KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

with

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

Hudson
Cisne
& Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
KIPP Delta, Inc. d/b/a KIPP Delta Public Schools
Helena-West Helena, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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 opinion.

Hudson, Cisne & Co. LLP
11412 Huron Lane
Little Rock, AR 72211
Phone: (501) 221-1000
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014 and 2013, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Hudson Cisne & Co. LLP

Little Rock, Arkansas
October 23, 2014

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 and 2013

ASSETS

	2014	2013
Current assets:		
Cash and cash equivalents	$ 1,274,689	$ 1,006,180
Cash and cash equivalents - restricted	1,313,960	715,958
Accounts receivable	465,959	397,680
Pledges receivable	89,400	117,500
Deposits	12,000	10,000
Total current assets	3,156,008	2,247,318
Capital assets, net	11,537,132	11,605,572
Total assets	$ 14,693,140	$ 13,852,890

LIABILITIES AND NET ASSETS

	2014	2013
Current liabilities:		
Current maturities of long-term debt	$ 232,347	$ 219,501
Current maturities of capital leases	128,468	127,121
Accounts payable	292,117	241,945
Accrued interest payable	123,265	77,070
Total current liabilities	776,197	665,637
Long-term debt less current maturities	6,795,141	7,304,459
Capital leases less current maturities	141,597	86,859
Total liabilities	7,712,935	8,056,955
Net assets:		
Unrestricted	5,773,805	5,212,703
Temporarily restricted (Note 8)	1,206,400	583,232
Total net assets	6,980,205	5,795,935
Total liabilities and net assets	$ 14,693,140	$ 13,852,890

See accompanying notes.

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014		
	Unrestricted	**Temporarily Restricted**	**Total**
Public support and revenue:			
State assistance	$ 8,874,717	$ 78,629	$ 8,953,346
Federal assistance	-	3,892,453	3,892,453
Contributions	2,007,729	1,093,974	3,101,703
Activity revenues	41,862	-	41,862
Tuition	34,944	-	34,944
Earnings on investments	3,188	-	3,188
Other revenues	232,969	51,397	284,366
Total public support and revenue	11,195,409	5,116,453	16,311,862
Net assets released from restriction	4,493,285	(4,493,285)	-
	15,688,694	623,168	16,311,862
Expenses:			
Regular programs	3,727,495	-	3,727,495
Special education	329,267	-	329,267
Compensatory education	1,704,260	-	1,704,260
Other instructional services	-	-	-
Student support services	675,361	-	675,361
Instructional staff support services	1,581,501	-	1,581,501
General administration support services	767,319	-	767,319
School administration support services	1,745,297	-	1,745,297
Business support services	333,126	-	333,126
Operation and maintenance of plant services	1,611,618	-	1,611,618
Student transportations services	810,604	-	810,604
Other support services	417,911	-	417,911
Food services operations	1,024,204	-	1,024,204
Interest expense	399,629	-	399,629
Total expenses	15,127,592	-	15,127,592
Change in net assets	561,102	623,168	1,184,270
Net assets, beginning of year	5,212,703	583,232	5,795,935
Net assets, end of year	$ 5,773,805	$ 1,206,400	$ 6,980,205

See accompanying notes.

	2013	
Unrestricted	**Temporarily Restricted**	**Total**
$ 8,301,738	$ 4,027	$ 8,305,765
-	2,582,795	2,582,795
762,038	732,425	1,494,463
43,210	-	43,210
-	-	-
3,660	-	3,660
42,856	52,210	95,066
9,153,502	3,371,457	12,524,959
3,780,858	(3,780,858)	-
12,934,360	(409,401)	12,524,959
3,258,492	-	3,258,492
624,647	-	624,647
1,235,212	-	1,235,212
63,287	-	63,287
502,074	-	502,074
1,153,730	-	1,153,730
580,848	-	580,848
1,462,166	-	1,462,166
288,592	-	288,592
1,266,924	-	1,266,924
786,203	-	786,203
233,247	-	233,247
840,434	-	840,434
325,731	-	325,731
12,621,587	-	12,621,587
312,773	(409,401)	(96,628)
4,899,930	992,633	5,892,563
$ 5,212,703	$ 583,232	$ 5,795,935

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 1,184,270	$ (96,628)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	878,829	724,930
Debt forgiveness	(250,000)	-
Changes in assets and liabilities:		
Accounts receivable	(68,279)	(100,390)
Pledges receivable	28,100	527,575
Deposits	(2,000)	(10,000)
Accounts payable	50,172	(127,208)
Accrued interest payable	46,195	41,839
Net cash provided by operating activities	1,867,287	960,118
Net cash flows used in investing activities:		
Purchases of capital assets	(579,524)	(616,159)
Cash flows from financing activities:		
Repayments of borrowings and capital leases	(421,252)	(304,565)
Proceeds from long-term debt	-	260,928
Net cash used in financing activities	(421,252)	(43,637)
Net change in cash	866,511	300,322
Cash and cash equivalents - beginning of year	1,722,138	1,421,816
Cash and cash equivalents - end of year	$ 2,588,649	$ 1,722,138
Reconciliation of cash and cash equivalents to the statements of financial position		
Cash and cash equivalents	$ 1,274,689	$ 1,006,180
Cash and cash equivalents - restricted	1,313,960	715,958
	$ 2,588,649	$ 1,722,138

See accompanying notes.

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies

Nature of operations

KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School"), was incorporated in 2001 in the state of Arkansas as a non-profit organization to operate one or more public charter schools in the state of Arkansas.

Method of accounting

The financial statements of the School have been prepared using the accrual basis of accounting. Significant accounting policies are described below.

Basis of presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and related changes are classified and reported as follows:

Unrestricted net assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that may or will be met by actions of the School and/or the passage of time.

Permanently restricted net assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the School.

Use of estimates

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

Pledges receivable

An allowance for uncollectible pledges receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fund-raising activity. Pledges not expected to be collected within one year are discounted. Management did not feel that allowance for uncollectible pledges was required for the years ended June 30, 2014 and 2013. Conditional promises to give are not included as support until the conditions are substantially met.

Restricted cash

The school maintains restricted cash that is restricted for various capital projects including a capital campaign started in 2014 for the elementary school expansion in Helena. Restricted cash also includes cash received through federal assistance. Restricted cash totaled $1,313,960 and $715,958 at June 30, 2014 and 2013, respectively.

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Income taxes

The School is exempt from income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and comparable provisions of state income tax laws.

In accordance with the Income Taxes topic of the ASC, the School recognizes accrued interest and penalties associated with uncertain tax position as part of their income tax provision, if any. The past three years of exempt organization income tax returns are subject to potential examination by taxing authorities.

Capital assets

Capital assets are carried at cost or, if donated, at their estimated fair value at the time of donation, net of accumulated depreciation. It is the School's policy to capitalize all assets purchased or received by donation that cost $1,000 or more individually and have a useful life of 2 or more years. All capitalized assets will be depreciated in accordance with the School's depreciation policy. Assets purchased or received by donation that cost less than $1,000 individually will be expensed in the period purchased or donated.

Assets are being depreciated using the straight line method over the following estimated useful lives of the assets:

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	5-40
Buildings	40
Furniture and equipment	3-15

Depreciation expense was $878,829 and $724,930 for the years ended June 30, 2014 and 2013, respectively.

Statement of cash flows

The School considers all short-term investments available for current use with an original maturity of three months or less to be cash equivalents.

Non-cash investing and financing activity consisted of the purchase of depreciable capital assets with a capital lease in the amount of $230,865, and debt forgiveness in the amount of $250,000 for the year ended June 30, 2014.

Cash paid for interest was $353,434 for the year ended June 30, 2014. Cash paid for interest totaled $346,559 for the year ended June 30, 2013. Of this amount, $62,688 was capitalized related to construction of the Blytheville campus, which was placed in service during the prior year.

Support and revenue

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor or Board of Directors.

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

Subsequent events

The School has evaluated all subsequent events for potential recognition and disclosure through October 23, 2014, the date these financial statements were available to be issued.

Note 2: Accounts receivable

The accounts receivable balance of $465,959 at June 30, 2014 consisted of $281,835 of Federal and State assistance and $184,124 of other receivables. The accounts receivable balance of $397,680 at June 30, 2013 consisted of $245,789 of Federal assistance and $151,891 of other receivables.

Note 3: Pledges receivable

Pledges receivable at June 30, 2014 and 2013 were expected to be collected in less than one year. At June 30, 2014, pledges receivable of $89,400 was attributable to two grants from one donor. At June 30, 2013, pledges receivable of $117,500 was attributable to two donors. No reserve has been provided for 2014 or 2013.

As of June 30, 2014, the School had received conditional promises to give of $1,643,200. These conditional promises to give will not be reflected as an asset or recognized as revenue until the conditions are substantially met.

Cash collected on unrestricted and temporarily restricted pledges totaled $117,500 and $585,000 during the years ended June 30, 2014 and 2013, respectively.

Note 4: Capital assets

Capital assets consisted of the following at June 30:

	2014	2013
Depreciable capital assets:		
Buildings and improvements	$ 11,088,867	$ 10,984,970
Furniture and equipment	3,148,424	2,595,433
Total depreciable capital assets	14,237,291	13,580,403
Nondepreciable capital assets:		
Construction in process	76,626	2,150
Land	836,005	836,005
Total nondepreciable capital assets	912,631	838,155
Total capital assets	15,149,922	14,418,558
Less accumulated depreciation for:		
Building and improvements	1,907,039	1,492,599
Furniture and equipment	1,705,751	1,320,387
Total accumulated depreciation	3,612,790	2,812,986
Capital assets, net	$ 11,537,132	$ 11,605,572

KIPP DELTA, INC. d/b/a
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NOTES TO FINANCIAL STATEMENTS

Note 5: Long-term debt

Long-term debt consisted of the following on June 30:

	2014	2013
Note payable to a bank, secured by real estate and guaranteed by USDA, due $20,452 monthly including interest at 5.39%, with balance due December 2032.	$ 2,865,180	$ 2,957,364
Note payable to a bank, secured by real estate, due $8,902 monthly including interest at 5.50%, with balance due June 2029.	1,083,832	1,129,009
Note payable to United States Department of Agriculture (USDA), secured by real estate and guaranteed by the USDA Rural Development, due $5,497 monthly including interest at 4.75%, with balance due August 2045.	1,055,518	1,070,944
Note payable to Charter School Growth Fund, unsecured, due in full at December 31, 2018 including interest at 1.00% (See Note 15).	750,000	1,000,000
Note payable to a bank, secured by real estate and guaranteed by the USDA, due $9,786 monthly including interest at 6.37%, with balance due August 2024.	708,642	778,478
Note payable to a bank, secured by real estate, due $2,766 monthly including interest at 4.00%, with balance due March 2031.	384,517	401,729
Note payable to a bank, secured by real estate, due $1,328 monthly including interest at 5.00%, with balance due March 2031.	179,799	186,436
	7,027,488	7,523,960
Current maturities	(232,347)	(219,501)
Total long-term debt	$ 6,795,141	$ 7,304,459

Scheduled maturities of long-term debt at June 30, 2014, are as follows:

2015	$ 232,347
2016	245,542
2017	259,494
2018	1,024,248
2019	289,849
Thereafter	4,976,008
Total	$ 7,027,488

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Note 6: Line of credit

During 2014, the School obtained a line of credit with available borrowings of up to $500,000 and an interest rate of 5.25%. The line of credit is secured by donor contributions to the school and is scheduled to mature in April 2015. There was no outstanding balance at June 30, 2014, and the line of credit was not drawn upon at any time during 2014.

Note 7: Capital leases

The School has three capital leases for fourteen school buses with one of these leases entered into this year for four buses for a total of $95,350. The school also entered into a capital lease for nine copiers for a total of $135,515 during 2014.

One of the bus leases expired in July of 2014 and had an imputed interest rate of 4.70%. One of the bus leases will expire in July of 2015 and has an imputed interest rate of 4.10%. The other bus lease will expire in July of 2016 and has an imputed interest rate of 4.69%. The copier lease will expire in June of 2018 and has an imputed interest rate of 4.69%. The interest rates are imputed based on the lower of the School's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

The assets are depreciated over their estimated productive lives, and their depreciation is included in depreciation expense. The following is a summary of property held under capital leases as of June 30, 2014:

Equipment	$ 530,865
Accumulated depreciation	(122,912)
	$ 407,953

Minimum future lease payments under the capital leases as of June 30, 2014, are as follows:

2015	$ 138,481
2016	80,261
2017	38,903
2018	30,339
Total minimum lease payments	287,984
Interest	(17,919)
Current maturities	(128,468)
Total long-term capital leases	$ 141,597

Note 8: Operating leases

The School leases office facilities and equipment under various operating leases. Rent expense for these leases totaled $38,424 and 44,624 for 2014 and 2013, respectively. Future minimum lease payments at June 30, 2014 were as follows:

2015	$ 20,901
2016	1,000
	$ 21,901

KIPP DELTA, INC. d/b/a
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NOTES TO FINANCIAL STATEMENTS

Note 9: Net assets

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are reported as revenues temporarily restricted and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

The School reports gifts of land and buildings as unrestricted support unless explicit donor stipulations specify how the assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Temporarily restricted net assets are available for the following purpose or period at June 30:

	2014	2013
Program services	$ 482,657	$ 402,414
Special revenue	307,361	177,199
Capital projects	416,382	3,619
	$ 1,206,400	$ 583,232

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2014	2013
Program and support activities	$ 639,669	$ 907,543
Special revenue	3,818,670	2,692,808
Capital projects	34,946	180,507
	$ 4,493,285	$ 3,780,858

Note 10: Retirement plans

Arkansas Teacher Retirement System

Plan description: The School contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Note 10: Retirement plans (continued)

Funding policy: ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The School's contributions to ATRS for the year ended June 30, 2014 was $993,306, equal to the required contributions each year. The School's contributions to ATRS for the year ended June 30, 2013 was $836,155, equal to the required contributions each year.

Note 11: Significant concentration and credit risk

The School maintains cash in bank deposits accounts which, at times, may exceed federally insured limits. As of June 30, 2014, the School had collateralized uninsured cash balances of $2,526,024.

The School is economically dependent on funding received through state awards, federal awards and private donations. Approximately 56%, 24% and 18% of total revenues were from state sources, federal resources, and private donations, respectively, during the year ended June 30, 2014. Approximately 66%, 21% and 12% of total revenues were from state sources, federal resources, and private donations, respectively, during the year ended June 30, 2013.

Note 12: Commitments and contingencies

A lease commencing on June 30, 2002 was signed between the School ("lessee") and the City of Helena, Arkansas ("the lessor") for the building that houses the Director's office and classrooms. The lease was extended during 2012 through July 1, 2022, for a rent of one dollar ($1.00) per year. This lease arrangement is providing significant economic value to the School.

Note 13: Fund-raising expenses

The School uses fund-raising to encourage donations within the community. The costs of fund-raising activities are expensed as incurred. During 2014 and 2013, fund-raising costs totaled $76,613 and $81,126, respectively.

Note 14: Fair value

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. They also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Following are the three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Note 14: Fair value (continued)

Cash and cash equivalents are the only material instruments valued on a recurring basis which are held by the School at fair value. At June 30, 2014 and 2013, cash and cash equivalents totaled $2,588,649 and $1,722,138, respectively, which is measured as a Level 1 input and reflected at its stated value.

Note 15: Subsequent events

In July 2014, the School entered into a construction contract for the expansion of the Elementary Literacy Academy. Total construction costs are approximately $1.1 million, and the project is estimated to be completed in 2015.

In July 2014, an arrangement was reached with the Charter School Growth Fund to forgive $250,000 of the loan effective June 1, 2014 and $250,000 effective August 31, 2014 with a fixed interest rate of 1.00% and a maturity of June 30, 2018 subject to the achievement of certain milestone within a specific time schedule. As of the date of the audit report, all milestones were achieved within the specified time schedule.

In July 2014, the School entered into a capital lease for six school buses for $88,900. The lease has an imputed interest rate of 4% and matures in July 2017.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

Hudson Cisne & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
KIPP Delta, Inc. d/b/a KIPP Delta Public Schools
Helena-West Helena, Arkansas

We have audited, 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, the financial statements of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School"), which comprise the statement of financial position as of June 30, 2014, and the related statement of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 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 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 over 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hudson, Cisne & Co. LLP
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To the Board of Directors
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We noted certain other matters that we reported to the School's management in a separate letter dated October 23, 2014.

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 entity'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hudson Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, AR
October 23, 2014

Hudson Cisne & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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 Delta, Inc. d/b/a KIPP Delta Public Schools
Helena-West Helena, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of the KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School") with the types of compliance requirements described in the *OMB Circular A -133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs 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, *Audit 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, KIPP Delta, Inc. d/b/a KIPP Delta Public Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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To the Board of Directors
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Report on Internal control over compliance

The 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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Hudson Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
October 23, 2014

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

Federal grant/pass-through grantor/program title	Federal CFDA number	Federal expenditures
CHILD NUTRITION CLUSTER		
U.S. Department of Agriculture		
Passed through Arkansas Department of Education:		
School Breakfast Program - Cash Assistance	10.553	$ 251,443
National School Lunch Program - Cash Assistance	10.555	509,259
Total Arkansas Department of Education		760,702
Passed through Arkansas Department of Human Services:		
National School Lunch Program - Non-Cash Assistance	10.555	57,952
Total Child Nutrition Cluster		818,654
OTHER PROGRAMS:		
U.S. Department of Education		
Passed through Arkansas Department of Education:		
Title I, Part A - Grants to Local Education Agencies	84.010	2,328,355
Title VI, Part B - Special Education Grants to States	84.027	201,905
Title VI, Part B - Rural and Low Income School Program	84.358B	22,588
Title X - Charter Schools		
Title II, Part A - Improving Teacher Quality	84.367	25,123
Subrecipient from KIPP Foundation		
State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund - ARRA	84.396A	117,667
Total U.S. Department of Education (other programs)		2,695,638
U.S. Department of Agriculture		
Passed through Arkansas Department of Education:		
Child and Adult Care Food Program	10.558	150,066
Passed through The Department of Arkansas Heritage:		
Community Facilities Loans and Grants	10.766	22,321
Passed through the City of Helena-West Helena:		
Community Facilities Loans and Grants	10.766	39,330
Total U.S. Department of Agriculture (other programs)		211,717
Total Other Programs		2,907,355
Total Expenditures of Federal Awards		$ 3,726,009

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2014

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. This schedule includes the federal awards activity of the School and is presented on the regulatory basis of accounting. 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.

2. Medicaid reimbursements are defined as contracts for services and not federal awards, therefore, such reimbursements totaling $30,033 are not covered by the reporting requirements of OMB Circular A-133.

3. Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF STATE ASSISTANCE

YEAR ENDED JUNE 30, 2014

Arkansas Department of Education		
Charter School Funding	$	7,243,972
GT Advanced Placement		300
Student Growth Funding		185,525
Professional Development Funding		50,367
National School Lunch Student Funding		1,223,273
Arkansas Better Chance Program		157,950
		8,861,387
Arkansas Department of Career Education		
Secondary Workforce Centers		18,959
Central Arkansas Planning and Development District		
General Improvement Funds		73,000
Total State Assistance	$	8,953,346

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDITORS' RESULTS

1. The opinion expressed in the independent auditors' report was:

   ☒ Unmodified ☐ Modified ☐ Adverse ☐ Disclaimed

2. The independent auditors' report on internal control over financial reporting described:

   Significant deficiency(ies) identified? ☐ Yes ☒ No

   Material weakness(es) identified? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent auditors' report on internal control over compliance with requirements applicable to major federal awards programs described:

   Significant deficiency(ies) identified? ☐ Yes ☒ No

   Material weakness(es) identified? ☐ Yes ☒ No

5. The opinion expressed in the independent auditors' report on compliance with requirements applicable to major federal awards was:

   ☒ Unmodified ☐ Modified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

7. The Auditee's major programs were:

Cluster/Program	CFDA Number
•Title I, Part A - Grants to Local Education Agencies	84.010

8. The threshold used to distinguish between Type A & Type B programs as those terms are defined in OMB Circular A-133 was $300,000.

9. The Auditee qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☒ Yes ☐ No

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None noted

C. FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS AUDIT

None noted

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None noted

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS

SUPPLEMENTAL DATA SHEET

YEAR ENDED JUNE 30, 2014

The following information is being provided to satisfy the requirements of Arkansas Department of Human Services Audit Guidelines, Section IX. C - Special Requirements:

1. Entity's Full Name:	KIPP Delta, Inc. d/b/a KIPP Delta Public Schools
2. Entity's Address:	415 Ohio Street Helena-West Helena, AR 72342
3. Entity's FEIN:	31-1807400
4. Entity's Telephone Number:	870-753-9035
5. Name of Director:	Scott Shirey, Executive Director
6. Name of Contact Person:	Scott Shirey, Executive Director