

**KIPP IMPACT
MIDDLE SCHOOL
(A division of KIPP
Jacksonville, Inc.)**

**Basic Financial Statements and
Supplemental Information**

**For the year ended
June 30, 2013**

**BERMAN HOPKINS
WRIGHT & LAHAM**
CPAS AND ASSOCIATES, LLP

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	26
Note to Required Supplemental Information	27
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>	28
MANAGEMENT LETTER	30
PRIOR YEAR FINDINGS AND QUESTIONED COSTS - CORRECTED	32
PRIOR YEAR FINDINGS AND QUESTIONED COSTS - REPEATED	34
CURRENT YEAR FINDINGS, RECOMMENDATIONS AND OTHER MATTERS	35
MANAGEMENT'S RESPONSE	38

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
KIPP Jacksonville, Inc.
Jacksonville, Florida

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 Impact Middle School, (the "School") and a component unit of the School Board of Duval County, Florida, and a division of KIPP Jacksonville, Inc. (the "Charterholder") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 the School, as of June 30, 2013, 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.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of the School at June 30, 2013, and the results of its operations for the year then ended, and is not intended to be a complete presentation of the Charterholder.

As discussed in Note A-13 to the financial statements, the School adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the School's internal control over financial reporting and compliance.

September 12, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Management's Discussion and Analysis

As management of KIPP Impact Middle School (the "School"), a division of KIPP Jacksonville, Inc. (the "Charterholder") and a component unit of the School Board of Duval County, Florida, we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2013 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Since the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the basic financial statements starting on page 8.

Financial Highlights

- The liabilities of the School exceeded its assets at the close of the most recent fiscal year by \$272,225 (net position).
- The net position of the School decreased by \$788,803 during the year.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$416,370.
- At the end of the current fiscal year, the unassigned fund balance of the general fund was \$405,357.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the School's assets and liabilities, with the difference between the two reported as *net position*). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected funding and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School that are principally supported by district, state, and federal funding (governmental activities). Basic instruction, exceptional instruction, and food services are examples of the School's governmental activities.

The government-wide financial statements include only the School itself, which is a component unit of the School Board of Duval County, Florida. The School Board of Duval County, Florida includes the operations of the School in their operational results.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A fund is a collection of related accounts grouped together to maintain control over resources that have been segregated for specific activities or objectives. The School, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of the School are presented in governmental funds only.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term* inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the near-term financing decisions. Both the governmental fund balance sheet and the School's statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains various individual government funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. The School reports the general fund as its only major fund.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

The School adopts an annual appropriated budget for its entire operations. Budgetary comparison schedules with required notes have been provided to demonstrate compliance with this budget and can be found on pages 26 through 27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 14 of this report.

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, liabilities exceeded assets by \$272,225 (net position) for the year ended June 30, 2013. The School's assets exceeded liabilities by \$516,578 (net position), for the year ended June 30, 2012.

The largest portion of net position is the unrestricted portion. Another portion of the School's net position reflects its investment in capital assets (e.g., land, furniture, fixtures and equipment and software). The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

Comparison of the condensed statement of net position and the statement of activities are provided below.

KIPP Impact Middle School Statement of Net Position

	Governmental Activities		
	2013	2012	Variance
ASSETS			
Current and other assets	\$ 794,260	\$ 1,401,961	\$ (607,701)
Capital assets, net of accumulated depreciation	166,307	188,452	(22,145)
Total assets	<u>960,567</u>	<u>1,590,413</u>	<u>(629,846)</u>
LIABILITIES			
Current liabilities	146,592	231,458	(84,866)
Noncurrent liabilities	1,086,200	842,377	243,823
Total liabilities	<u>1,232,792</u>	<u>1,073,835</u>	<u>158,957</u>
NET POSITION			
Invested in capital assets	166,307	188,452	(22,145)
Unrestricted	<u>(438,532)</u>	<u>328,126</u>	<u>(766,658)</u>
Total net position	<u>\$ (272,225)</u>	<u>\$ 516,578</u>	<u>\$ (788,803)</u>

Current and other assets decreased over the prior year primarily due to decreases in cash and pledges receivable. The decrease in current liabilities was due to the timing of vendor invoices at June 30, 2013. The increase in noncurrent liabilities is primarily due to an increase in accrued rent.

**KIPP Impact Middle School
Statement of Activities**

	Governmental Activities		
	2013	2012	Variance
Revenues:			
Program revenues:			
Charges for services	\$ 9,929	\$ 10,333	\$ (404)
Operating grants and contributions	413,846	515,388	(101,542)
Capital grants and contributions	-	54,726	(54,726)
General revenues:			
State passed through local school district	1,470,236	915,003	555,233
Gifts, grants and bequests	718,038	387,606	330,432
Other revenues	24,022	32,224	(8,202)
Total revenues	<u>2,636,071</u>	<u>1,915,280</u>	<u>720,791</u>
Expenses:			
Instruction	1,645,772	1,194,791	450,981
Parental involvement	53,348	6,737	46,611
Media services	85,589	38,718	46,871
Staff development	121,331	43,048	78,283
School administration	330,857	422,829	(91,972)
Fiscal services	136,397	204,144	(67,747)
Food services	199,132	140,560	58,572
Central services	81,260	24,427	56,833
Transportation	148,980	124,900	24,080
Operation of plant	149,779	128,965	20,814
Maintenance of plant	472,429	703,116	(230,687)
Total expenses	<u>3,424,874</u>	<u>3,032,235</u>	<u>392,639</u>
Change in net position	(788,803)	(1,116,955)	328,152
Net position - beginning	<u>516,578</u>	<u>1,633,533</u>	<u>(1,116,955)</u>
Net position - ending	<u>\$ (272,225)</u>	<u>\$ 516,578</u>	<u>\$ (788,803)</u>

There was a decrease in the operating and capital grants and contributions revenue that was related to the decrease in the amount awarded from the Start-Up Grant. The increase in state passed through local school district revenues of \$555,233 is a result of an increase in the number of students at the School in 2013. The large increase in gifts, grants and bequests was related to a decrease in the amount of pledges of gifts made to the School in the current year. The increases in instruction, parental involvement, media, staff development, food services, central services, transportation and operating of plant are a result of the growth of the School due to increased student enrollment. The decrease in fiscal services and maintenance of plant are a direct result of sharing costs of accounting services and facility fee, respectively, with KIPP Voice Elementary school.

Governmental activities. Governmental activities decreased the School's net position by \$788,803 for the year ended June 30, 2013.

Financial Analysis of the Government's Funds

As noted previously, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the School's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a School's net resources available for spending at the end of the fiscal year.

The general fund is the main operating fund of the School. At the end of the current fiscal year, unassigned fund balance of the general fund was \$405,357 and nonspendable restricted for prepaid expenses was \$11,013.

General Fund Budgetary Highlights

The actual revenues in the general fund exceeded the budgeted revenues by \$764,845, while budgeted expenses exceeded actual by \$418,083. The variance in actual expenses under budgeted is due to decreased administrative expenses related to School not hiring a Chief Academic Officer. The variance in actual revenues over budgeted revenues is related to the School receiving more pledges gifts and contributions than expected.

Capital Asset Administration

Capital Assets. The School's investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$166,307 (net of accumulated depreciation). This investment in capital assets includes land, furniture, fixtures and equipment and software. Additional information on the School's capital assets can be found in Note C of this report.

Economic Factors and Events Affecting Operations

A majority of the School's funding is determined by the number of enrolled students. The School is forecasting enrollment of approximately 350 students for the 2013/2014 school year.

Request for Information

This financial report is designed to provide a general overview of School's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director's office at 1440 North McDuff Avenue, Jacksonville, FL 32254.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities
ASSETS	
ASSETS	
Cash	\$ 281,722
Pledges receivable, net	198,025
Due from Voice Elementary	189,827
Due from other agencies	50,400
Prepaid expenses	11,013
Total current assets	730,987
Long-term pledges receivable	63,273
CAPITAL ASSETS	
Capital assets not being depreciated	
Land	10,290
Capital assets, net of accumulated depreciation	
Furniture, fixtures and equipment	119,237
Software	36,780
Total capital assets	166,307
Total assets	960,567
LIABILITIES	
Accounts payable	101,861
Accrued expenses	44,731
Noncurrent liabilities	
Accrued rent - due in more than one year	1,086,200
Total liabilities	1,232,792
NET POSITION	
Investment in capital assets	166,307
Unrestricted	(438,532)
Total net position	\$ (272,225)

The accompanying notes are an integral part of this financial statement.

KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$1,645,772	\$ -	\$ 184,298	\$ -	\$ (1,461,474)
Parental involvement	53,348	-	40,978	-	(12,370)
Media services	85,589	-	-	-	(85,589)
Staff development	121,331	-	-	-	(121,331)
School administration	330,857	-	-	-	(330,857)
Fiscal services	136,397	-	-	-	(136,397)
Food services	199,132	9,929	188,570	-	(633)
Central services	81,260	-	-	-	(81,260)
Transportation	148,980	-	-	-	(148,980)
Operation of plant	149,779	-	-	-	(149,779)
Maintenance of plant	472,429	-	-	-	(472,429)
Total governmental activities	\$3,424,874	\$ 9,929	\$ 413,846	\$ -	(3,001,099)
			General revenues:		
			State passed through local school district		1,470,236
			Gifts, grants and bequests		718,038
			Other revenues		24,022
			Total general revenues		2,212,296
			Change in net position		(788,803)
			Net position at July 1, 2012		516,578
			Net position at June 30, 2013		\$ (272,225)

The accompanying notes are an integral part of this financial statement.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 281,722	\$ -	\$ 281,722
Pledges receivable, net	30,000	-	30,000
Due from other funds	50,400	-	50,400
Due from Voice Elementary	189,827		189,827
Due from other agencies	-	50,400	50,400
Prepaid expenses	11,013	-	11,013
Total assets	\$ 562,962	\$ 50,400	\$ 613,362
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 101,861	\$ -	\$ 101,861
Accrued expenses	44,731	-	44,731
Due to other funds	-	50,400	50,400
Total liabilities	146,592	50,400	196,992
FUND BALANCES			
Nonspendable			
Prepaid expenses	11,013	-	11,013
Unassigned	405,357	-	405,357
Total fund balances	416,370	-	416,370
Total liabilities and fund balances	\$ 562,962	\$ 50,400	\$ 613,362

The accompanying notes are an integral part of this financial statement.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

June 30, 2013

Fund balances - total governmental funds \$ 416,370

The net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:

Land	\$ 10,290	
Furniture, fixtures and equipment, net	119,237	
Software, net	<u>36,780</u>	
Total capital assets		166,307

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued rent liability	(1,086,200)
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Certain pledges receivable reported in governmental activities do not provide current financial resources and therefore are not reported in the funds

Total net position of governmental activities	<u><u>\$ (272,225)</u></u>
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The accompanying notes are an integral part of this financial statement.

KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)

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

For the year ended June 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Federal passed through state	\$ -	\$ 281,903	\$ 281,903
Federal passed through local school district	-	131,943	131,943
State passed through local school district	1,470,236	-	1,470,236
Gifts, grants and bequests	869,126	-	869,126
Other revenues	33,951	-	33,951
Total revenues	<u>2,373,313</u>	<u>413,846</u>	<u>2,787,159</u>
Expenditures			
Current:			
Instruction	1,409,022	184,298	1,593,320
Parental involvement	12,370	40,978	53,348
Media services	85,589	-	85,589
Staff development	121,331	-	121,331
School administration	325,498	-	325,498
Fiscal services	136,397	-	136,397
Food services	-	199,132	199,132
Central services	81,260	-	81,260
Transportation	148,980	-	148,980
Operation of plant	149,779	-	149,779
Maintenance of plant	228,606	-	228,606
Fixed capital outlay	35,666	-	35,666
Total expenditures	<u>2,734,498</u>	<u>424,408</u>	<u>3,158,906</u>
Excess (deficiency) revenues over (under) expenditures	<u>(361,185)</u>	<u>(10,562)</u>	<u>(371,747)</u>
Other financing sources (uses):			
Transfers in	(10,562)	-	(10,562)
Transfers out	-	10,562	10,562
Total other financing sources (uses)	<u>(10,562)</u>	<u>10,562</u>	<u>-</u>
Net change in fund balances	(371,747)	-	(371,747)
Fund balances at July 1, 2012	<u>788,117</u>	<u>-</u>	<u>788,117</u>
Fund balances at June 30, 2013	<u>\$ 416,370</u>	<u>\$ -</u>	<u>\$ 416,370</u>

The accompanying notes are an integral part of this financial statement.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

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

For the year ended June 30, 2013

Net change in fund balances - total government funds \$ (371,747)

The change in net position reported for governmental activities
in the statement of activities is different because:

Governmental funds report fixed capital outlay as expenditures.
However, in the statement of activities, the cost of those assets
is allocated over their estimated useful lives and reported as
depreciation expense.

Total fixed capital outlay	\$ 35,666	
Less: depreciation	<u>(57,811)</u>	
		(22,145)

Some of the expenses reported in the statement of activities do
not require the use of current financial resources and,
therefore, are not reported as expenditures in governmental
funds.

Accrued rent expense		(243,823)
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Certain pledge receivables will not be collected for several
years after the close of the School's fiscal year end because
they are not considered "available" revenues in the
governmental funds. In the statement of activities, presented
on the accrual basis, these revenues are recognized in the
fiscal year they are earned.

(151,088)

Change in net position of governmental activities		<u>\$ (788,803)</u>
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The accompanying notes are an integral part of this financial statement.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

KIPP Impact Middle School (the "School") is a division of KIPP Jacksonville, Inc. (the "Charterholder") which is a Florida non-profit corporation. The School provides education services to students in sixth grade through eighth grade. The governing body of the School is the Board of Directors (the "Board"), which is composed of eight members. The financial information presented is that of KIPP Impact Middle School only and is not intended to be a complete presentation of the Charterholder. Additionally, there are other related companies and a consolidated financial statement was issued.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, which is the School Board of Duval County, Florida (the "District"). The current charter is effective until June 30, 2015, and may be renewed in increments of five years by mutual written agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under the grounds specified in the charter in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. KIPP Impact Middle School is considered a component unit of the School Board of Duval County, Florida.

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements report information on all of the non-fiduciary activities of the School. As part of the consolidation process, all interfund activities are eliminated from these statements. Both statements report only governmental activities as the School does not engage in any business type activities.

Net position, the difference between assets and liabilities, as presented in the statement of net position, is subdivided into three categories: amounts invested in capital assets, restricted net position, and unrestricted net position. Net position is reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, laws or regulations of other governments, or enabling legislation.

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net position for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function.

Indirect expenses are costs the School has allocated to various functions. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-wide and fund financial statements (continued)

Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. The School reports the general fund as its only major fund. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

3. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized when a liability is incurred.

All governmental fund financial statements are reported using a current financial resources measurement focus on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized at the time the expenditure is made.

Under the modified accrual basis of accounting, expenditures are generally recorded when the related fund liability is incurred. However, principal and interest on general long-term debt is recorded as expenditures only when payment is due.

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, expenditures, and other financing sources and uses.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting, and financial statement presentation (continued)

Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The School reports the following major governmental fund:

General Fund - is the general operating fund of the School and is used to account for all financial resources not required to be accounted for in another fund.

4. Cash

Cash is made up of cash on hand at the School and checking accounts held at financial institutions. The School has no cash equivalents.

5. Receivables

Receivables typically include amounts due from other agencies. The School's management determined that 100% of receivables are deemed to be fully collectible. Therefore, no allowance for doubtful accounts has been provided.

The School and their affiliates also have multi-year pledges receivable which are recorded at fair value in the period the promise to is made and subsequently carried at their estimated collectible amounts. Pledges receivable are amounts due based on unconditional promises to give made by individuals and entities and are unsecured. Pledges receivable are periodically evaluated for collectability based on past collection history with donors. Provisions for losses on pledges receivables are determined on the basis of loss experience, known and inherent risk in the pledge balances, and current economic conditions. All pledges receivable appear to be fully collectible and thus, no allowance for doubtful accounts has been provided.

6. Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds.

Transfers are used to move unrestricted fund revenues to finance programs and debt service activities that the School must account for in other funds.

7. Prepaid expense

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid expenses in both government-wide and fund financial statements.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Capital assets

Capital assets are reported in the governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$750 and an estimated useful life of more than two years. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair values at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furnitures, fixtures and equipment	5 - 10
Software	3

9. Revenue sources

Revenues for current operations are received primarily from the State of Florida passed through the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District.

Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted FTE students reported by the School during the designated FTE student survey periods.

The School receives federal awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These federal awards may have requirements whereby the issuance of grant funds is withheld until qualifying eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues may be derived from various fundraising activities and certain other programs.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

11. Income taxes

The School is a charter school under KIPP Jacksonville, Inc., which qualifies as a tax-exempt organization, and is, therefore, exempt from income tax. The School recognizes the financial statement effects from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the School and various positions related to the potential sources of unrelated business taxable income (UBIT). The assessment of the technical merits of a tax position is a matter of judgment. The School believes that all its tax positions are more likely than not to be sustained upon examination.

12. Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable fund balance - amounts that are not in non-spendable form (such as inventory and prepaid expense) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance - amounts constrained to specific purposes by the School itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level action to remove or change the constraint.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Fund balance classification (continued)

Assigned fund balance - amounts the School intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The School would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

13. New accounting pronouncements

GASB Statement No. 63 - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources as defined by GASB's Concepts Statement No. 4. It also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows and deferred inflows of resources into the definition of net assets and by renaming it as net position, rather than net assets. The requirements of this Statement will improve financial reporting by standardizing the presentation and their effects on a government's net position. The provisions of this Statement will be effective for the fiscal year ending June 30, 2013.

NOTE B - CASH

Custodial Credit Risk - Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The bank balances of the School's deposits were \$484,539 at June 30, 2013. The deposits are insured by the FDIC up to \$250,000 per entity. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the School pursuant to Section 280.08, Florida Statutes. At June 30, 2013, none of the School's deposits were exposed to custodial credit risk.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE C - CAPITAL ASSETS

Changes in capital assets are as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets not depreciated:				
Land	\$ 10,290	\$ -	\$ -	\$ 10,290
Capital assets depreciated:				
Furniture, fixtures and equipment	199,818	\$ 7,200	\$ -	207,018
Software	52,382	28,466	-	80,848
Total assets depreciated	252,200	\$ 35,666	\$ -	287,866
Less accumulated depreciation:				
Furniture, fixtures and equipment	46,867	\$ 40,914	\$ -	87,781
Software	27,171	16,897	-	44,068
Total accumulated depreciation	74,038	\$ 57,811	\$ -	131,849
Total governmental activities capital assets, net	\$188,452			\$166,307

Depreciation expense for the year ended June 30, 2013 was charged to the School's functions as follows:

Instruction	\$ 52,452
School administration	5,359
	\$ 57,811

NOTE D - PLEDGES RECEIVABLE, NET

In accordance with GASB 33, pledges are discounted when they are not expected to be collected within one year. Pledges are expected to be realized in the following time frames at June 30:

	2013
Less than one year	\$ 155,000
One year to five years	110,000
Total	265,000
Less: discount	(3,702)
Net pledges receivable	\$ 261,298

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE D - PLEDGES RECEIVABLE, NET (continued)

The discount rate is calculated using a risk free rate (1%) applied to the schedule of payments due during each ensuing fiscal year. The School has evaluated all pledges receivable and determined that an allowance for doubtful accounts is not required at June 30, 2013.

In addition to the pledges recorded above, their affiliated company (Jacksonville Alliance for KIPP Schools), has recorded approximately \$800,000 of pledges receivable as of June 30, 2013.

NOTE E - ACCRUED RENT

A summary of changes in accrued rent is as follows:

	Balance at July 1, 2012	Additions	Payments	Balance at June 30, 2013	Due within one year
Accrued rent	\$ 842,377	\$ 243,823	\$ -	\$ 1,086,200	\$ -

In the governmental financial statements stated on a full accrual basis of accounting, GASB 13 requires escalating leases to be calculated on a straight-line basis. Terms of the lease (see Note G-2) specify base annual rental payments of \$207,654, payable in equal monthly installments commencing July 1, 2012 through June 30, 2020. The School shares the facility with KIPP Voice Elementary School. The rental payments are allocated 70% to KIPP Impact Middle School and 30% to KIPP Voice Elementary School, which is based on the number of students enrolled. Current year facility lease expense charged to operations for the School totaled \$398,180 and \$145,357 on the government-wide and fund financial statements, respectively.

The annual activity for the accrued rent balance is as follows for the fiscal years ended June 30:

	Full Accrual Basis - Rent Expense	Modified Accrual Basis - Rent Expense	Change in Outstanding Liability
2014	\$ 389,180	\$ 145,541	\$ 243,639
2015	389,180	145,905	243,275
2016	389,180	146,270	242,910
2017	389,180	195,160	194,020
2018 - 2020	2,924,900	2,924,900	-
	<u>\$ 4,481,620</u>	<u>\$ 3,557,776</u>	<u>\$ 923,844</u>

Effective July 1, 2017, the annual rent obligation is increased to approximately \$973,000.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F - CONCENTRATIONS

Revenue sources

As stated in Note A-9, the School receives revenues for current operations primarily from the State of Florida through the District. The following is a schedule of revenue sources and amounts:

Sources	Amounts
School Board of Duval County, Florida:	
Base student allocation	\$ 942,548
Class size reduction	237,177
Discretionary local effort	71,409
Supplemental academic instruction	59,166
Student transportation	45,799
Additional FEFP	56,188
Discretionary millage compression allocation	18,721
Instructional materials allocation	19,156
Safe schools	6,411
Lead teachers program	2,000
Science laboratory materials	305
Proration to funds available	(4,363)
Subtotal	1,454,517
Title I funds	131,943
School Recognition Program	15,719
Total School Board of Duval County, Florida	1,602,179
Gifts, grants and bequests	723,917
National school lunch program	188,570
Corporate grants	145,209
i3 grant	93,333
Other revenues	33,951
	\$ 2,787,159

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE G - COMMITMENTS AND CONTINGENCIES

1. Operating agreement

The Charterholder entered into an agreement with the operating company on May 1, 2010, and expiring June 30, 2014. This agreement calls for an ongoing fee for accounting services to be paid in monthly installments of \$4,000 with an additional monthly fee of \$2,000 for each additional school. As of July 1, 2012, the School shares its facility with KIPP Voice Elementary School (see Note E). The accounting services are allocated 70% to KIPP Impact Middle School and 30% to KIPP Voice Elementary School, which is based on the number of students enrolled. The total amount charged to operations for the year ended June 30, 2013 was \$50,400.

2. Facilities expense

The Charterholder entered into a lease agreement with Jacksonville Alliance for KIPP Schools, Inc., a related party (see Note H) commencing on August 1, 2010 through June 30, 2020 with two five year renewal options. Terms of the lease specify base annual rental payments of \$207,654, payable in equal monthly installments commencing July 1, 2012 through June 30, 2020. As of July 1, 2012, the School shares the facility with KIPP Voice Elementary School. The rental payments are allocated 70% to KIPP Impact Middle School and 30% to KIPP Voice Elementary School, which is based on the number of students enrolled. GASB 13 requires escalating leases to be calculated on a straight-line basis (see Note E). Current year facility lease expense charged to operations for the School totaled \$398,180 and \$145,357 on the government-wide and fund financial statements, respectively.

The following is a schedule of future minimum lease payments until the end of the School's current charter (June 30, 2015), which does not coincide with the lease term expiration (June 30, 2020):

2014	\$ 145,541
2015	<u>145,905</u>
Total	<u>\$ 291,446</u>

3. Federal grants

The School participates in federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2013 may be impaired. The School has determined that there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE H - RELATED PARTIES

1. Facilities expense

The School has committed to pay rent for the building where the School is located (see Note G-2). Jacksonville Alliance for KIPP Schools, Inc. is a non-profit organization and is a subsidiary of KIPP Jacksonville, Inc. Current year lease expense charged to operations totaled \$398,180 and \$145,357 on the government-wide and fund financial statements, respectively.

2. Due from KIPP Voice Elementary School

The School shares its facility with KIPP Voice Elementary School. As a result, there are also shared expenses including, but not limited to: rent expense, administrative salaries and benefits, utilities and accounting services. The expenses are allocated 70% to KIPP Impact Middle School and 30% to KIPP Voice Elementary School, which is based on the number of students enrolled. At June 30, 2013, the due from KIPP Voice Elementary School totaled \$189,827.

NOTE I - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. Under the plan for property insurance, the School has no liability per occurrence. There have been no significant reductions in insurance coverage during the fiscal year. Settled claims resulting from the risks described above have not exceeded the insurance coverage since the School's inception.

NOTE J - SUBSEQUENT EVENTS

The School has evaluated subsequent events through September 12, 2013, the date at which the financial statements became available for issue and has determined that no material events have occurred that would require disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**

For the year ended June 30, 2013

	<u>Budgeted Amounts</u>		
	<u>Original & Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
FEFP (state revenues)	\$ 1,400,000	\$ 1,424,437	\$ 24,437
Transportation	42,380	45,799	3,419
Gifts, grants, and bequests		718,038	718,038
Sundry	<u>15,000</u>	<u>33,951</u>	<u>18,951</u>
Gross school revenue	<u>1,457,380</u>	<u>2,222,225</u>	<u>764,845</u>
Expenses			
KIPP Impact expenditures			
Salaries	1,150,000	753,353	396,647
Benefits	310,500	300,853	9,647
Bonus pool / incentives	56,250	71,027	(14,777)
Staff development	40,000	78,433	(38,433)
Educational student professional services	18,000	40,789	(22,789)
Software and assessments	20,000	17,883	2,117
Student uniforms	12,000	14,632	(2,632)
Field trips, enrichment, student incentives	60,000	80,856	(20,856)
Saturday tutoring	30,000	8,070	21,930
Transportation	152,000	148,980	3,020
Consumable instructional materials, office supplies, copier	100,000	146,596	(46,596)
Utilities	126,000	90,783	35,217
Rentals	389,180	389,180	-
Building keep-up	70,000	83,249	(13,249)
Cellular/teleconference/internet	10,500	9,262	1,238
Insurance	38,500	27,754	10,746
District fees	72,119	69,956	2,163
KIPP Foundation fees	8,500	8,197	303
Miscellaneous	35,000	57,811	(22,811)
Contingency	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Total KIPP Impact expenses	<u>2,738,549</u>	<u>2,397,664</u>	<u>340,885</u>
Start-up items (partially funded by the CSP grant)			
Musical instruments, music furniture, music materials	90,000		90,000
Non-music items (books, furniture, technology, décor)	<u>10,000</u>	<u>69,205</u>	<u>(59,205)</u>
Total start-up item expenses	<u>100,000</u>	<u>69,205</u>	<u>30,795</u>
Administrative expenditures			
Salaries and benefits	176,000	229,909	(53,909)
Accounting services	88,000	49,441	38,559
Property management	43,000	58,996	(15,996)
IT services	35,000	47,800	(12,800)
Chief academic officer - recruiter fees, signing bonus	50,000	-	50,000
Regional operations manager salary and benefits	70,000	-	70,000
Marketing / community engagement	35,000	28,833	6,167
Professional development	20,000	34,671	(14,671)
Recruiting fees for teachers	21,000	21,000	-
Flexible part-time help	-	17,469	(17,469)
Regional leadership training	10,000	-	10,000
Auditor fees	12,000	17,000	(5,000)
General and administrative/travel/miscellaneous	<u>20,000</u>	<u>28,478</u>	<u>(8,478)</u>
Total administration expenses	<u>580,000</u>	<u>533,597</u>	<u>46,403</u>
Total expenses	<u>3,418,549</u>	<u>3,000,466</u>	<u>418,083</u>
Change in net position	<u>(1,961,169)</u>	<u>(778,241)</u>	<u>1,182,928</u>
Adjustments to conform to GAAP:			
Capital outlay expenditures		(35,666)	
Depreciation expense		57,811	
Accrued rent expense		243,823	
Pledges receivable		<u>151,088</u>	
Excess of expenditures over revenue (GAAP basis)		(361,185)	
Other financing sources		(10,562)	
Fund balances at July 1, 2012		<u>788,117</u>	
Fund balances at June 30, 2013		<u>\$ 416,370</u>	

See accompanying note to required supplemental information.

**KIPP Impact Middle School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2013

NOTE A - BUDGETARY INFORMATION

The School's annual budgets are adopted for the entire operations at the combined governmental level and may be amended by the Board. Since the budgetary basis differs from generally accepted accounting principles ("GAAP"), budget and actual amounts in the accompanying required supplementary information are presented on the budgetary basis. A reconciliation to deficiency of revenues under expenditures presented in conformity with GAAP is set forth in the adjustments to the required supplementary information.

Budgets are presented on the full accrual basis of accounting. The legal level of budgetary control is the fund level.

**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 Impact Middle School
Jacksonville, Florida

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 Impact Middle School. ("the School") a component unit of the School Board of Duval County, Florida, and a division of KIPP Jacksonville, Inc. (the "Charterholder") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 12, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, as described in the accompanying schedule of findings that we consider to be a significant deficiency, as listed under Current Year Findings, Recommendations and Other Matters 2013-1.

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 grants 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.

September 12, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT LETTER

To the Board of Directors
KIPP Impact Middle School
Jacksonville, Florida

We have audited the financial statements of KIPP Impact Middle School (the "School"), a component unit of the School Board of Duval County, Florida, and a division of KIPP Jacksonville, Inc. (the "Charterholder") as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated September 12, 2013.

We conducted our audit 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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated September 12, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' report:

- Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective action has been taken to address findings and recommendations made in the preceding financial audit report except as noted below under the heading **Prior Year Findings and Questioned Costs - Repeated.**
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the School has met one or more of the conditions in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we identified recommendations as listed under the heading **Current Year Findings, Recommendations and Other Matters.**

- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5., Rules of the Auditor General, requires the official title of the entity. The official title of the entity is KIPP Impact Middle School, a division of KIPP Jacksonville, Inc., a Florida limited liability company.
- Pursuant to Sections 10.854(1)(e)6.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

The School's response to the findings identified in the audit are described in the section titled Management's Response, as listed in the table of contents. We did not audit the School's response and accordingly, we express no opinion on it.

Our management letter is intended solely for the information and use of the School's management, Board of Directors, others within the School, the School Board of Duval County, Florida, the State of Florida Office of the Auditor General, Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 12, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Prior Year Findings and Questioned Costs-Corrected

2012-2 Employee Reimbursements

Significant deficiency

Criteria: The School's purchasing procedures state that the School's Leadership staff, Operations team and the Executive Director should perform the majority of the ordering for the School.

Condition: During the course of the audit, we noted a higher than anticipated amount of monthly employee reimbursements (some in excess of \$600 to \$700). Many of these reimbursements were paid to employees who do not have authorization to make the purchases. Having a significant amount of transactions paid through this reimbursement process is not a common occurrence for charter schools. We also noted that some receipts and reimbursement requests were 2-4 months old when they were submitted to the school.

Cause: The School is not strictly following their policy regarding employee purchases and reimbursements.

Effect: The School is processing numerous transactions for reimbursements, many of which are paid to various employees who do not have the authorization to make the purchases. Further, various reimbursements are being made without the required supporting documentation being submitted in a timely manner.

Auditors' recommendation: We recommend that controls be strengthened over all employee reimbursements. A payment authorization voucher should be submitted through the School's purchasing procedures to have the School directly pay the expenditures. In addition, only authorized employees should be making purchases.

Status at June 30, 2013: Corrected.

2012-3 Usage of American Express points

Criteria: The School does not have a formal policy regarding the usage of accumulated points on the American Express purchase card.

Condition: During the course of the audit, we noted a large amount of reward points that were accumulated on the credit card (over 130,000 points), with an estimated value of \$1,000.

Cause: The lack of a School policy makes it hard to determine the best use for the accumulated American Express points.

Prior Year Findings and Questioned Costs-Corrected (continued)

2012-3 Usage of American Express points (continued)

Effect: The School has yet to develop a formal policy over the usage of the American Express points.

Auditors' recommendation: As noted above, we recommend that the School monitor and track the American Express points to ensure that the points will be utilized effectively on behalf of the School. We also recommend that the School document how the points are being used for the benefit of the School. The Board and management should establish a policy for utilizing the allocated points and the policy should stipulate that there should be no personal use, reimbursements, or other forms of transactions with the School that are not directly related to the school's mission.

Status at June 30, 2013: Corrected.

2012-4 Physical inventory of equipment

Criteria: The School does not have a formal policy regarding the taking of physical inventory throughout the year.

Condition: During the course of the audit, we noted many purchases were made for equipment (laptops, instruments, other items) during the school year. There is a system to tag and track many of the items, but there is not a consistent physical inventory taken to verify that the equipment still exists after 1-2 years, or longer.

Cause: There is no policy in place to take a physical inventory at least once during the year to ensure the proper tracking of the inventory.

Effect: The School could potentially be accounting for inventory items that are lost, missing or damaged that would further need a valuation or a write-down for record keeping purposes.

Auditors' recommendation: We recommend that the School establish a policy to track equipment on a periodic basis (i.e. every 6 or 12 months) to ensure that equipment is still in use and tracked on behalf of the school.

Status at June 30, 2013: Corrected.

Prior Year Findings and Questioned Costs-Repeated

2012-1 Purchase card transactions

Significant deficiency at June 30, 2012. No longer significant deficiency at June 30, 2013.

Criteria: The School's purchasing procedures specify that all purchases should be accompanied by either a Purchase Order (PO) or a Payment Authorization Form (PAV) and contain all of the related signatures and documentation (receipts).

Condition: During the course of the audit, we tested a random sample of purchase cards to verify that controls over these expenditures were working adequately. We noted receipts were incomplete for the sample of items selected. Also, the classification for the various purchases was not clearly indicated on the purchase card or receipt making it difficult to determine where the expenditures should be recorded in the general ledger. In addition, we noted that there is a large amount of purchase card usage for the School and it appears to be the first method for making some purchases through the School.

Cause: The School's management is inconsistently following their own policy by not having consistent proper documentation. In addition, the School does not have a formal policy with regards to purchase card usage.

Effect: Various reimbursement reports were missing the appropriate documentation.

Auditors' recommendation: We recommend that the School establish a policy for purchase card usage for employees and set credit limits on individual purchase cards when you have specific issues with employees following established procedures.

Status at June 30, 2013: The School has instituted a policy to obtain receipts. Although the School has made a considerable improvement in this area, they are not timely following up on missing receipts. Furthermore, there is still a large amount of purchase card usage. However, we do not consider this a significant deficiency at June 30, 2013.

Current Year Findings, Recommendations and Other Matters

2013-1 Student Attendance

Significant deficiency

Criteria: Each charter school shall report its student enrollment to the sponsor as required in s. 1011.62, and in accordance with the definitions in s. 1011.61. All charter schools submitting student record information required by the Department of Education shall comply with the Department of Education's guidelines for electronic data formats.

Condition: During our testing, it was noted that although students were reported correctly during the survey weeks to the District, correct attendance records were not maintained by the School.

Cause: School personnel made manual errors in their recording of attendance that were left uncorrected.

Effect: The School is deficient in their record-keeping related to student attendance.

Auditors' recommendation: In order to ensure the School is in compliance with Florida Statutes, we recommend that the School institute procedures to ensure attendance is accurately maintained per student on a daily basis.

2013-2 Board governance training

Criteria: Section 1002.33(9)(j)4., Florida Statutes and 6A-6.0784 Florida Administrative code requires all members of the School's governing board receive board governance training approved by the Department of Education.

Condition: During our compliance testing, it was noted governing board members training certification expired during the fiscal year.

Cause: The members did not complete the two hour required refresher course within three years of the initial training certification.

Effect: Members of the governing board were out of compliance with Florida Statutes.

Auditors' recommendation: In order to ensure the School is in compliance with Florida Statutes, we recommend that the School institute procedures to ensure that all current board members receive the required board governance training.

Current Year Findings, Recommendations and Other Matters (continued)

2013-3 Purchase cards

Criteria: The School's policy states purchases in excess of \$1,000 require a purchase order from the Executive Director. The policy also states credit cards be used for out-of-field expenses such as travel and meals.

Condition: None of the purchases tested by the auditor, using purchase cards, were approved prior to the School employee initiating the transaction. The School was obligated to pay for these items when the purchase card was used without appropriate approval. Furthermore, the purchase cards are used for travel as well as the purchase of numerous school supplies, food, and textbooks.

Cause: The management of the School did follow the approved policy and credit card usage appeared to be a preferred purchase alternative.

Effect: The School did not follow their procedures and the disbursements using purchase cards were not properly approved.

Auditors' recommendation: We recommend the School apply their purchasing policy to all disbursements including purchase cards.

2013-4 Student Records

Criteria: Section 1002.33(9)(e) and 381.0056., Florida Statutes requires all students have a valid certificate of immunization or exemption on file before enrolling in or attending school.

Condition: During our testing of ten student records, it was noted one student did not have an updated immunization record and another student's exemption had expired.

Cause: The management of the School is not maintaining adequate student records.

Effect: The School is not in compliance with Florida Statutes.

Auditors' recommendation: We recommend the School institute a policy to ensure student records are complete as required by Florida statutes.

Current Year Findings, Recommendations and Other Matters (continued)

2013-5 Cash Disbursements

Criteria: The School requires dual signature for cash disbursements in excess of \$5,000. Furthermore, the policy requires a purchase order for all transactions in excess of \$1,000.

Condition: During our audit testing of cash disbursement, it was noted the School does not consistently follow these policies.

Cause: The management of the School did not obtain the dual signature nor consistently follow the purchase order process.

Effect: The management of the School did not follow their procedures and the disbursements were not properly approved.

Auditors' recommendation: We recommend the School follow established policies for dual signatures and purchase orders.

2013-6 Bank reconciliations

Criteria: The School's financial protocol and procedures requires the monthly bank reconciliation be approved by the Executive Director.

Condition: The bank reconciliations are not approved.

Cause: The management of the School did follow the approved policy.

Effect: There is a risk that management could override controls and/or a misstatement could occur that would go undetected.

Auditors' recommendation: We recommend management of the School review the bank reconciliation monthly.

2013-7 Accrued expenses

Criteria: The School uses the accrual basis of accounting which requires expenses be recognized in the same period in which the related revenue is earned.

Condition: The School did not record approximately \$45,000 of expenses that were paid after June 30, 2013.

Cause: There is no approval of the timing or coding of transactions in the general ledger.

Effect: The School overstated income by approximately \$45,000.

Auditors' recommendation: We recommend management of the School institute a policy to ensure expenses are properly input into the accounting system and accrued at year end.



1440 McDuff Avenue North, Jacksonville, FL 32254, (904) 683-6643, www.kippjax.org

Audit Finding Corrective Action Plan

September 25, 2013

U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202

Dear Sir/Madam:

KIPP Impact Middle School respectively submits the following corrective action plan for the fiscal year ending June 30, 2013.

Name and Address of Independent Accounting Firm:

Mike Durante, Partner
Berman Hopkins Wright & LaHam, CPAs and Associates, LLP
8035 Spyglass Hill Road
Melbourne, FL 32940

Audit Period: July 1, 2012 to June 30, 2013

The findings from the June 30, 2013 schedule of findings are discussed below, and are numbered consistently with the numbers assigned in the schedule. Several of the findings have been clear in FY2013 and should not be present in subsequent audits.

MANAGEMENT RESPONSES

2012-1

KIPP Jacksonville instituted a new policy and has seen large improvements. The accounting department will promptly follow up on any missing purchase card receipts during our monthly reconciliation process.

2013-1

KIPP Jacksonville has adopted the student information system of Duval County Public Schools for the 2013-14 school year. This eliminated the need to double enter attendance data into the

KIPP, the Knowledge is Power Program, is a national network of free, open-enrollment, college-preparatory public schools with a track record of preparing students in underserved communities for success in college and life. There are currently 141 KIPP schools in 20 states across the nation serving over 50,000 students.

district's reporting systems, which is subject to human error. As a result, teacher attendance data will auto-populate from the district's daily attendance system into the district's attendance reporting systems.

2013-2

Board members have been instructed to complete required board training at their nearest convenience. The governance committee and the Executive Director will semi-annually review training expiration dates and communicate the need for refresher training to appropriate board members with advance notice.

2013-3

KIPP Jacksonville will document adherence to the \$1,000 PO limits with written purchase orders. The audit committee will review current financial policies and procedures and make adjustments as necessary to balance proper controls, the efficient administration of school business, and scale the organization.

2013-4

The school will develop a policy to examine student records and ensure that they are complete and current.

2013-5

KIPP Jacksonville will document adherence to the \$1,000 PO limits with written purchase orders. The audit committee will review current financial policies and procedures and make adjustments as necessary to balance proper controls, the efficient administration of school business, and scale the organization. This will include increasing the dual signature limit to reflect the increased size of checks from the organization's founding.

2013-6

Bank reconciliations will be approved and signed off by the Executive Director monthly.

2013-7

A policy will be implemented to ensure that transactions towards the end of the fiscal year are properly recorded in the appropriate time period.

If the U.S. Department of Education has questions regarding this plan, please call Tom Majdanics, Executive Director at (904) 683-6643 x130.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Majdanics", followed by a long horizontal line extending to the right.

Tom Majdanics
Executive Director, KIPP Jacksonville Schools