

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

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2017

with

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

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Hudson Cisne & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To 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 each major governmental fund, and the aggregate remaining fund information of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School") as of and for the year ended June 30, 2017, 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 financial reporting prescribed or permitted by the Arkansas Code, which is more fully described in Note 1. Management is also responsible for 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.

**audit
consulting
tax**

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1, the School has prepared the financial statements using financial reporting prescribed or permitted by the Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the School as of June 30, 2017, and the respective changes in financial position for the year then ended. Further, the School has not presented a management’s discussion and analysis that accounting principles generally accepted in the United States has determine is necessary to supplement, although not required to be part of, the basic financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the School, as of June 30, 2017, and the respective changes in fund balance and budgetary results for the year then ended, in accordance with the basis of accounting described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School’s regulatory basis financial statements. The Schedule of Capital Assets, Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and Schedule of State Assistance are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

To the Board of Directors
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The Schedule of Capital Assets, Schedule of Expenditures of Federal Awards, and Schedule of State Assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Capital Assets, Schedule of Expenditures of Federal Awards, and Schedule of State Assistance are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole.

The supplemental data sheet as required by Arkansas Department of Human Services Audit Guidelines Section IX-C has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2018, on our consideration of the School's internal control over financial reporting and 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

January 8, 2018
Little Rock, Arkansas

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

BALANCE SHEET - REGULATORY BASIS

JUNE 30, 2017

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
ASSETS			
Cash and cash equivalents	\$ 1,443,932	\$ 23,322	\$ 749,693
Accounts receivable	36,593	365,839	103,175
Pledges receivable	725,000	-	-
Due from other funds	<u>233,217</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 2,438,742</u></u>	<u><u>\$ 389,161</u></u>	<u><u>\$ 852,868</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 361,092	\$ 107,778	\$ 741,586
Accrued payroll liabilities	4,498	-	-
Due to other funds	<u>-</u>	<u>233,217</u>	<u>-</u>
Total liabilities	<u>365,590</u>	<u>340,995</u>	<u>741,586</u>
Fund Balances:			
Restricted:			
State programs	178,114	-	-
Federal programs	-	48,166	-
Capital projects	-	-	111,282
Other	79,934	-	-
Committed	18,152	-	-
Assigned	91,869	-	-
Unassigned	<u>1,705,083</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>2,073,152</u>	<u>48,166</u>	<u>111,282</u>
	<u><u>\$ 2,438,742</u></u>	<u><u>\$ 389,161</u></u>	<u><u>\$ 852,868</u></u>

See accompanying notes.

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

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

YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
REVENUES			
State assistance	\$ 11,441,896	\$ 7,487	\$ 741,224
Federal assistance	-	3,898,043	-
Contributions	2,170,793	-	550,000
Activity revenues	42,119	-	-
Tuition	10,838	-	-
Earnings on investments	3,881	-	-
Other revenues	267,650	9,716	-
	<u>13,937,177</u>	<u>3,915,246</u>	<u>1,291,224</u>
EXPENDITURES			
Current:			
Regular programs	4,118,391	236,643	-
Special education	360,285	177,767	-
Compensatory education	855,943	1,455,983	-
Student support services	789,535	131,431	-
Instructional staff support services	797,971	336,733	-
General administration support services	737,132	40,724	-
School administration support services	1,692,223	117,170	-
Business support services	394,440	6,012	-
Operation and maintenance of plant services	1,173,354	31,799	791,218
Student transportations services	1,051,332	-	-
Other support services	494,441	-	-
Food services operations	82,123	1,379,445	-
Community services operations	-	1,071	-
Other	7,923	132,986	-
Capital outlay	8,346	11,836	4,515,143
Debt service:			
Principal retirement of debt and capital leases	483,513	-	-
Interest and fiscal charges	381,802	-	50,101
	<u>13,428,754</u>	<u>4,059,600</u>	<u>5,356,462</u>
Excess (deficiency) of revenue over expenditures	508,423	(144,354)	(4,065,238)
OTHER FINANCING SOURCES			
Proceeds from issuance of debt	-	-	3,215,297
Transfers, net	(30,843)	30,843	-
Total other financing sources	<u>(30,843)</u>	<u>30,843</u>	<u>3,215,297</u>
Net change in fund balances	477,580	(113,511)	(849,941)
Fund balance - beginning	<u>1,595,572</u>	<u>161,677</u>	<u>961,223</u>
Fund balance - ending	<u>\$ 2,073,152</u>	<u>\$ 48,166</u>	<u>\$ 111,282</u>

See accompanying notes.

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET TO ACTUAL - GENERAL AND SPECIAL
REVENUE FUNDS - REGULATORY BASIS**

YEAR ENDED JUNE 30, 2017

	General		
	Budget	Actual	Variance
REVENUES			
State assistance	\$ 11,435,551	\$ 11,441,896	\$ 6,345
Federal assistance	-	-	-
Contributions	1,758,701	2,170,793	412,092
Activity revenues	83,000	42,119	(40,881)
Tuition	7,500	10,838	3,338
Earnings on investments	-	3,881	3,881
Other revenues	855,449	267,650	(587,799)
	<u>14,140,201</u>	<u>13,937,177</u>	<u>(203,024)</u>
EXPENDITURES			
Current:			
Regular programs	4,117,664	4,118,391	(727)
Special education	345,032	360,285	(15,253)
Compensatory education	907,183	855,943	51,240
Student support services	757,079	789,535	(32,456)
Instructional staff support services	784,657	797,971	(13,314)
General administration support services	817,753	737,132	80,621
School administration support services	1,757,214	1,692,223	64,991
Business support services	394,440	394,440	-
Operation and maintenance of plant services	1,271,443	1,173,354	98,089
Student transportations services	1,048,287	1,051,332	(3,045)
Other support services	530,210	494,441	35,769
Food services operations	-	82,123	(82,123)
Community services operations	-	-	-
Other	7,923	7,923	-
Capital outlay	47,280	8,346	38,934
Debt service:			
Principal retirement of debt and capital leases	462,809	483,513	(20,704)
Interest and fiscal charges	410,098	381,802	28,296
	<u>13,659,072</u>	<u>13,428,754</u>	<u>230,318</u>
Excess (deficiency) of revenues over expenditures	481,129	508,423	27,294
OTHER FINANCING SOURCES			
Transfers, net	48,371	(30,843)	(79,214)
Total other financing sources	<u>48,371</u>	<u>(30,843)</u>	<u>(79,214)</u>
Net change in fund balances	<u>\$ 529,500</u>	<u>\$ 477,580</u>	<u>\$ (51,920)</u>

See accompanying notes.

Special Revenue		
Budget	Actual	Variance
\$ -	\$ 7,487	\$ 7,487
3,976,210	3,898,043	(78,167)
-	-	-
-	-	-
-	-	-
-	-	-
14,000	9,716	(4,284)
3,990,210	3,915,246	(74,964)
215,786	236,643	(20,857)
201,736	177,767	23,969
1,522,289	1,455,983	66,306
143,466	131,431	12,035
336,745	336,733	12
40,724	40,724	-
77,789	117,170	(39,381)
6,012	6,012	-
31,801	31,799	2
-	-	-
-	-	-
1,315,956	1,379,445	(63,489)
3,000	1,071	1,929
132,986	132,986	-
16,258	11,836	4,422
-	-	-
-	-	-
4,044,548	4,059,600	(15,052)
(54,338)	(144,354)	(90,016)
-	30,843	30,843
-	30,843	30,843
<u>\$ (54,338)</u>	<u>\$ (113,511)</u>	<u>\$ (59,173)</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1: Summary of significant accounting policies

Reporting entity

The Board of Directors is the level of government which has responsibilities over all activities of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School"). The School's financial statements reflect all funds and accounts directly under the control of the School. There are no component units.

Description of funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes.

Other governmental funds consist of the following:

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Measurement focus and basis of accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an Other Comprehensive Basis of Accounting (OCBOA). This basis of accounting is prescribed by Ark. Code Ann. 10-4-412 (c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP requires that basic financial statements present government-wide financial statements. Additionally, GAAP requires the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1: Summary of significant accounting policies (continued)

Measurement focus and basis of accounting (continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of capital leases are reported as other financing sources.

Revenue recognition policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

Capital assets

Information on capital assets and related depreciation is reported on the schedule of capital assets in the supplemental information. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The School maintains a threshold level of \$1,000 and a useful life in excess of two years for capitalizing equipment.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

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

Fund balance classifications

Under GASB 54, fund balance is reported under the following five classifications:

1. **Nonspendable Fund Balance** - includes amounts that are not in a spendable form or are required to be maintained intact. The School does not have any nonspendable fund balance at year end.
2. **Restricted Fund Balance** - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The fund balance that is restricted for state programs and federal programs reflect amounts restricted for specific state and federal programs as mandated by respective state and federal grant or funding agreements. The fund balance that is restricted for capital projects reflects amounts that are restricted for construction or other capital outlay projects. The fund balance that is restricted for other purposes includes donated funds in which the funds have been restricted by the donor for specific uses.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1: Summary of significant accounting policies (continued)

Fund balance classifications (continued)

3. **Committed Fund Balance** - includes amounts that can be used only for the specific purposes determined by a formal action of the School's highest level of decision-making authority (the Board of Directors) and does not lapse at year end. Amounts committed for the School's college scholarship program make up the committed fund balance at year end.
4. **Assigned Fund Balance** - includes amounts intended for a specific purpose by the Board of Directors or by a School official that has been delegated authority to assign amounts. The assigned fund balance at year end represents funds that are intended for debt service payments.
5. **Unassigned Fund Balance** - includes any remaining fund balance that has not been reported in any other classification. This classification can also include negative amounts in other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

The School does not have a policy addressing whether it considers restricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. For the purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Budget and budgetary accounting

The School is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The School prepares and amends the budget throughout the fiscal year which is reviewed and approved by the Board. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the schools employ the cash basis method.

The School budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Regulatory Basis.

Budgetary perspective differences are not considered to be significant because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

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 an allowance for uncollectible pledges was required for the year ended June 30, 2017. Conditional promises to give are not included as support until the conditions are substantially met.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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. The previous three years of federal tax returns, along with the current year return, are subject to potential examination by taxing authorities.

Subsequent events

The District has evaluated all subsequent events for potential recognition and disclosure through December 28, 2017, the date these financial statements were available to be issued.

Note 2: Cash deposits with financial institutions

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	<u>Carrying value</u>	<u>Bank balance</u>
Insured (FDIC)	\$ 272,398	\$ 272,398
Collateralized - held by pledging bank's trust department in the School's name	<u>1,944,549</u>	<u>2,385,167</u>
Total deposits	<u>\$ 2,216,947</u>	<u>\$ 2,657,565</u>

Note 3: Accounts receivable

The accounts receivable balance of \$505,607 is comprised of the following at June 30, 2017:

	<u>General fund</u>	<u>Special revenue fund</u>	<u>Capital projects fund</u>	<u>Total</u>
Due from other governments	\$ 4,875	\$ 365,839	\$ 62,375	\$ 433,089
Other	<u>31,718</u>	<u>-</u>	<u>40,800</u>	<u>72,518</u>
Total	<u>\$ 36,593</u>	<u>\$ 365,839</u>	<u>\$ 103,175</u>	<u>\$ 505,607</u>

Note 4: Pledges receivable

Pledges receivable of \$725,000 at June 30, 2017 are expected to be collected in less than one year. These pledges receivable were attributable to two donors, for which no reserve has been provided.

As of June 30, 2017, the School had received conditional promises to give of \$100,000. These conditional promises to give will not be reflected as an asset or recognized as revenue until the conditions are substantially met.

There was no cash collected on unrestricted or temporarily restricted pledges during the year ended June 30, 2017.

Note 5: Accounts payable

The accounts payable balance of \$1,210,456 is comprised of vendor payables at June 30, 2017.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 6: Commitments

The School was contractually obligated for the following at June 30, 2017:

Notes payable and lines of credit issued and outstanding

Notes payable include a loan for a total of \$2,339,020, which is guaranteed by the USDA Rural Development. One-half of the loan is financed by USDA. This portion of the loan is payable over 40 years with interest at the prevailing Rural Development Intermediate rate, 4.75%, and matures in August 2045. The other half of the loan is financed by Southern Bancorp and guaranteed by the USDA. This loan is payable over 20 years with variable interest rate at 2.25% over the New York Prime rate. This is capped at 10% as of June 30, 2008.

On August 18, 2009, the rate was adjusted to a fixed rate of 6.37%. This loan matures in August 2024. The proceeds of this debt were used for construction of facilities. The outstanding balance of these notes payable were \$1,476,527 as of June 30, 2017.

Notes payable include a \$1,285,606 loan with Southern Bancorp Capital Partners secured by certain real estate. This loan consists of a refinanced loan for the purchase of land, conversion of construction loan to permanent and additional funds used for construction-related expenses. The loan matures in June 2029 and has a fixed interest rate of 5.50%. The outstanding balance of this loan was \$933,243 as of June 30, 2017.

Notes payable include a \$453,947 loan with Southern Bancorp Capital Partners secured by certain real estate. This loan was refinanced in March 2011, and converted from a \$1,400,000 construction loan to a permanent loan at that time. The proceeds were used for the expansion of the middle school campus. The loan matures in March 2031 and has a fixed interest rate of 4.00%. The outstanding balance of this loan was \$328,536 as of June 30, 2017.

Notes payable include a \$200,000 loan with Southern Bancorp Capital Partners secured by certain real estate. The proceeds from this loan were used for the construction of facilities. The loan matures in March 2031 and has a fixed interest rate of 5.00%. The outstanding balance of this loan was \$157,812 as of June 30, 2017.

Notes payable include a \$1,000,000 unsecured loan with the non-profit organization, Charter School Growth Fund. The loan matures in June 2018 and has a fixed interest rate of 1.00%. The proceeds of the loan are to be used for the general support of the organization. In July 2014, an agreement was reached to forgive \$250,000 of this loan effective June 1, 2014, and \$250,000 effective August 31, 2014. The outstanding balance of this loan was \$500,000 as of June 30, 2017.

Notes payable include a construction loan with Arvest Bank up to \$3,000,000 secured by certain real estate and guaranteed by USDA. The proceeds of the loan are to be used for the construction of facilities. The loan matures in December 2032 and has a fixed interest rate of 5.39%. The outstanding balance of this loan was \$2,585,696 at June 30, 2017.

The School has a non-revolving draw down line of credit with available borrowings of up to \$1,200,000 and an interest rate of 5.25%. The line of credit is secured by real estate and grants to the School with interest due and payable quarterly and the outstanding principal balance and unpaid interest due at the maturity date, February 2021. The line of credit has an outstanding balance of \$1,200,000 at June 30, 2017.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 6: Commitments (continued)

Notes payable and lines of credit issued and outstanding (continued)

The School has an additional non-revolving line of credit with available borrowings of up to \$6,457,000 and an interest rate of 5.89%. The line of credit is secured by real estate and equipment with interest due and payable monthly and the outstanding principal balance and unpaid interest due at the maturity date, May 2018. Upon maturity the line of credit will be refinanced as a note payable. The line of credit has an outstanding balance of \$3,215,297 at June 30, 2017.

Changes in notes payable and line of credit:

Description	Balance at July 1, 2016	Issued	Retired	Balance at June 30, 2017
USDA loan	\$ 1,022,383	\$ -	\$ 17,368	\$ 1,005,015
Southern Bancorp Capital Partners	555,327	-	83,815	471,512
Southern Bancorp Capital Partners	986,122	-	52,879	933,243
Southern Bancorp Capital Partners	347,970	-	19,434	328,536
Southern Bancorp Capital Partners	165,493	-	7,681	157,812
Charter School Growth Fund	500,000	-	-	500,000
Arvest Bank	2,686,765	-	101,069	2,585,696
Non-revolving line of credit	1,200,000	-	-	1,200,000
Non-revolving line of credit	-	3,215,297	-	3,215,297
	<u>\$ 7,464,060</u>	<u>\$ 3,215,297</u>	<u>\$ 282,246</u>	<u>\$ 10,397,111</u>

Total long-term debt and interest payments are as follows:

Year ended June 30	Principal	Interest	Total
2018	\$ 4,015,872	\$ 423,794	\$ 4,439,665
2019	317,902	266,873	584,775
2020	336,239	248,537	584,776
2021	1,555,645	229,130	1,784,775
2022	334,265	167,803	502,068
2023-2027	1,500,724	836,000	2,336,724
2028-2032	1,596,446	358,395	1,954,841
2033-2037	342,265	112,794	455,059
2038-2042	265,178	64,642	329,820
2043-2047	132,575	1,059	133,634
Total	<u>\$ 10,397,111</u>	<u>\$ 2,709,027</u>	<u>\$ 13,106,138</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 7: Capital leases

The School has three capital leases for fifteen school buses, a capital lease for nine copiers and a capital lease for a modular building. Total payments on capital leases for the year ending June 30, 2017 were \$200,159. The property, net of accumulated depreciation, held under the capital leases is summarized as follows as of June 30, 2017:

Equipment	\$ 354,904
Buildings	<u>171,219</u>
Total	<u>\$ 526,123</u>

Minimum future lease payments under the capital leases at June 30, 2017 are as follows:

2018	\$ 183,739
2019	<u>114,546</u>
Total minimum lease payments	298,285
Interest	<u>(10,778)</u>
	<u>\$ 287,507</u>

Note 8: Operating leases

The School leases office facilities and equipment under various operating leases. Rent expense for these leases totaled \$48,016 for 2017. Future minimum lease payments at June 30, 2017 are as follows:

2018	\$ 15,684
2019	<u>15,684</u>
Total	<u>31,368</u>

Note 9: 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.

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 years ended June 30, 2017, 2016, and 2015 were \$1,319,819, \$1,275,659; and \$1,097,456, respectively, equal to the required contributions each year.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 9: Retirement plans (continued)

Net pension liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement No. 68 would be limited to disclosure of the School's proportionate share of the collective net pension liability. The School's proportionate share of the collective net pension liability at June 30, 2016 (actuarial valuation date and measurement date) was \$13,724,598.

Note 10: 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 2017, fund-raising costs totaled \$514,264.

Note 11: Interfund transfers

The following details the transfers between governmental funds for operating purposes:

	<u>General fund</u>	<u>Special revenue fund</u>	<u>Capital projects fund</u>	<u>Total</u>
Transfers in	\$ (13,554,718)	\$ (244,845)	\$ (48,371)	\$ (13,969,596)
Transfers out	<u>13,523,875</u>	<u>275,688</u>	<u>48,371</u>	<u>13,969,596</u>
	<u>\$ (30,843)</u>	<u>\$ 30,843</u>	<u>\$ -</u>	<u>\$ -</u>

Note 12: Significant concentration

The School is economically dependent on funding received through state awards, federal awards, and private donations. Approximately 64%, 20%, and 14% of total revenues were from state sources, federal sources and private donations, respectively, during the year ended June 30, 2017.

Note 13: Contingencies

The School participates in federally assisted grant programs. The School is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of non-compliance which would result in the disallowance of program expenditures.

The School participates in the Arkansas Fidelity Bond Trust Fund administered by the Arkansas Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 14: On-behalf payments

During the year ended June 30, 2017, health insurance premiums of \$274,917 were paid by the Arkansas Department of Education to the Arkansas Employee Benefits Division on behalf of School employees.

Note 15: Subsequent events

Construction at Historic Beech Crest Elementary in Helen-West Helena, Arkansas was completed December 2017 and the interim loan will be paid off by the United States Department of Agriculture's Rural Development Program (USRD) in January 2018.

With the approval of approximately \$11,000,000 New Markets Tax Credits (NMTC) loan with an equity investment of approximately \$3,000,000 and approval from USRD to transfer approximately \$7,680,600 from KIPP Delta Public Schools "the School" to the newly formed KIPP Delta Development Organization (KDDO), a stand alone 501(c)3, the following facility transactions will take place. The School will sell its Blytheville properties to KDDO in the Spring 2018. The sale will contain a 99 year lease-back provision to the School. Proceeds from the sale will be used by the School to pay off its existing Arvest Bank loan and pay down \$806,000 of the \$1,200,000 line of credit with Southern Bancorp. KDDO through an interim construction loan and prepaid rent proceeds from the School will complete approximately \$6,600,000 in renovations to the Central and Bryles campuses. The \$7,680,000 interim construction loan would be paid off by a USRD loan of \$7,680,600 with a fixed annual interest rate of 2.75% for a repayment period of 40 years. The School would repay the NMTC loan over a seven year period. The NMTC loan will be interest only for 84 months and the interest rate will be a fixed rate per annum payable in arrears.

The approval of the NMTC loan and USRD transfer will not be known until Summer 2018.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

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

SCHEDULE OF CAPITAL ASSETS

YEAR ENDED JUNE 30, 2017

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Depreciable capital assets:				
Building and improvements	\$ 13,632,362	\$ 1,119,711	\$ -	\$ 14,752,073
Furniture and equipment	<u>3,684,172</u>	<u>63,241</u>	<u>56,900</u>	<u>3,690,513</u>
Total depreciable capital assets	17,316,534	1,182,952	56,900	18,442,586
Nondepreciable capital assets:				
Construction in progress	1,275,782	4,509,705	1,119,711	4,665,776
Land	<u>945,105</u>	<u>-</u>	<u>-</u>	<u>945,105</u>
Total nondepreciable capital assets	<u>2,220,887</u>	<u>4,509,705</u>	<u>1,119,711</u>	<u>5,610,881</u>
Total capital assets	19,537,421	5,692,657	1,176,611	24,053,467
Less accumulated depreciation for:				
Building and improvements	2,832,858	529,375	-	3,362,233
Furniture and equipment	<u>2,588,094</u>	<u>342,613</u>	<u>53,614</u>	<u>2,877,093</u>
Total accumulated depreciation	<u>5,420,952</u>	<u>871,988</u>	<u>53,614</u>	<u>6,239,326</u>
Capital assets, net	<u>\$ 14,116,469</u>	<u>\$ 4,820,669</u>	<u>\$ 1,122,997</u>	<u>\$ 17,814,141</u>



**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 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 each major governmental fund and the aggregate remaining fund information of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's regulatory basis financial statements, and have issued our report thereon dated January 8, 2018.

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 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.

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To the Board of Directors
Page Two

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity'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, Arkansas
January 8, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School") with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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To the Board of Directors
Page Two

Report on Internal Control Over Compliance

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

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

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

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

Hudson Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
January 8, 2018

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

Federal grant/pass-through grantor/program title	Pass through entity identifying number	Federal CFDA number	Federal expenditures
CHILD NUTRITION CLUSTER			
<u>U.S. Department of Agriculture</u>			
Passed through Arkansas Department of Education:			
School Breakfast Program - Cash Assistance	54407	10.553	\$ 344,019
National School Lunch Program - Cash Assistance	54407	10.555	<u>705,226</u>
Total Arkansas Department of Education			<u>1,049,245</u>
Passed through Arkansas Department of Human Services:			
National School Lunch Program - Non-Cash Assistance	54407	10.555	<u>68,180</u>
Total Child Nutrition Cluster			<u>1,117,425</u>
OTHER PROGRAMS:			
<u>U.S. Department of Education</u>			
Passed through Arkansas Department of Education:			
Title I, Part A - Grants to Local Education Agencies	54407	84.010	1,954,261
Title VI - Part B - Special Education Grants to States	54407	84.027	264,762
Title VI, Part B - Rural and Low Income School Program	54407	84.358B	439
Passed through Arkansas Department of Human Services:			
Preschool Development Grants- High Quality Preschool Programs	54407	84.419	<u>132,872</u>
Total U.S. Department of Education (other programs)			<u>2,352,334</u>
<u>U.S. Department of Agriculture</u>			
Passed through Arkansas Department of Education:			
Child and Adult Care Food Program	54407	10.558	<u>155,076</u>
Total U.S. Department of Agriculture (other programs)			<u>155,076</u>
Total Other Programs			<u>2,507,410</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,624,835</u></u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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 the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* . Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The School did not elect to use the 10% de minimis indirect cost rate but instead used an indirect cost rate approved by the Arkansas Department of Education.
2. Medicaid reimbursements are defined as contracts for services and not federal awards; therefore, such reimbursements totaling \$20,587 are not covered by the reporting requirements of the Uniform Guidance.
3. Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.
4. The School received approval on the flexibility waiver of funds transferred allowing \$244,845 Title II, Part A - Improving Teach Quality funds to be transferred to Title I, Part A - Grants to Local Education Agencies.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS
SCHEDULE OF STATE ASSISTANCE
YEAR ENDED JUNE 30, 2017**

Arkansas Department of Education

Charter School Funding	\$ 9,238,139
Charter School Facilities Funding	741,224
GT Advanced Placement	1,050
Student Growth Funding	35,887
Professional Development Funding	36,210
National School Lunch Student Funding	1,911,962
Rural and Low-Income Schools Program	29,975
English Language Learners (ELL)	1,324
Arkansas Better Chance Program	189,961
	<u>12,185,732</u>

Arkansas Department of Career Education

Secondary Workforce Centers	<u>4,875</u>
Total State Assistance	<u><u>\$ 12,190,607</u></u>

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

1. Our report expresses an adverse opinion based on generally accepted accounting principles and an unmodified opinion based on regulatory basis of accounting on the basic financial statements of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools.

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

Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
---	---------------------------------	---

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
-----------------------------------	---------------------------------	---

3. Noncompliance considered material to the financial statements was disclosed by the audit?
- | | | |
|--|---------------------------------|---|
| | <input type="checkbox"/>
Yes | <input checked="" type="checkbox"/>
No |
|--|---------------------------------|---|

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

Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
---	---------------------------------	---

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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5. The opinion expressed in the independent auditor's report on compliance with requirements applicable to major federal awards was:

<input checked="" type="checkbox"/> Unmodified	<input type="checkbox"/> Modified	<input type="checkbox"/> Adverse	<input type="checkbox"/> Disclaimed
---	--------------------------------------	-------------------------------------	--

6. The audit disclosed findings required to be reported by the Uniform Guidance?
- | | | |
|--|---------------------------------|---|
| | <input type="checkbox"/>
Yes | <input checked="" type="checkbox"/>
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 the Uniform Guidance was \$750,000.

9. The Auditee qualified as a low-risk auditee as that term is defined in the Uniform Guidance?
- | | | |
|--|--|--------------------------------|
| | <input checked="" type="checkbox"/>
Yes | <input type="checkbox"/>
No |
|--|--|--------------------------------|

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

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



**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS**

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

We have examined management's assertions that KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School") substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2017. Management is responsible for the School's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the School's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, KIPP Delta, Inc. d/b/a KIPP Delta Public Schools complied with the aforementioned requirements for the year ended June 30, 2017 except for statute 6-21-304 described in the accompanying schedule.

This report is intended solely for the information and use of the Board of Directors, management, and the Arkansas Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Hudson Cisne & Co. LLP

Hudson Cisne & Co. LLP
Little Rock, Arkansas
January 8, 2018

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

**SCHEDULE OF FINDINGS ON COMPLIANCE WITH STATUTES REQUIRED BY
ARKANSAS DEPARTMENT OF EDUCATION**

YEAR ENDED JUNE 30, 2017

FINDINGS – STATE COMPLIANCE

Ark-2016-01. Statute 6-21-304 – Manner of Making Purchases

Criteria: All purchases of supplies, goods, material, equipment, machinery, facilities, personal property, and services other than personal and professional services, purchase for or on behalf of the school district that is equal to or exceeds ten thousand dollars (\$10,000) shall be procured by soliciting bids in accordance with Arkansas Code Annotated 6-21-304.

Condition: The School did not obtain bids for purchases in excess of \$10,000 for one Title I vendor prior to negotiating a contract.

Context: As a result of state compliance testing and inquiry, it was noted that the school did not solicit bids before negotiating a vendor contract in 1 of 40 contracts tested.

Effect: This is a requirement of the state statute to ensure fair, equal opportunities for vendors and to ensure schools receive the best value for goods and services.

Cause: The School hired a third party company to purchase equipment for the elementary school who was unaware of the bidding requirements for purchases in excess of \$10,000; and, thus, bids were not solicited before negotiating a vendor contract on behalf of the School.

Recommendation: The School should obtain at least three bids for all purchases that exceed \$10,000 and maintain documentation of the bids in order to comply with the state requirements.

Views of responsible officials and planned corrective actions: KIPP Delta agrees with Hudson, Cisne, & Co. that this is a valid finding. KIPP Delta uses a third party company to support its Information Technology functions and routinely uses the company to make IT-related purchases. In this instance, the company was the lead for selecting projectors for our newly renovated elementary school. The third party company believed it was using a cooperative agreement since the item was purchased through program only available to elementary and secondary schools. As a result, the company did not solicit multiple bids for the item. The KIPP Delta management team understands that it is ultimately responsible for ensuring state procurement rules are followed. KIPP Delta has already reminded the company that three bids are always required for purchases over \$10,000. KIPP Delta has also revised its approval flow to ensure the IT and Data Director is more involved in purchasing. In the FY19 contract negotiation KIPP Delta will require the vendor to undergo a purchasing training.

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

**SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
TO BE ADDRESSED IN INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**

YEAR ENDED JUNE 30, 2017

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & Purchasing Commodities	6-21-301 – 6-21-305
Ethical Guidelines and Prohibitions	6-13-628; 6-24-101 et seq.
Collateralization & Investment of Funds	6-20-222; 19-1-504
Deposit of Funds	19-8-104; 19-8-106
District Finances	6-20-402
• Bonded & Non-bonded Debt, District School Bonds	6-20-1201 – 6-20-1208; 6-20-1210
• Petty Cash	6-20-409
• Changes in Pullback (no deferrals – declining accrual percentages)	6-20-401
• Investment of Fund	19-1-504
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-24-101 et seq.
• District Treasurer	6-13-701
◦ Warrants/checks	6-17-918; 6-17-919; 6-20-403
Management Letter for Audit	14-75-101 – 14-75-104
Nonrecurring Salary Payments	6-20-412
Revolving Loan Fund	6-19-114; 6-20-801 et seq.
Salary Laws – Classified	6-17-2201 et seq.; 6-17-2301 et seq.
Salary Increases 5% or more (certified & classified)	6-13-635
School Elections	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118
Teachers and Employees	
• Personnel Policies	6-17-201 et seq., 6-17-2301
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Teacher Salaries and Foundation Funding Aid	6-17-803; 6-17-907; 6-17-908; 6-17-911 – 6-17-913; 6-17-918; 6-17-919
Trust Funds (Education Excellence)	6-5-307
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Use of DM&O Millage	26-80-110
On Behalf Payments	The amount of funds paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of District's employees

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

SUPPLEMENTAL DATA SHEET

YEAR ENDED JUNE 30, 2017

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