

**KIPP JACKSONVILLE
K-8 SCHOOL**

**(A division of KIPP
Jacksonville, Inc.)**

**Basic Financial Statements and
Supplementary Information**

**For the year ended
June 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
KIPP Jacksonville K-8 School
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 Jacksonville K-8 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, 2016, 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, 2016, 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, 2016, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016 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 28, 2016
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Management's Discussion and Analysis

As management of KIPP Jacksonville K-8 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, 2016 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 found as listed on the table of contents of this report.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$235,136 (net position).
- The net position of the School increased by \$185,135 during the year.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$214,204, which was also the unassigned fund balance for the general fund.

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, liabilities, and deferred outflows/inflows of resources with the difference 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 as listed on the table of contents 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 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 as listed on the table of contents 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 as listed on the table of contents of this report.

Notes to 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 financial statements can be found as listed on the table of contents 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, assets exceeded liabilities by \$235,136 (net position), for the year ended June 30, 2016.

A portion of the School's net position reflects its net investment in capital assets (e.g., land, improvements other than buildings, furniture, fixtures and equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. 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 Jacksonville K-8 School Statement of Net Position

	Governmental Activities		
	2016	2015	Variance
ASSETS			
Current assets	\$ 436,962	\$ 163,959	\$ 273,003
Capital assets, net of accumulated depreciation	41,755	-	41,755
Total assets	478,717	163,959	314,758
LIABILITIES			
Current liabilities	\$ 222,758	\$ 113,958	108,800
Noncurrent liabilities	20,823	-	20,823
Total liabilities	243,581	113,958	129,623
NET POSITION			
Net investment in capital assets	41,755	-	41,755
Unrestricted	193,381	50,001	143,380
Total net position	\$ 235,136	\$ 50,001	\$ 185,135

Current assets increased due to timing of cash flows and outflows and increased funding for student enrollment for the year ended June 30, 2016. Capital assets increased as a result of purchasing assets to support the new school. Total liabilities increased due to amounts owed to the management company for shared expenses.

**KIPP Jacksonville K-8 School
Statement of Activities**

	Governmental Activities		
	2016	2015	Variance
Revenues:			
Program revenues:			
Operating grants and contributions	\$ 330,989	\$ -	\$ 330,989
General revenues:			
State passed through local school district	381,083	-	381,083
Gifts, grants and bequests	277,632	-	277,632
Other revenues	25	50,001	(49,976)
Total revenues	<u>989,729</u>	<u>50,001</u>	<u>939,728</u>
Expenses:			
Instruction	434,200	-	434,200
Parental involvement	7,709	-	7,709
Staff development	16,821	-	16,821
School administration	170,924	-	170,924
Fiscal services	10,601	-	10,601
Food services	46,303	-	46,303
Central services	5,533	-	5,533
Transportation	24,946	-	24,946
Operation of plant	78,263	-	78,263
Maintenance of plant	8,191	-	8,191
Enrichment	1,103	-	1,103
Total expenses	<u>804,594</u>	<u>-</u>	<u>804,594</u>
Change in net position	185,135	50,001	135,134
Net position - beginning	50,001	-	50,001
Net position - ending	<u>\$ 235,136</u>	<u>\$ 50,001</u>	<u>\$ 185,135</u>

The increase in state passed through local school district funds resulted from new student enrollment as the School began operation in the 2015-2016 school year. The increase in expenses is due to the School beginning operations in the 2015 -2016 school year.

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 the useful measure of a School's net resources available for spending at the end of the fiscal year.

The general fund and the start-up grant fund are the main operating funds of the School. At the end of the current fiscal year, unassigned fund balance of the general fund and start-up grant fund were \$214,204 and \$0, respectively.

General Fund Budgetary Highlights

Actual general fund revenues were more than the final budget. Actual general fund expenditures were also lower than the final budget. The budgetary information can be found listed on the table of contents of this report.

Capital Asset Administration

Capital Assets. The School's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$41,755 (net of accumulated depreciation). This net investment in capital assets includes furniture, fixtures and equipment. 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 to increase from approximately 50 students in the current year to approximately 250 students for the 2016/2017 school year.

Request for Information

This financial report is designed to provide a general overview of the 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 Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities
ASSETS	
ASSETS	
Cash	\$ 204,721
Accounts receivable	232,241
Total current assets	436,962
CAPITAL ASSETS	
Capital assets, net of accumulated depreciation	
Furniture, fixtures and equipment	41,755
Total assets	478,717
LIABILITIES	
Accrued expenses	65,568
Due to KIPP Jacksonville, Inc.	157,190
Noncurrent liabilities	
Accrued rent - due in more than one year	20,823
Total liabilities	243,581
NET POSITION	
Net investment in capital assets	41,755
Unrestricted	193,381
Total net position	\$ 235,136

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

KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

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	\$ 434,200	\$ -	\$ 282,683	\$ -	\$ (151,517)
Parental involvement	7,709	-	-	-	(7,709)
Staff development	16,821	-	-	-	(16,821)
School administration	170,924	-	-	-	(170,924)
Fiscal services	10,601	-	-	-	(10,601)
Food services	46,303	-	48,306	-	2,003
Central services	5,533	-	-	-	(5,533)
Transportation	24,946	-	-	-	(24,946)
Operation of plant	78,263	-	-	-	(78,263)
Maintenance of plant	8,191	-	-	-	(8,191)
Enrichment	1,103	-	-	-	(1,103)
Total governmental activities	\$ 804,594	\$ -	\$ 330,989	\$ -	\$ (473,605)
		General revenues:			
					381,083
					277,632
					25
				Total general revenues	658,740
				Change in net position	185,135
				Net position at July 1, 2015	50,001
				Net position at June 30, 2016	\$ 235,136

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

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Start-Up Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 204,721	\$ -	\$ -	\$ 204,721
Accounts receivable	232,241	-	-	232,241
Total assets	\$ 436,962	\$ -	\$ -	\$ 436,962
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accrued expenses	\$ 65,568	\$ -	\$ -	\$ 65,568
Due to KIPP Jacksonville, Inc.	157,190	-	-	157,190
Total liabilities	222,758	-	-	222,758
FUND BALANCES				
Unassigned	214,204	-	-	214,204
Total fund balances	214,204	-	-	214,204
Total liabilities and fund balances	\$ 436,962	\$ -	\$ -	\$ 436,962

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

KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)

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

June 30, 2016

Fund balances - total governmental funds \$ 214,204

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:

Furniture, fixtures and equipment, net	<u>41,755</u>	
Total capital assets		41,755

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	<u>(20,823)</u>	
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Total net position of governmental activities	<u><u>\$ 235,136</u></u>	
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The accompanying notes are an integral part of this financial statement.

KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)

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

For the year ended June 30, 2016

	General Fund	Start-Up Grant Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Federal passed through state	\$ -	\$ 261,475	\$ 69,514	\$ 330,989
State passed through local school district	381,083	-	-	381,083
Gifts, grants and bequests	277,632	-	-	277,632
Other revenues	25	-	-	25
Total revenues	<u>658,740</u>	<u>261,475</u>	<u>69,514</u>	<u>989,729</u>
Expenditures				
Current:				
Instruction	279,433	132,092	22,675	434,200
Parental involvement	5,245	2,464	-	7,709
Staff development	14,510	-	2,311	16,821
School administration	137,480	33,444	-	170,924
Fiscal services	10,601	-	-	10,601
Food services	-	-	46,303	46,303
Central services	5,533	-	-	5,533
Transportation	24,946	-	-	24,946
Operation of plant	77,247	-	-	77,247
Maintenance of plant	8,191	-	-	8,191
Enrichment	1,103	-	-	1,103
Capital outlay	42,771	-	-	42,771
Total expenditures	<u>607,060</u>	<u>168,000</u>	<u>71,289</u>	<u>846,349</u>
Excess (deficiency) of revenues over (under) expenditures	<u>51,680</u>	<u>93,475</u>	<u>(1,775)</u>	<u>143,380</u>
Other financing sources (uses):				
Transfers in	91,700	-	1,775	93,475
Transfers out	-	(93,475)	-	(93,475)
Total other financing sources (uses)	<u>91,700</u>	<u>(93,475)</u>	<u>1,775</u>	<u>-</u>
Net change in fund balances	143,380	-	-	143,380
Fund balances at July 1, 2015	70,824	-	-	70,824
Fund balances at June 30, 2016	<u>\$ 214,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,204</u>

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

**KIPP Jacksonville K-8 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, 2016

Net change in fund balances - total government funds	\$ 143,380
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	\$ 42,771
Less: depreciation	<u>(1,016)</u>
	<u>41,755</u>
Change in net position of governmental activities	<u><u>\$ 185,135</u></u>

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

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

KIPP Jacksonville K-8 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 kindergarten 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 the School only and is not intended to be a complete presentation of the Charterholder. Additionally, there are financial statements issued for related schools and a consolidated financial statement issued for the Charterholder.

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, 2020, 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. The 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, liabilities, and deferred outflows/inflows of resources, as presented in the statement of net position, are subdivided into three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. 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.

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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 funds:

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.

Start-Up Grant Fund - is a special revenue fund of the School used for planning and initial implementation.

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. Accounts receivable

The School's management reviewed receivables at June 30, 2016, and determined that the balance was considered fully collectible based on prior experience; therefore, 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. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the applicable 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 \$1,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair market 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. Furniture, fixtures and equipment are depreciated using the straight-line method over the estimated useful life of five years.

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. 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 actual weighted FTE students reported by the School during designated FTE student survey periods.

The School may receive 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 eligibility 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.

9. 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.

10. Income taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

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 of its tax positions are more likely than not to be sustained upon examination.

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Income taxes (continued)

The School files Form 990 in the U.S. federal jurisdiction. The School is generally no longer subject to examination by the Internal Revenue Service three years after a return was due or filed.

11. 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 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.

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.

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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 \$216,872 at June 30, 2016. 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, 2016, none of the School's deposits were exposed to custodial credit risk.

NOTE C - CAPITAL ASSETS

Changes in capital assets are as follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets depreciated:				
Furniture, fixtures and equipment	\$ -	\$ 42,771	\$ -	\$ 42,771
Total assets depreciated	<u>-</u>	<u>\$ 42,771</u>	<u>\$ -</u>	<u>42,771</u>
Less accumulated depreciation:				
Furniture, fixtures and equipment	\$ -	\$ 1,016	\$ -	1,016
Total accumulated depreciation	<u>-</u>	<u>\$ 1,016</u>	<u>\$ -</u>	<u>1,016</u>
Total governmental activities capital assets, net	<u>\$ -</u>			<u>\$ 41,755</u>

Depreciation expense of \$1,016 was charged to the School's plant operations for the year ended June 30, 2016.

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE D - CONCENTRATIONS

Revenue sources

As stated in Note A-8, 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	\$ 249,566
Class size reduction	77,076
Exceptional student education	25,412
Supplemental academic instruction	11,767
Student transportation	10,560
Instructional materials allocation	3,787
Safe schools	1,405
Digital classroom allocation	890
Lead teachers program	560
Science laboratory materials	60
Subtotal	381,083
Title I funds	19,365
Title II funds	1,843
Total School Board of Duval County, Florida	402,291
Start-up grant	261,475
Gifts, grants and bequests	277,632
National school lunch program	48,306
Other revenues	25
	\$ 989,729

NOTE E - COMMITMENTS AND CONTINGENCIES

1. Operating agreement

The Charterholder entered into an agreement with the operating company which expired on June 30, 2016 and still is in effect on a month by month basis. This agreement calls for an ongoing fee for accounting services to be paid in monthly installments of \$7,000.

The accounting services are allocated 6% to KIPP Jacksonville K-8, Inc., 45% to KIPP Impact Middle School and 49% 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, 2016 was approximately \$5,000.

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE E - COMMITMENTS AND CONTINGENCIES (continued)

2. Facilities expense

The Charterholder entered into a lease agreement with McDuff QALICB 2, Inc., a related party (see related party footnote) commencing on July 1, 2016 through June 30, 2020 with two five year renewal options. Terms of the lease specify base annual rental expense of \$467,345, commencing July 1, 2016 through June 30, 2020. GASB No. 13 requires escalating leases to be calculated on a straight-line basis (see subsequent event footnote).

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, 2016 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.

NOTE F - RELATED PARTIES

1. Facilities expense

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

2. Due from (to) KIPP Jacksonville, Inc.

The School's checks are disbursed using the operating cash account and expenses are allocated accordingly. The due from (to) accounts on the balance sheet consist of amounts due from the management company to the school or vice versa.

NOTE G - 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.

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE H - SUBSEQUENT EVENTS

The School has evaluated subsequent events through September 28, 2016; the date at which the financial statements became available for issue and has determined that other than the item noted below, no material events occurred that would require additional disclosure.

The School entered into a lease agreement with a related party commencing on July 1, 2016 through June 30, 2020 with two five year renewal options. Terms of the lease specify base annual rental expense of \$467,345. In the governmental financial statements stated on a full accrual basis of accounting, GASB Statement No. 13 requires escalating leases to include all renewal options and be calculated on a straight-line basis. 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
2017	\$ 467,345	\$ 36,000	\$ 431,345
2018	467,345	152,000	315,345
2019	467,345	152,000	315,345
2020	467,345	152,000	315,345
	\$ 1,869,380	\$ 492,000	\$ 1,377,380

The lease obligations identified above were structured in connection with a New Markets Tax Credit transaction to finance property renovations. The following is a summary of the terms and conditions of the agreement:

An investment fund, JAKS Investment Fund, LLC. ("JIF"), an unrelated party, holds an equity investment in two federal and state investment fund entities that in turn hold notes receivable for the financing provided through the funding transaction. In connection with the notes receivable, their related party, McDuff QALICB 2, Inc. ("McDuff 2") holds an equal amount of secured debt.

In accordance with the terms of the transaction, when all tax credits are earned after seven years, JIF has the option and right to sell its interest to Jacksonville Alliance for KIPP Schools, Inc. ("JAKS"), a related party, in exchange for \$1,000, which represents a "Put Option". If all the terms and conditions of the transaction and agreement are satisfied:

- JAKS may acquire the state investment fund through a put/call option;
- The lender to McDuff 2 may accelerate part of the loan and accept \$1,000 as prepayment in full; the rest of the loan is then expected to be assigned to JAKS as repayment for the two loans JAKS made to the investment funds. Once JAKS owns those notes, it may forgive them at its discretion.

It is anticipated that in July 2022, the option will be exercised and, as a result, all leasing obligations will be forgiven when their related party, JAKS, has the ownership interest in the property.

REQUIRED SUPPLEMENTARY INFORMATION

KIPP Jacksonville K-8 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, 2016

	<u>Budgeted Amounts</u>		
	<u>Original & Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
State passed through local school district	\$ 362,834	\$ 381,083	\$ 18,249
Gifts, grants and bequests	105,250	277,632	172,382
Other revenues	-	25	25
Total revenues	<u>468,084</u>	<u>658,740</u>	<u>190,656</u>
Expenditures			
Instruction	213,867	279,433	(65,566)
Parental involvement	7,000	5,245	1,755
Staff development	3,400	14,510	(11,110)
School administration	164,000	137,480	26,520
Fiscal services	6,600	10,601	(4,001)
Central services	4,400	5,533	(1,133)
Transportation	42,070	24,946	17,124
Operation of plant	115,000	77,247	37,753
Maintenance of plant	9,000	8,191	809
Enrichment	-	1,103	(1,103)
Total expenditures	<u>565,337</u>	<u>564,289</u>	<u>1,048</u>
Change in net position	<u>\$ (97,253)</u>	94,451	<u>\$ 191,704</u>
Adjustments to conform to GAAP:			
Capital outlay expenditures		<u>(42,771)</u>	
Excess (deficiency) of revenues over (under) expenditures		51,680	
Other financing sources		91,700	
Fund balances at July 1, 2015		<u>70,824</u>	
Fund balances at June 30, 2016		<u><u>\$ 214,204</u></u>	

See accompanying note to required supplementary information.

KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - START-UP GRANT FUND

For the year ended June 30, 2016

	Budgeted Amounts			
	Original & Final	Actual	Variance with Final Budget	
Revenue				
Start-up Grant	\$ 200,000	\$ 261,475	\$ 61,475	
Expenditures				
Instruction	132,092	132,092	-	
Parental involvement	2,464	2,464	-	
School administration	33,444	33,444	-	
Total expenditures	168,000	168,000	-	
Net change in fund balances (GAAP basis)	\$ 32,000	93,475	\$ 61,475	
Other financing uses		(93,475)		
Fund balances at July 1, 2015		-		
Fund balances at June 30, 2016		\$ -		

See accompanying note to required supplementary information.

**KIPP Jacksonville K-8 School
(A division of KIPP Jacksonville, Inc.)**

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2016

NOTE A - BUDGETARY INFORMATION

The School's annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for the entire operations at the combined governmental level and may be amended by the Board of Directors (the "Board"). A reconciliation to excess of revenue over expenditures presented in conformity with GAAP is set forth in the adjustments to the required supplementary information.

Although budgets are adopted for the entire operation, budgetary comparisons have been presented for the general and start-up grant funds for which a legally adopted budget exists. Budgets are presented on the full accrual basis of accounting. The legal level of budgetary control is the fund level.

COMPLIANCE INFORMATION

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 Jacksonville K-8 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 Jacksonville K-8 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, 2016, 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 28, 2016.

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 28, 2016
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT LETTER

To the Board of Directors
KIPP Jacksonville K-8 School
Jacksonville, Florida

Report on the Financial Statements

We have audited the financial statements of KIPP Jacksonville K-8 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, 2016, and have issued our report thereon dated September 28, 2016.

Auditor's Responsibility

We have 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 Chapter 10.850, rules of the Auditor General.

Other Reports and Schedules

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*. Disclosures in that report which are dated September 28, 2016, 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. In connection with our audit, we did not have any such prior findings.

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name of the official title of the entity. The official title of the entity is KIPP Jacksonville K-8 School, a component unit of the School Board of Duval County, Florida, and a division of KIPP Jacksonville, Inc.

Financial Condition

Sections 10.854(1)(e)2. Rules of the Auditor General, requires that we report the results of our determination as to 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.

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied 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 report the results of our determination as to 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.

Purpose of this Letter

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

September 28, 2016
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES

For the year ended June 30, 2016, there were no management findings or recommendations.