 (the Act), the School has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state's public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education. The School entered into a Charter School Agreement with the Metropolitan Board of Public Education of Nashville and Davidson County on September 1, 2005 (with an effective date of July 1, 2005), to operate a charter school in Nashville, Tennessee. The School entered into a license agreement with KIPP Foundation, a California Public Charity, to assist the School in providing educationally underserved students with the knowledge, skills and character needed to succeed in top-quality high schools, colleges and the competitive world beyond. KIPP and the Knowledge Is Power Program are trademarks of the KIPP Foundation. The School began classes in July 2005 with a fifth grade class and added an additional grade each year culminating with the addition of an eighth grade in the 2008-2009 fiscal year.

KIPP Nashville operates KIPP Academy Nashville, KIPP Nashville College Prep and starting in July 2014, KIPP Nashville Collegiate High School. The financial statements and footnotes in this report reflect the operations of KIPP Academy Nashville as of and for the year ended June 30, 2014.

Basic Financial Statements

*School-wide financial statements*

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

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

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Fund financial statements

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

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

The General Purpose School Fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The Restricted Contribution Special Revenue Fund is used to account for the receipt and disbursement of private contributions restricted primarily for specific purposes.

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

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

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

*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.

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

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

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

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

Basis of Accounting

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

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

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

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

Fund Balances

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

Allocations

The School is a part of the KIPP Nashville network of schools. KIPP Nashville maintains a regional office for support of the schools. Certain activities, including fundraising and administration are conducted centrally by the regional office. Accordingly, revenues, expenses, assets and liabilities associated with the central activities are allocated to the schools for financial reporting purposes. All financial transactions and balances directly related to a school are recorded directly by that school. Financial transactions and balances of the regional office are allocated to the schools using the following methodology:

- Cash transfers are made to fund any unrestricted operating deficits and growth needs
- Revenues from fundraising and grant activities are allocated based primarily on enrollment
- Expenses of shared services and administration are allocated based primarily on enrollment
- Capital assets of shared services are allocated primarily to KIPP Academy Nashville.

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

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

Receivables

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

Capital Assets

Property and equipment are recorded at acquisition cost, if purchased, or the fair value on the date received, if donated. The cost of routine maintenance and repairs is expensed as incurred. Expenditures, which materially extend the economic lives, change capacities or improve the efficiency of the related assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in the statement of activities. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years, or over the term of the lease for leasehold improvements, if less. The School follows the practice of capitalizing all expenditures for property and equipment items over \$1,000.

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

Work in progress represents long term assets not yet placed into service. When a project is completed and placed into service, the work in progress is removed and recorded as a depreciable asset.

Deferred outflows/inflows of resources

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

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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.

Use of Estimates

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

Fair Value of Financial Instruments

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

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Additionally, the federal and state grants fund and restricted contribution fund occasionally make disbursements in advance of receiving funds. Accordingly, interfund transfers are made from the general purpose school fund in the form of due to/from other funds. The amounts due the general purpose school fund are repaid upon receipt of the grants or contributions. At June 30, 2014, details of the interfund balances are as follows:

Federal and state grants fund due to general purpose school fund relating to operating grant expenditures in advance of grant funding	\$83,033
---	----------

B. DEPOSITS AND INVESTMENTS

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

The School's investments consist of mutual funds recorded in its donor-restricted endowment fund. The endowment fund includes \$45,297 of net appreciation, which is presented in restricted fund balance in the School's permanent fund and is available for authorization for expenditure by the Board at year-end.

KIPP Nashville operates a pooled-cash management program for the benefit of its schools, including the School. Cash balances reported within the accompanying financial statements represent the School's portion of the pooled-cash program, resulting from its operation. Also included in KIPP Academy Nashville's cash balances are accounts received from central fundraising activities which have not been transferred or utilized by other schools. KIPP Academy Nashville, as the first school in KIPP Nashville's network, holds these funds for operational needs and future development.

KIPP Nashville management, under the direction of the Board of Directors, and within limits of grant agreements or donor restrictions, may make transfers among the schools as necessary to fund operations and growth. Accordingly, cash presented herein may be transferred among the KIPP Nashville schools.

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

C. CAPITAL ASSETS

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

	Balance <u>July 1, 2013</u>	<u>Additions</u>	(1) <u>Transfers</u>	Balance <u>June 30, 2014</u>
Computer equipment	\$ 403,263	\$ 170,325	\$( 83,248)	\$ 490,340
Furniture and fixtures	113,842	-	( 4,075)	109,767
Machinery and equipment	199,262	11,919	( 12,724)	198,457
Textbooks	113,241	-	-	113,241
School buses	326,740	-	( 54,620)	292,120
Library	64,339	-	-	64,339
Website	11,900	-	-	11,900
Work in progress	<u>-</u>	<u>197,582</u>	<u>-</u>	<u>197,582</u>
Subtotal	1,232,587	379,826	(154,667)	1,457,746
Accumulated depreciation	<u>( 722,644)</u>	<u>(111,969)</u>	<u>4,810</u>	<u>( 829,803)</u>
Capital assets, net	<u>\$ 509,943</u>	<u>\$ 267,857</u>	<u>\$(149,857)</u>	<u>\$ 627,943</u>

(1) During fiscal year 2014, KIPP Academy Nashville transferred certain capital assets to KIPP Nashville College Prep. The transfer is reported in the accompanying statement of activities.

The capital assets above include certain capital assets of KIPP Nashville's shared services division, which is responsible for administration of all schools in the KIPP Nashville network. These shared assets totaled \$206,349, net at June 30, 2014.

Depreciation was charged to governmental activities as follows:

Student instruction and services	\$ 67,369
Administration	44,600
Fundraising	<u>-</u>
	<u>\$111,969</u>

There were no significant estimated costs to complete construction in progress at June 30, 2014.

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

D. LINE-OF-CREDIT

KIPP Nashville has a \$1,050,000 line-of-credit agreement with a financial institution. The line-of-credit bears interest at a variable rate of the financial institution's index rate and expires in expires in March 2015. As of June 30, 2014, no amounts were outstanding under the agreement.

E. LEASE ARRANGEMENTS

The School shares in facilities which are provided under a lease arrangement with the Metropolitan Nashville Board of Public Education and Metropolitan Government of Nashville and Davidson County (collectively the Metropolitan Government). The lease was for a period of one year, and ended on June 30, 2014. The lease included building operations and interior and exterior support services. The lease arrangement required the School to pay rent in equal monthly installments. The School's portion of rent expense for fiscal year 2014 totaled \$204,544. The lease also required the School to pay for certain operating and janitorial services.

Effective on July 1, 2014, the School will share new facilities under an operating lease arrangement with the Metropolitan Government. The facility will be used by the School and its related school, KIPP Nashville Collegiate High School.

The lease requires monthly rental payments through July 1, 2024, as follows:

Year Ending June 30,

2015	\$ 328,436
2016	440,225
2017	494,311
2018	509,140
2019	524,415
2020 - 2024	<u>2,923,397</u>
	<u>\$5,219,924</u>

The School will be responsible for its portion of the total rental payments above based on the square footage it occupies.

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

F. RECEIVABLES AND DEFERRED INFLOWS OF RESOURCES

Receivables at June 30, 2014 consist of the following:

Contributions for future periods	\$447,392
Grants	83,033
Other	<u>6,950</u>
	<u>\$537,375</u>

Amounts reflected in deferred inflows of resources, relating to receivables, include the following at June 30, 2014:

	<u>School-wide</u>	<u>Government Funds</u>
Deferred inflows of resources		
Contributions designated to future periods	\$447,392	\$447,392
Unavailable revenues under modified accrual accounting	<u>N/A</u>	<u>10,424</u>
	<u>\$447,392</u>	<u>\$457,816</u>

G. RELATED PARTY TRANSACTIONS

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

The School pays a licensing fee to KIPP Foundation equal to 1% of state and local per-pupil funding received. The agreement is for automatically renewable one-year terms. Total license fees incurred for the year ended June 30, 2014, were \$32,641.

During the period ended June 30, 2014, KIPP Nashville operated a regional office for the management of KIPP Academy Nashville and KIPP Nashville College Preparatory Middle School and was in the process of developing KIPP Nashville Collegiate High School, to be opened in fiscal year 2015. Certain funds are maintained by KIPP Academy Nashville and are transferred as needed to the other schools.

All assets, liabilities, net assets, revenues and expenses recorded on the regional office general ledger have been allocated to the various schools in operation and those in process of being opened in fiscal year 2015. Amounts allocated to KIPP Academy Nashville are included therein.

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

H. CONCENTRATION

The School received 55% 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, 2014, was \$3,093,863. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

I. RETIREMENT PLANS

Certificated Employees 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.tn.gov/treasury/tcrs/schools](http://www.tn.gov/treasury/tcrs/schools).

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

I. RETIREMENT PLANS - Continued

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, 2014, was 8.88% of annual covered payroll. The employer contribution rate is established by and may be amended by the TCRS Board of Trustees.

Non-Certificated Employee Plan Description

The School contributes to the Metropolitan Government of Nashville and Davidson County's Division B Pension Plan (Metro Plan), a defined benefit single-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. Benefits are determined by a formula using the participant's highest five-year average salary and years of service.

Participants become eligible to retire at the age of 60 once their age plus the completed years of service equal 85 or at age 65 with five years of service. A reduced retirement benefit is available to vested participants prior to the age of 60 or with less than an age plus years of service sum of 85. Reduced benefits are determined by reducing full benefits by 4% per year for each of the first five years by which the retirement date precedes the normal retirement age, and by 8% for each additional year beyond the first five years with a maximum reduction of 60%. Vesting occurs after 5 years for employees employed on or between October 1, 2001 and December 31, 2012, and after 10 years for employees employed on or after January 1, 2013. The Metro Plan financial and required supplementary information is included in The Metropolitan Government of Nashville and Davidson County Comprehensive Annual Financial Report. That report may be obtained by writing to the Tennessee Department of Finance, Division of Accounts, 1 Public Square, Suite 106, Nashville, Tennessee 37201 or can be accessed at:

[www.nashville.org/finance/financial\\_reports.asp](http://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, 2014, was 17.117% 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, 2014, 2013 and 2012, totaled \$214,617, \$202,811 and \$214,411, respectively.

KIPP ACADEMY NASHVILLE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

J. COMMITMENTS CONTINGENCIES AND RISK MANAGEMENT

The School is exposed to various risk of loss relating to torts, theft of, damage to, and destruction of assets; errors or commissions; illness or injuries to employees; and natural disasters. The School, through KIPP Nashville, carries insurance for certain risks of loss. Settled claims resulting from these risk have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School may become subject to various claims and legal actions, which arise in the ordinary course of business. In the opinion of management, in consultation with legal counsel, the ultimate resolution of such matters will not have a material adverse effect on the School's financial position or results of operations, as of the date of these financial statements.

The School receives awards and financial assistance through federal, state, local and private agencies. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Purpose School Fund or Federal and State Grants Fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School, and accordingly, no provision has been made within the financial statements.

K. SUBSEQUENT EVENT

KIPP Nashville opened a third charter school, KIPP Nashville Collegiate High School, effective for the 2014 - 2015 school year. The High School shares its building with KIPP Academy Nashville.

## **OTHER INFORMATION**

KIPP ACADEMY NASHVILLE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014

<u>Program Name</u>	<u>CFDA Number</u>	Balance July 1, 2013 (Receivable) <u>Payable</u>	<u>Receipts</u>	<u>Expenditures</u>	Balance June 30, 2014 (Receivable) <u>Payable</u>
U.S. DEPARTMENT OF EDUCATION:					
Passed through Tennessee Department of Education					
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants	84.395	\$(474,218)	\$1,039,540	\$565,322	\$ -
Passed through Tennessee Department of Education, Passed through MNPS					
Title I, Part A Cluster Title I Grants to Local Educational Agencies	84.010	( 34,360)	156,974	156,638	(34,024)
Special Education Cluster (IDEA) Special Education - Grants to States	84.027	( 3,455)	53,951	79,943	(29,447)
Passed through KIPP Foundation					
ARRA - Investing in Innovation (i3) Fund	84.396A	<u>( 43,603)</u>	<u>97,265</u>	<u>73,224</u>	<u>(19,562)</u>
		<u>\$(555,636)</u>	<u>\$1,347,730</u>	<u>\$875,127</u>	<u>\$(83,033)</u>

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

See independent auditor's report.

KIPP ACADEMY NASHVILLE  
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
 YEAR ENDED JUNE 30, 2014

<u>Grantor</u>	<u>State Contract Number</u>	Balance July 1, 2013 (Receivable) <u>Payable</u>	<u>Receipts</u>	<u>Expenditures</u>	Balance June 30, 2014 (Receivable) <u>Payable</u>
TENNESSEE DEPARTMENT OF EDUCATION:					
Basic Education Program	N/A	\$ -	\$ 52,300	\$ 52,300	\$ -
Passed through Metropolitan Nashville Public Schools					
Basic Education Program	N/A	<u>-</u>	<u>3,093,863</u>	<u>3,093,863</u>	<u>-</u>
		<u>\$ -</u>	<u>\$3,146,163</u>	<u>\$3,146,163</u>	<u>\$ -</u>

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

See independent auditor's report.

KIPP ACADEMY NASHVILLE  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	Permanent		Total
	KIPP Alumni Scholarship Fund	Total Nonmajor Governmental Funds	
<b>ASSETS</b>			
Investments	\$ 151,595	\$ 151,595	
Receivables	-	-	
Other current assets	-	-	
Total assets	\$ 151,595	\$ 151,595	
<b>LIABILITIES</b>			
Accounts payable and accrued expenditures	\$ -	\$ -	
Total liabilities	-	-	
<b>FUND BALANCES</b>			
Nonspendable	106,298	106,298	
Restricted	45,297	45,297	
Total fund balances	151,595	151,595	
Total liabilities and fund balances	\$ 151,595	\$ 151,595	

See independent auditor's report.

KIPP ACADEMY NASHVILLE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2014

	Permanent		Total
	KIPP Alumni Scholarship Fund		Nonmajor Governmental Funds
REVENUES			
Contributions	\$ 21,250	\$	21,250
Interest	1,970		1,970
Investment income	17,960		17,960
Total revenues	41,180		41,180
 EXPENDITURES	 4,000		 4,000
 NET CHANGE IN FUND BALANCES	 37,180		 37,180
 FUND BALANCES, June 30, 2013	 114,415		 114,415
 FUND BALANCES, June 30, 2014	 \$ 151,595	 \$	 151,595

See independent auditor's report.



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

To the Board of Directors  
KIPP Nashville  
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KIPP Academy Nashville (the "School") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 25, 2014.

**Internal Control Over Financial Reporting**

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

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

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



To the Board of Directors  
KIPP Nashville

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Crosslin & Associates, P.C.*

Nashville, Tennessee  
November 25, 2014



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

To the Board of Directors  
KIPP Nashville  
Nashville, Tennessee

**Report on Compliance for the Major Federal Program**

We have audited KIPP Academy Nashville's (the "School") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2014. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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



### ***Opinion on the Major Federal Program***

In our opinion, KIPP Academy Nashville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

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

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

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

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

*Crosslin & Associates, P.C.*

Nashville, Tennessee  
November 25, 2014

KIPP ACADEMY NASHVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

**SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unmodified

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

Noncompliance material to financial statements noted?    yes   x  no

Federal Awards

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?   x  yes    no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None reported.

**SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None reported.