

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

**Basic Financial Statements and
Supplemental Information**

**For the year ended
June 30, 2014**

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INDEPENDENT AUDITOR'S 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, 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 the School, as of June 30, 2014, 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, 2014, and the results of its operations for the year then ended, and is not intended to be a complete presentation of the Charterholder.

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 information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying schedule of expenditures of federal awards is 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 is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 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 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 26, 2014
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, 2014 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 \$953,576 (net position).
- The net position of the School decreased by \$681,351 during the year.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$137,586.
- At the end of the current fiscal year, the unassigned fund balance of the general fund was \$125,158.

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 \$953,576 (net position) for the year ended June 30, 2014. The School's liabilities exceeded assets by \$272,225 (net position), for the year ended June 30, 2013.

The largest portion of net position is the unrestricted portion. Another portion of the School's net position reflects its net 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		
	2014	2013	Variance
ASSETS			
Current and other assets	\$ 478,194	\$ 794,260	\$ (316,066)
Capital assets, net of accumulated depreciation	115,176	166,307	(51,131)
Total assets	593,370	960,567	(367,197)
LIABILITIES			
Current liabilities	216,923	146,592	70,331
Noncurrent liabilities	1,330,023	1,086,200	243,823
Total liabilities	1,546,946	1,232,792	314,154
NET POSITION			
Net investment in capital assets	115,176	166,307	(51,131)
Unrestricted	(1,068,752)	(438,532)	(630,220)
Total net position	\$ (953,576)	\$ (272,225)	\$ (681,351)

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, 2014. The increase in noncurrent liabilities is primarily due to an increase in accrued rent.

**KIPP Impact Middle School
Statement of Activities**

	Governmental Activities		
	2014	2013	Variance
Revenues:			
Program revenues:			
Charges for services	\$ 18,825	\$ 9,929	\$ 8,896
Operating grants and contributions	915,660	413,846	501,814
General revenues:			
State passed through local school district	2,611,758	1,470,236	1,141,522
Gifts, grants and bequests	493,959	718,038	(224,079)
Other revenues	36,076	24,022	12,054
Total revenues	<u>4,076,278</u>	<u>2,636,071</u>	<u>1,440,207</u>
Expenses:			
Instruction	2,194,311	1,645,772	548,539
Parental involvement	43,245	53,348	(10,103)
Media services	72,548	85,589	(13,041)
Staff development	122,322	121,331	991
School administration	856,298	330,857	525,441
Fiscal services	106,890	136,397	(29,507)
Food services	277,503	199,132	78,371
Central services	180,654	81,260	99,394
Transportation	238,549	148,980	89,569
Operation of plant	179,131	149,779	29,352
Maintenance of plant	486,178	472,429	13,749
Total expenses	<u>4,757,629</u>	<u>3,424,874</u>	<u>1,332,755</u>
Change in net position	(681,351)	(788,803)	107,452
Net position - beginning	(272,225)	-	(272,225)
Net position - ending	<u>\$ (953,576)</u>	<u>\$ (788,803)</u>	<u>\$ (164,773)</u>

There was an increase in the operating and capital grants and contributions revenue that was related to the Century 21 grant. The increase in state passed through local school district revenues is a result of an increase in the number of students at the School in 2014. The decrease 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, school administration, 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 is a direct result of current year cost savings costs of accounting services, with KIPP Voice Elementary school.

Governmental activities. Governmental activities decreased the School's net position by \$681,351 for the year ended June 30, 2014.

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 \$125,158 and nonspendable restricted for prepaid expenses was \$12,428.

General Fund Budgetary Highlights

The actual revenues in the general fund equaled the budgeted revenues, while budgeted expenses exceeded actual by \$57.

Capital Asset Administration

Capital Assets. The School's net investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$115,176 (net of accumulated depreciation). This net 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 2014/2015 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, 2014

	Governmental Activities
ASSETS	
ASSETS	
Cash	\$ 112,818
Pledges receivable, net	103,685
Due from other agencies	229,263
Prepaid expenses	12,428
Total current assets	458,194
Long-term pledges receivable	20,000
CAPITAL ASSETS	
Capital assets not being depreciated	
Land	10,290
Capital assets, net of accumulated depreciation	
Furniture, fixtures and equipment	94,241
Software	10,645
Total capital assets	115,176
Total assets	593,370
LIABILITIES	
Accounts payable	103,568
Due to Voice Elementary	33,002
Due to other agencies	1,220
Accrued expenses	79,133
Noncurrent liabilities	
Accrued rent	1,330,023
Total liabilities	1,546,946
NET POSITION	
Net investment in capital assets	115,176
Unrestricted	(1,068,752)
Total net position	\$ (953,576)

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, 2014

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	\$2,194,311	\$ -	\$ 645,619	\$ -	\$ (1,548,692)
Parental involvement	43,245	-	-	-	(43,245)
Media services	72,548	-	-	-	(72,548)
Staff development	122,322	-	11,412	-	(110,910)
School administration	856,298	-	-	-	(856,298)
Fiscal services	106,890	-	-	-	(106,890)
Food services	277,503	18,825	258,629	-	(49)
Central services	180,654	-	-	-	(180,654)
Transportation	238,549	-	-	-	(238,549)
Operation of plant	179,131	-	-	-	(179,131)
Maintenance of plant	486,178	-	-	-	(486,178)
Total governmental activities	\$4,757,629	\$ 18,825	\$ 915,660	\$ -	(3,823,144)
			General revenues:		
			State passed through local school district		2,611,758
			Gifts, grants and bequests		493,959
			Other revenues		36,076
			Total general revenues		3,141,793
			Change in net position		(681,351)
			Net position at July 1, 2013		(272,225)
			Net position at June 30, 2014		\$ (953,576)

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, 2014

	General Fund	21st Century Grant	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 112,818	\$ -	\$ -	\$ 112,818
Due from other funds	215,048	-	-	215,048
Due from other agencies	14,215	162,716	52,332	229,263
Prepaid expenses	12,428	-	-	12,428
Total assets	\$ 354,509	\$ 162,716	\$ 52,332	\$ 569,557
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 103,568	\$ -	\$ -	\$ 103,568
Accrued expenses	79,133	-	-	79,133
Due to Voice Elementary	33,002	-	-	33,002
Due to other agencies	1,220	-	-	1,220
Due to other funds	-	162,716	52,332	215,048
Total liabilities	216,923	162,716	52,332	431,971
FUND BALANCES				
Nonspendable				
Prepaid expenses	12,428	-	-	12,428
Unassigned	125,158	-	-	125,158
Total fund balances	137,586	-	-	137,586
Total liabilities and fund balances	\$ 354,509	\$ 162,716	\$ 52,332	\$ 569,557

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, 2014

Fund balances - total governmental funds \$ 137,586

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	94,241	
Software, net	<u>10,645</u>	
Total capital assets		115,176

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	(1,330,023)
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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>\$ (953,576)</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, 2014

	General Fund	21st Century Grant	Other Governmental Funds	Total Governmental Funds
Revenues				
Federal grant	\$ -	\$ -	\$ 346,858	\$ 346,858
Federal passed through local school district	-	287,701	281,101	568,802
State passed through local school district	2,611,758	-	-	2,611,758
Gifts, grants and bequests	598,959	-	-	598,959
Other revenues	36,076	-	18,825	54,901
Total revenues	<u>3,246,793</u>	<u>287,701</u>	<u>646,784</u>	<u>4,181,278</u>
Expenditures				
Current:				
Instruction	1,546,171	257,406	256,891	2,060,468
Parental involvement	1,916	28,531	12,798	43,245
Media services	72,548	-	-	72,548
Staff development	109,146	1,764	11,412	122,322
School administration	768,069	-	88,229	856,298
Fiscal services	104,277	-	-	104,277
Food services	-	-	277,503	277,503
Central services	180,654	-	-	180,654
Transportation	238,549	-	-	238,549
Operation of plant	179,131	-	-	179,131
Maintenance of plant	242,355	-	-	242,355
Fixed capital outlay	82,712	-	-	82,712
Total expenditures	<u>3,525,528</u>	<u>287,701</u>	<u>646,833</u>	<u>4,460,062</u>
Excess (deficiency) revenues over (under) expenditures	<u>(278,735)</u>	<u>-</u>	<u>(49)</u>	<u>(278,784)</u>
Other financing sources (uses):				
Transfers in	(49)	-	-	(49)
Transfers out	-	-	49	49
Total other financing sources (uses)	<u>(49)</u>	<u>-</u>	<u>49</u>	<u>-</u>
Net change in fund balances	(278,784)	-	-	(278,784)
Fund balances at July 1, 2013	416,370	-	-	416,370
Fund balances at June 30, 2014	<u>\$ 137,586</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 137,586</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, 2014

Net change in fund balances - total government funds		\$ (278,784)
<p>The change in net position reported for governmental activities in the statement of activities is different because:</p>		
<p>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.</p>		
Total fixed capital outlay	\$ 82,712	
Less: depreciation	<u>(133,843)</u>	(51,131)
<p>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.</p>		
Accrued rent expense		(243,823)
<p>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.</p>		
		(105,000)
Bad debt expense on pledges receivable		<u>(2,613)</u>
Change in net position of governmental activities		<u><u>\$ (681,351)</u></u>

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, 2014

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, 2014

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, 2014

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.

Century 21 Fund - is the fund that accounts for the Twenty-First Century Community Learning Center federal grant used to establish or expand activities in community learning centers that provide opportunities for academic enrichment for children.

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 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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Prepaid expense

Payments made to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid expenses in both government-wide and fund financial statements.

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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Revenue sources (continued)

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

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. 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, 2014

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. No other fund except the general fund can report positive amounts of unassigned fund balance.

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.

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 \$132,981 at June 30, 2014. 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, 2014, 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, 2014

NOTE C - CAPITAL ASSETS

Changes in capital assets are as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets not depreciated:				
Land	\$ 10,290	\$ -	\$ -	\$ 10,290
Capital assets depreciated:				
Furniture, fixtures and equipment	207,018	\$ 44,062	\$ -	251,080
Software	80,848	38,650	-	119,498
Total assets depreciated	287,866	\$ 82,712	\$ -	370,578
Less accumulated depreciation:				
Furniture, fixtures and equipment	87,781	\$ 69,058	\$ -	156,839
Software	44,068	64,785	-	108,853
Total accumulated depreciation	131,849	\$ 133,843	\$ -	265,692
Total governmental activities capital assets, net	\$166,307			\$115,176

Depreciation expense for the year ended June 30, 2014 was charged to the School's functions as follows:

Instruction	\$ 128,484
School administration	5,359
	\$ 133,843

NOTE D - PLEDGES RECEIVABLE, NET

Pledges are expected to be realized in the following time frames at June 30:

Due:	
Less than one year	\$ 106,298
More than one year	20,000
Net pledges receivable	\$ 126,298

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE D - PLEDGES RECEIVABLE, NET (continued)

The future pledges are expected to be collected in one year; therefore no discount has been recorded at June 30, 2014. The School has evaluated all pledges receivable and determined that an allowance for doubtful accounts is required at June 30, 2014 of \$2,613.

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, 2014.

NOTE E - ACCRUED RENT

A summary of changes in accrued rent is as follows:

	Balance at July 1, 2013	Additions	Payments	Balance at June 30, 2014	Expected change in 2015
Accrued rent	\$ 1,086,200	\$ 243,823	-	\$ 1,330,023	\$ 347,541

In the governmental financial statements stated on a full accrual basis of accounting, GASB Statement No. 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 based on the use of the facility at 70% to KIPP Impact Middle School and 30% to KIPP Voice Elementary School. Current year facility lease expense charged to operations for the School totaled \$389,180 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
2015	\$ 389,180	\$ 145,905	\$ 243,275
2016	389,180	146,270	242,910
2017	389,180	195,160	194,020
2018	389,180	972,532	(583,352)
2019 - 2020	1,952,367	1,952,367	-
	<u>\$ 3,509,087</u>	<u>\$ 3,412,235</u>	<u>\$ 96,853</u>

Effective July 1, 2017, the annual rent obligation is increased to approximately \$973,000, of which 70% represents the School's portion.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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	\$ 1,352,360
Class size reduction	302,532
Additional allocation	1,165
Discretionary local effort	93,378
Supplemental academic instruction	78,710
Student transportation	66,105
Additional FEFP	76,096
Discretionary millage compression allocation	30,474
Safe schools	8,301
Lead teachers program	5,600
Teacher salary allocation	56,982
Proration to funds available	(6,103)
Subtotal	2,065,600
Capital outlay	187,538
Title I funds	269,689
Title II funds	11,412
Century 21	287,701
School Recognition Program	358,620
Total School Board of Duval County, Florida	3,180,560
Gifts, grants and bequests	448,959
National school lunch program	258,629
Corporate grants	150,000
i3 grant	88,229
Other revenues	54,901
	\$ 4,181,278

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 60% to KIPP Impact Middle School and 40% 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, 2014 was \$65,300.

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 School shares the facility with KIPP Voice Elementary School. The rental payments are allocated based on the use of the facility at 70% to KIPP Impact Middle School and 30% to KIPP Voice Elementary School. 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 \$389,180 and \$145,357 on the government-wide and fund financial statements, respectively.

The future minimum lease payments until the end of the School's current charter (June 30, 2015) is \$145,905, which does not coincide with the lease term expiration (June 30, 2020):

2015	145,905
Total	\$ 145,905

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, 2014 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, 2014

NOTE H - RELATED PARTIES

1. Facilities expense

The School has a lease with a related party as described in Note G-2.

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 60% to KIPP Impact Middle School and 40% to KIPP Voice Elementary School, which is based on the number of students enrolled. At June 30, 2014, the due from KIPP Voice Elementary School totaled \$33,002.

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 26, 2014, 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, 2014

	<u>Budgeted Amounts</u>		
	<u>Original & Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
FEFP (state revenues)	\$ 2,611,758	\$ 2,611,758	\$ -
Gifts, grants, and bequests	493,959	493,959	-
Miscellaneous revenues	<u>36,076</u>	<u>36,076</u>	-
Gross school revenue	<u>3,141,793</u>	<u>3,141,793</u>	<u>-</u>
Expenses			
KIPP Impact expenditures			
Salaries	953,336	880,180	73,156
Benefits	273,893	285,033	(11,140)
Staff development	89,753	63,122	26,631
Software and assessments	5,868	5,868	-
Field trips, enrichment, student incentives	94,508	94,508	-
Transportation	238,549	238,549	-
Consumable instructional materials, office supplies, copier	233,440	231,647	1,793
Utilities	107,644	107,644	-
Rentals	389,180	389,180	-
Repairs and maintenance	839	839	-
Building keep-up	96,312	96,312	-
Cellular/teleconference/internet	17,002	17,002	-
Insurance	27,992	26,394	1,598
District fees	38,418	38,418	-
Depreciation	<u>122,959</u>	<u>133,843</u>	<u>(10,884)</u>
Total KIPP Impact expenses	<u>2,689,693</u>	<u>2,608,539</u>	<u>81,154</u>
Non capital assets			
Furniture, fixtures and equipment	88,562	87,351	1,211
Software	<u>9,920</u>	<u>9,920</u>	<u>-</u>
	<u>98,482</u>	<u>97,271</u>	<u>1,211</u>
Start-up items (partially funded by the CSP grant)			
Non-music items (books, furniture, technology, décor)	<u>10,857</u>	<u>10,857</u>	<u>-</u>
Total start-up item expenses	<u>10,857</u>	<u>10,857</u>	<u>-</u>
Administrative expenditures			
Salaries and benefits	656,143	671,533	(15,390)
Accounting services	50,700	50,700	-
Property management	71,487	71,487	-
IT services	47,901	47,901	-
Marketing / community engagement	30,719	30,719	-
Professional development	23,577	23,577	-
Recruiting fees for teachers	167	167	-
Professional services - Central Services	30,778	30,778	-
Dues and fees	8,571	104,351	(95,780)
Auditor fees	14,600	14,600	-
General and administrative/travel/miscellaneous	<u>90,688</u>	<u>60,615</u>	<u>30,073</u>
Total administration expenses	<u>1,025,331</u>	<u>1,106,428</u>	<u>(81,097)</u>
Total expenses	<u>3,824,363</u>	<u>3,823,095</u>	<u>1,268</u>
Change in net position	<u>\$ (682,570)</u>	<u>(681,302)</u>	<u>\$ 1,268</u>
Adjustments to conform to GAAP:			
Capital outlay expenditures		(82,712)	
Depreciation expense		133,843	
Accrued rent expense		243,823	
Pledges receivable		105,000	
Bad debt expense		<u>2,613</u>	
Excess of expenditures over revenue (GAAP basis)		(278,735)	
Other financing sources		(49)	
Fund balances at July 1, 2013		<u>416,370</u>	
Fund balances at June 30, 2014		<u>\$ 137,586</u>	

See accompanying note to 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 - 21st CENTURY FUND

For the year ended June 30, 2014

	Budgeted Amounts		Variance
	Original & Final	Actual	with Final Budget
Revenue			
Federal thru state	\$ 287,701	\$ 287,701	\$ -
Gross school revenue	287,701	287,701	-
Expenses			
KIPP Impact expenditures			
Salaries	189,843	156,177	33,666
Benefits	6,258	11,393	(5,135)
Other purchased services	18,000	18,000	-
Staff development	1,764	1,764	-
Consumable instructional materials, office supplies, copier	22,217	22,217	-
Total KIPP Impact expenses	238,082	209,551	28,531
Non capital assets (funded by Century 21 grant)			
Furniture, fixtures and equipment	38,112	38,112	-
Software	11,507	11,507	-
	49,619	49,619	-
Administrative expenditures			
Salaries and benefits	-	28,531	(28,531)
Total administration expenses	-	28,531	(28,531)
Total expenses	287,701	287,701	-
Change in net position	\$ -	-	\$ -
Fund balances at July 1, 2013		-	
Fund balances at June 30, 2014		\$ -	

See accompanying note to required supplemental information.

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

NOTE TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2014

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.

SINGLE AUDIT AND COMPLIANCE INFORMATION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION/PASS THROUGH DISTRICT SCHOOL BOARD OF DUVAL COUNTY, FLORIDA		
Title I Grants	84.010	\$ 269,689
Twenty-First Century Community Learning Centers	84.287	287,701
Title IIA Grants	84.367	11,412
U.S. DEPARTMENT OF AGRICULTURE/PASS THROUGH FLORIDA DEPARTMENT OF EDUCATION		
School Breakfast Program	10.553	81,500
National School Lunch Program	10.555	177,128
		<u>\$ 827,430</u>

Note 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the School during its fiscal year July 1, 2013 to June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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 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, 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 September 26, 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.

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 26, 2014
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited 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), 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 programs are 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 for 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 each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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.

September 26, 2014
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2014

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

Material weakness identified? **No**

Significant deficiency identified? **None reported**

Noncompliance material to financial statements noted? **No**

Federal Awards

Internal control over major programs:

Material weakness identified? **No**

Significant deficiencies identified? **None reported**

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? **No**

The programs tested as a major programs are as follows:

<u>CFDA Number</u>	<u>Name of Program</u>
84.010	Department of Education/Pass through - Title I
84.287	Department of Education/Pass through - Twenty-First Century Community Learning Centers
84.367	Department of Education/Pass through - Title IIA
10.553	Department of Agriculture/Pass through - School Breakfast Program
10.555	Department of Agriculture/Pass through - National School Lunch Program

The threshold for distinguishing type A and B programs was **\$300,000**

Did the auditee qualify as a low-risk auditee? **No**

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2014

B. FINDINGS - FINANCIAL STATEMENTS

None in the current year.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS

None in the current year.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

There were no findings in the prior year.

MANAGEMENT LETTER

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

Report on the Financial Statements

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, 2014, and have issued our report thereon dated September 26, 2014.

Auditor's Responsibility

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Other Reporting Required by *Government Auditing Standards*

We have issued our Independent Auditor's 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*, Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated September 26, 2014, should be considered in conjunction with this management letter.

Prior Audit Findings

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 noted under the heading **Prior Year Findings and Questioned Costs - Corrected.**

Financial Condition

Sections 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require that we apply appropriate procedures to determine whether or not the School has met one or more of the conditions described 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.

Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, require that we apply financial condition assessment procedures for the School. 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.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we apply appropriate procedures to determine whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

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 did not have any such recommendations.

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 name or official title of the entity. The official title of the school is *KIPP Impact Middle School, a division of KIPP Jacksonville, Inc., a Florida limited liability company.*

Purpose of this Letter

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 Broward 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 26, 2014
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Prior Year Findings and Questioned Costs-Corrected

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.

Status at June 30, 2014: Corrected.

Prior Year Findings and Questioned Costs-Corrected (continued)

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.

Status at June 30, 2014: Corrected.

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.

Status at June 30, 2014: Corrected.

Prior Year Findings and Questioned Costs-Corrected (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.

Status at June 30, 2014: Corrected.

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.

Status at June 30, 2014: Corrected.

Prior Year Findings and Questioned Costs-Corrected (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.

Status at June 30, 2014: Corrected.

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.

Status at June 30, 2014: Corrected.

Prior Year Findings and Questioned Costs-Corrected (continued)

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.

Status at June 30, 2014: Corrected.

Current Year Findings, Recommendations and Other Matters

No current year finding, recommendations and other matters.