

**KIPP Austin Public Schools, Inc.**

Financial Statements  
and Single Audit Reports  
for the ten months ended June 30, 2015

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**Independent Auditors' Report**

To the Board of Directors of  
KIPP Austin Public Schools, Inc.:

**Report on the Financial Statements**

We have audited the accompanying financial statements of KIPP Austin Public Schools, Inc. (KIPP Austin), which comprise the statements of financial position as of June 30, 2015 and August 31, 2014 and the related statements of activities and of cash flows for the ten months ended June 30, 2015 and the year ended August 31, 2014, 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.

***Auditors' 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 our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP Austin as of June 30, 2015 and August 31, 2014 and the changes in its net assets and its cash flows for the ten months ended June 30, 2015 and the year ended August 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 13 through 19 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The accompanying supplementary information included in the schedule of expenditures of federal awards for the ten months ended June 30, 2015 as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also 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 as a whole.

**Report Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated **DATE OPEN** on our consideration of KIPP Austin'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 KIPP Austin's internal control over financial reporting and compliance.

**DATE OPEN PENDING MANAGEMENT REVIEW AND APPROVAL**

**KIPP Austin Public Schools, Inc.**

Financial Statements  
and Independent Auditors' Report  
for the ten months ended June 30, 2015  
and the year ended August 31, 2014

**KIPP Austin Public Schools, Inc.**

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**Independent Auditors' Report**

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KIPP Austin Public Schools, Inc.:

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**DATE OPEN PENDING MANAGEMENT REVIEW AND APPROVAL**

**KIPP Austin Public Schools, Inc.**Statements of Financial Position as of June 30, 2015 and August 31, 2014

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	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash	\$ 14,097,231	\$ 11,132,019
Prepaid expenses and other assets	438,750	193,331
Accounts receivable	7,449,677	1,645,389
Pledges receivable, net ( <i>Note 2</i> )	<u>203,887</u>	<u>82,339</u>
Total current assets	22,189,545	13,053,078
Pledges receivable, net ( <i>Note 2</i> )	129,667	78,187
Bond proceeds held in trust ( <i>Note 4</i> )	16,419,110	
Property, net ( <i>Note 3</i> )	<u>45,181,613</u>	<u>35,332,343</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 83,919,935</u></b>	<b><u>\$ 48,463,608</u></b>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,831,730	\$ 1,093,024
Accrued expenses	1,662,620	1,096,992
Construction payable	1,983,219	424,467
Accrued interest	609,254	
Deferred revenue	8,498	208,193
Current portion of bonds and notes payable ( <i>Note 4</i> )	<u>897,115</u>	<u>                    </u>
Total current liabilities	6,992,436	2,822,676
Bonds and notes payable ( <i>Note 4</i> )	<u>52,221,822</u>	<u>29,673,553</u>
Total liabilities	<u>59,214,258</u>	<u>32,496,229</u>
Net assets:		
Unrestricted	24,216,056	15,465,219
Temporarily restricted ( <i>Note 5</i> )	<u>489,621</u>	<u>502,160</u>
Total net assets	<u>24,705,677</u>	<u>15,967,379</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 83,919,935</u></b>	<b><u>\$ 48,463,608</u></b>

*See accompanying notes to financial statements.*

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**KIPP Austin Public Schools, Inc.**Statement of Activities for the ten months ended June 30, 2015

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Government grants <i>(Note 6)</i>	\$ 39,786,880		\$ 39,786,880
Contributions <i>(Note 2)</i>	465,180	\$ 459,198	924,378
Special events	213,787	103,683	317,470
Direct donor benefit costs	(52,139)		(52,139)
Other revenue	<u>1,501,733</u>		<u>1,501,733</u>
Total revenue	41,915,441	562,881	42,478,322
Net assets released from restrictions:			
Expenditures for program purposes	<u>575,420</u>	<u>(575,420)</u>	
Total	<u>42,490,861</u>	<u>(12,539)</u>	<u>42,478,322</u>
<b>EXPENSES:</b>			
Program expenses:			
Instructional program	24,959,171		24,959,171
Auxiliary services	<u>5,859,258</u>		<u>5,859,258</u>
Total program expenses	30,818,429		30,818,429
General and administrative	2,468,270		2,468,270
Fundraising	<u>453,325</u>		<u>453,325</u>
Total expenses	<u>33,740,024</u>		<u>33,740,024</u>
<b>CHANGES IN NET ASSETS</b>	8,750,837	(12,539)	8,738,298
Net assets, beginning of period	<u>15,465,219</u>	<u>502,160</u>	<u>15,967,379</u>
Net assets, end of period	<u>\$ 24,216,056</u>	<u>\$ 489,621</u>	<u>\$ 24,705,677</u>

*See accompanying notes to financial statements.*

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**KIPP Austin Public Schools, Inc.**Statement of Activities for the year ended August 31, 2014

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUE:</b>			
Government grants <i>(Note 6)</i>	\$ 31,981,775		\$ 31,981,775
Contributions <i>(Notes 2 and 7)</i>	5,131,266	\$ 831,928	5,963,194
Other revenue	<u>829,719</u>		<u>829,719</u>
Total revenue	37,942,760	831,928	38,774,688
Net assets released from restrictions:			
Expenditures for program purposes	1,237,895	(1,237,895)	
Expiration of time restriction	<u>318,629</u>	<u>(318,629)</u>	
Total	<u>39,499,284</u>	<u>(724,596)</u>	<u>38,774,688</u>
<b>EXPENSES:</b>			
Program expenses:			
Instructional program	22,340,283		22,340,283
Auxiliary services	<u>5,461,237</u>		<u>5,461,237</u>
Total program expenses	27,801,520		27,801,520
General and administrative	2,249,124		2,249,124
Fundraising	<u>379,193</u>		<u>379,193</u>
Total expenses	<u>30,429,837</u>		<u>30,429,837</u>
<b>CHANGES IN NET ASSETS</b>	9,069,447	(724,596)	8,344,851
Net assets, beginning of year	<u>6,395,772</u>	<u>1,226,756</u>	<u>7,622,528</u>
Net assets, end of year	<u>\$ 15,465,219</u>	<u>\$ 502,160</u>	<u>\$ 15,967,379</u>

*See accompanying notes to financial statements.*

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**KIPP Austin Public Schools, Inc.**Statements of Cash Flows for the ten months ended June 30, 2015 and the year ended August 31, 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 8,738,298	\$ 8,344,851
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	863,566	974,973
Contributed property		(4,900,000)
Amortization of bond issuance costs	12,762	
Amortization of bond premium	(26,022)	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(245,419)	187,966
Accounts receivable	(5,804,288)	(647,956)
Pledges receivable	(173,028)	233,774
Accounts payable	738,706	358,572
Accrued expenses	565,628	348,549
Accrued interest	609,254	
Deferred revenue	<u>(199,695)</u>	<u>59,527</u>
Net cash provided by operating activities	<u>5,079,762</u>	<u>4,960,256</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property	<u>(9,154,084)</u>	<u>(1,308,512)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in bond proceeds held in trust	(16,419,110)	
Proceeds from bonds and notes payable	54,119,806	749,338
Principal repayments of bonds and notes payable	(30,004,874)	
Bond issuance costs	<u>(656,288)</u>	
Net cash provided by financing activities	<u>7,039,534</u>	<u>749,338</u>
<b>NET CHANGE IN CASH</b>	<b>2,965,212</b>	<b>4,401,082</b>
Cash, beginning of period	<u>11,132,019</u>	<u>6,730,937</u>
Cash, end of period	<u>\$ 14,097,231</u>	<u>\$ 11,132,019</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest payments	\$745,343	\$445,431

See accompanying notes to financial statements.

**KIPP Austin Public Schools, Inc.**

Notes to Financial Statements for the ten months ended June 30, 2015 and the year ended August 31, 2014

**NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES**

Organization – KIPP Austin Public Schools, Inc. (KIPP Austin) is a high-performing school district in Austin with a focus on serving students from low-income communities and families. Incorporated in 2002, KIPP Austin is a single charter holder and does not conduct any other charter or non-charter activities. KIPP Austin is part of the nationally-recognized “Knowledge Is Power Program” network of free, open-enrollment, college-preparatory public schools. KIPP Austin believes that every child, regardless of economic background, has the right to an exemplary education. KIPP Austin empowers students to thrive in and graduate from college, choose their paths, and positively impact their communities. In 2015, KIPP Austin operated four elementary schools, four middle schools, and one high school with enrollment of approximately 3,870 students in kindergarten through twelfth grades.

Federal income tax status – KIPP Austin is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii). KIPP Austin files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. KIPP Austin believes it is no longer subject to examinations of returns for tax years ended before June 30, 2012.

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

Pledges receivable that are due within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are reported at the present value of the expected future cash flows. Discounts, if material, are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

Property is reported at cost if purchased or at fair value at the date of gift if donated. KIPP Austin’s policy is to capitalize property and equipment purchases over \$5,000. Depreciation is recognized using the straight-line method over estimated useful lives of 3 to 39.5 years.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Government grants are recognized as revenue in the period in which the services are provided. Amounts collected in advance are reported as deferred revenue.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional promises to give are included in contribution revenue when the conditions are substantially met.

In-kind contributions – Donated materials and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item

is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent accounting pronouncement – In 2015, KIPP Austin adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability. Adoption of the ASU had no impact on the 2014 financial statements.

**NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable are comprised of the following:

	<u>2015</u>	<u>2014</u>
Total pledges receivable	\$ 356,753	\$ 160,526
Allowance for uncollectible pledges	<u>(23,199)</u>	<u>                    </u>
Pledges receivable, net	<u>\$ 333,554</u>	<u>\$ 160,526</u>

Pledges receivable at June 30, 2015 are expected to be collected as follows:

2016	\$ 227,086
2017	79,584
2018	<u>50,083</u>
Total pledges receivable	<u>\$ 356,753</u>

In 2015, approximately 43% of contributions were from three donors. In 2014, approximately 91% of contributions were from two donors. At June 30, 2015, approximately 53% of pledges receivable was due from two donors. At August 31, 2014, approximately 78% of pledges receivable was due from three donors.

**NOTE 3 – PROPERTY**

Property is comprised of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 10,254,541	\$ 7,827,901
Buildings and improvements	34,478,696	28,113,521
Furniture and equipment	1,869,569	1,832,730
Construction in progress	1,853,784	
Vehicles and equipment	30,398	
Library books and media	27,056	27,056
Land improvements	<u>17,525</u>	<u>17,525</u>
Total property, at cost	48,531,569	37,818,733
Accumulated depreciation	<u>(3,349,956)</u>	<u>(2,486,390)</u>
Property, net	<u>\$ 45,181,613</u>	<u>\$ 35,332,343</u>

**NOTE 4 – BONDS AND NOTES PAYABLE**

Bonds and notes payable consist of the following:

	<u>2015</u>	<u>2014</u>
Education Revenue Bonds, Series 2014A, issued by Texas Public Finance Authority Charter School Finance Corporation, net of unamortized premium of \$1,312,266 and debt issuance costs of \$534,646 at June 30, 2015. The bonds bear interest at rates from 2% to 5% and are due in installments through June 30, 2045. The proceeds were used to refinance existing bank debt and to fund building construction on specified campuses. The bonds are secured by unrestricted revenue and real property and are guaranteed by Texas Education Agency (TEA) under the Permanent School Fund Guarantee Program.	\$ 39,372,620	
A \$25,000,000 non-revolving line of credit agreement with a bank to be used to acquire, construct and renovate future school campuses. The outstanding principal balance of the line of credit is due on December 1, 2017. Amounts borrowed under this agreement bear interest at one-month LIBOR plus 1.60% (1.78% at June 30, 2015). The line is secured by unrestricted revenue and real property and improvements financed with the line of credit and is subject to an unused fee of 0.15% of the unused balance that is due and payable quarterly.	8,232,197	
Taxable Education Revenue Qualified Zone Academy Bonds, Series 2014Z, issued by Texas Public Finance Authority Charter School Finance Corporation, net of debt issuance costs of \$108,880 at June 30, 2015. Interest on the bonds of 4.39% is paid to the bondholder by the Federal government as part of a federal tax credit bond program. The bonds are due on June 30, 2030. The proceeds were used to refinance existing bank debt and to fund building construction on specified campuses. The bonds are secured by unrestricted revenue and real property and are guaranteed by TEA under the Permanent School Fund Guarantee Program.	5,514,120	
A \$32,000,000 line of credit with a bank. Proceeds from the line of credit were used to acquire, construct and renovate future school campuses. The outstanding principal balance on the line of credit was due on September 30, 2015. Amounts borrowed under this agreement bear interest at one-month LIBOR plus 1.75%. The line of credit is secured by unrestricted revenue and real property and improvements financed with the line of credit. This line of credit was paid off in 2015.	_____	\$ 29,673,553
Total bonds and notes payable	<u>\$ 53,118,937</u>	<u>\$ 29,673,553</u>

Maturities of bonds and notes payable at June 30, 2015 are as follows:

2016	\$ 897,115
2017	914,115
2018	9,171,312
2019	959,115
2020	989,115
Thereafter	<u>40,188,165</u>
Total	<u>\$ 53,118,937</u>

Amounts reported for 2018 include \$8,232,197 related to a line of credit that was subsequently retired in August 2015 (see Note 10).

KIPP Austin also has a \$500,000 line of credit with Charter School Growth Fund that expires in June 2018. There were no outstanding borrowings under this line as of June 30, 2015.

Interest expense totaled approximately \$1,337,000 and \$445,000 in 2015 and 2014. Capitalized interest totaled approximately \$42,000 in 2014.

Bond proceeds held in trust at June 30, 2015 include the following:

Bond funds available for projects	\$ 14,957,341
Escrowed for debt service	1,440,541
Required for debt service reserve	<u>21,228</u>
Total bond proceeds held in trust	<u>\$ 16,419,110</u>

#### **NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Future operations	\$ 295,642	
KIPP Austin Beacon Prep Middle School	40,000	\$ 60,000
KIPP Austin Collegiate	31,008	25,887
KIPP Austin Leadership Elementary	40,864	119,887
KIPP Austin Obras Elementary	40,864	160,535
KIPP Through College program	26,330	108,295
KIPP Austin Leadership Elementary		9,503
Other	<u>14,913</u>	<u>18,053</u>
Total temporarily restricted net assets	<u>\$ 489,621</u>	<u>\$ 502,160</u>

**NOTE 6 – GOVERNMENT GRANTS**

KIPP Austin is the recipient of grants from federal and state agencies. Government grants include the following:

	<u>2015</u>	<u>2014</u>
Federal grants:		
U. S. Department of Education	\$ 2,490,661	\$ 2,381,886
U. S. Department of Agriculture	2,827,700	2,488,463
Charter School Program	<u>211,481</u>	<u>911,842</u>
Total federal grants	<u>5,529,842</u>	<u>5,782,191</u>
State grants:		
Foundation School Program Act	34,066,907	25,990,788
Textbook and Kindergarten Materials	159,908	197,306
Other	<u>30,223</u>	<u>11,490</u>
Total state grants	<u>34,257,038</u>	<u>26,199,584</u>
Total government grants	<u>\$ 39,786,880</u>	<u>\$ 31,981,775</u>

The grants from government funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by KIPP Austin with the terms of the contracts. Management believes such disallowances, if any, would not be material to KIPP Austin’s financial position or changes in net assets.

**NOTE 7 – CONTRIBUTED PROPERTY**

In March 2014, KIPP Austin purchased property in East Austin for \$9,000,000. The appraised value of the property at the time of purchase was \$13,900,000. As a result, KIPP Austin recognized an in-kind contribution of \$4,900,000.

**NOTE 8 – RETIREMENT PLAN**

KIPP Austin’s full-time employees participate in the Teacher Retirement System of Texas, a public employee retirement system. It is a cost-sharing, multiple-employer, defined benefit pension plan. All risks and costs are the responsibility of the State of Texas, with the exception of KIPP Austin’s required contributions for certain categories of teachers. Plan members contribute 6.7% and 6.5% of their annual covered salary during 2015 and 2014, respectively. KIPP Austin contributed \$562,171 and \$348,507 to the plan during 2015 and 2014, respectively.

**NOTE 9 – COMMITMENTS**

As of June 30, 2015, KIPP Austin has entered into various construction commitments totaling approximately \$13.8 million. The unrecognized balance of these commitments at June 30, 2015 was approximately \$12.4 million.

**NOTE 10 – SUBSEQUENT EVENTS**

In August 2015, on behalf of KIPP Austin, the Texas Public Finance Authority issued two bonds in the aggregate principal amount of \$29,500,000. The proceeds were used to repay \$4,049,385 of the bank loan referred to in Note 4, to fund building construction and renovation on three campuses, and to pay costs of issuance. Additionally, \$4,182,182 of the Series 2014A bond proceeds held in trust were used to retire the remainder payable at June 30. The \$25,000,000 bank line of credit from Note 4 has been retired.

Management has evaluated subsequent events through **DATE OPEN**, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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**KIPP Austin Public Schools, Inc.**

Supplemental Statements of Activities for the ten months ended June 30, 2015  
and the year ended August 31, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>		
			<u>2015</u>	<u>2014</u>	
<b>REVENUE:</b>					
Local program revenue:					
5740	Other revenue from local sources	\$ 1,907,527	\$ 562,881	\$ 2,470,408	\$ 6,623,995
5750	Co-curriculum/enterprising	221,034		221,034	168,918
Federal program revenue:					
5910	Federal revenue distributed through government entities		462,501	462,501	1,255,659
5920	Federal revenue distributed by Texas Education Agency		4,919,917	4,919,917	4,526,532
5940	Federal revenue distributed directly from the Federal government		147,424	147,424	
State program revenue:					
5810	Foundation School Program Act revenue		34,066,907	34,066,907	25,990,788
5820	State program revenue distributed by Texas Education Agency		172,631	172,631	206,296
5830	State revenue from State of Texas government agencies		17,500	17,500	2,500
	<b>Total revenue</b>	<b>2,128,561</b>	<b>40,349,761</b>	<b>42,478,322</b>	<b>38,774,688</b>
Net assets released from restrictions:					
	Program expenditures	<u>31,838,119</u>	<u>(31,838,119)</u>		
	<b>Total</b>	<u>33,966,680</u>	<u>8,511,642</u>	<u>42,478,322</u>	<u>38,774,688</u>
<b>EXPENSES:</b>					
11	Instruction	16,959,105		16,959,105	14,910,156
12	Instructional resources and media services				319
13	Curriculum development and instructional staff development	1,186,915		1,186,915	1,101,063
21	Instructional leadership	149,460		149,460	120,750
23	School leadership	2,700,012		2,700,012	2,616,576
31	Guidance counseling and evaluation services	121,170		121,170	158,874
32	Social work services	320,599		320,599	306,308
33	Health services	29,276		29,276	18,715
34	Student transportation	2,042,513		2,042,513	1,803,710
35	Food services	2,870,602		2,870,602	2,651,167

(continued)

**KIPP Austin Public Schools, Inc.**

Supplemental Statements of Activities for the ten months ended June 30, 2015  
and the year ended August 31, 2014

*(continued)*

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>	
			<u>2015</u>	<u>2014</u>
<b>EXPENSES: <i>(continued)</i></b>				
36	Co-curricular and extracurricular activities	31,467	31,467	25,069
41	General administration	2,056,365	2,056,365	1,875,486
51	Plant maintenance and operations	2,744,333	2,744,333	3,310,687
52	Security and monitoring services	459	459	31,896
53	Data processing services	535,080	535,080	502,011
61	Community services	205,683	205,683	176,332
71	Debt service	1,337,145	1,337,145	445,431
81	Fundraising	<u>449,840</u>	<u>449,840</u>	<u>375,287</u>
	Total expenses	<u>33,740,024</u>	<u>33,740,024</u>	<u>30,429,837</u>
<b>CHANGES IN NET ASSETS</b>				
		226,656	8,511,642	8,738,298
	Net assets, beginning of period	<u>7,624,401</u>	<u>8,342,978</u>	<u>15,967,379</u>
	Net assets, end of period	<u>\$ 7,851,057</u>	<u>\$16,854,620</u>	<u>\$24,705,677</u>

**NOTE** – The supplemental statement of activities is presented in accordance with the requirements of the Texas Education Agency *Special Supplement to the Financial Accountability System Resource Guide for Charter Schools* and the *Special Supplement to Financial Accounting and Reporting Nonprofit Charter School Chart of Accounts* that requires federal and state program revenue to be classified as temporarily restricted net assets until expended pursuant to applicable statutes, regulations, and grant requirements.

**KIPP Austin Public Schools, Inc.**Schedules of Expenses for the ten months ended June 30, 2015 and the year ended August 31, 2014

	<u>2015</u>	<u>2014</u>
6100 Payroll costs	\$ 20,113,050	\$ 18,777,406
6200 Professional and contracted services	5,279,038	5,702,418
6300 Supplies and materials	4,704,503	3,406,748
6400 Other operating costs	2,306,288	2,097,834
6500 Interest on debt	<u>1,337,145</u>	<u>445,431</u>
Total	<u>\$ 33,740,024</u>	<u>\$ 30,429,837</u>

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**KIPP Austin Public Schools, Inc.**Schedules of Capital Assets as of June 30, 2015 and August 31, 2014

		2015		
		OWNERSHIP INTEREST		
		<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1510	Land and improvements	\$ 10,254,541	\$ 17,525	
1520	Buildings and improvements	33,733,407	745,289	
1531	Vehicles and equipment	30,398		
1539	Furniture and equipment	1,661,341	154,393	\$ 53,835
1560	Library books and media	27,056		
1590	Other capital assets	<u>1,853,784</u>		
Total capital assets		<u>\$ 47,560,527</u>	<u>\$ 917,207</u>	<u>\$ 53,835</u>

		2014		
		OWNERSHIP INTEREST		
		<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1510	Land and improvements	\$ 7,827,901	\$ 17,525	
1520	Buildings and improvements	27,418,395	695,126	
1539	Furniture and equipment	1,624,502	154,393	\$ 53,835
1560	Library books and media	<u>27,056</u>		
Total capital assets		<u>\$ 36,897,854</u>	<u>\$ 867,044</u>	<u>\$ 53,835</u>

**KIPP Austin Public Schools, Inc.**

Budgetary Comparison Schedule for the ten months ended June 30, 2015

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FROM FINAL BUDGET</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>			
<b>REVENUE:</b>					
Local program revenue:					
5740	Other revenue from local sources	\$ 2,191,232	\$ 2,191,232	\$ 2,470,408	\$ 279,176
5750	Co-curriculum/enterprising	159,435	159,435	221,034	61,599
Federal program revenue:					
5910	Federal revenue distributed through government entities	396,500	396,500	462,501	66,001
5920	Federal revenue distributed by Texas Education Agency	5,353,116	5,353,116	4,919,917	(433,199)
5940	Federal revenue distributed directly from the Federal government			147,424	147,424
State program revenue:					
5810	Foundation School Program Act Revenue	32,179,661	32,179,661	34,066,907	1,887,246
5820	State program revenue distributed by Texas Education Agency	371,669	371,669	172,631	(199,038)
5830	State revenue from State of Texas government agencies			17,500	17,500
	<b>Total revenue</b>	<u>40,651,613</u>	<u>40,651,613</u>	<u>42,478,322</u>	<u>1,826,709</u>
<b>EXPENSES:</b>					
11	Instruction	15,893,415	15,893,415	16,959,105	1,065,690
12	Instructional resources and media services	53,879	53,879		(53,879)
13	Curriculum development and instructional staff development	984,736	984,736	1,186,915	202,179
21	Instructional leadership	489,726	489,726	149,460	(340,266)
23	School leadership	2,767,370	2,767,370	2,700,012	(67,358)
31	Guidance counseling and evaluation services	172,941	172,941	121,170	(51,771)
32	Social work services	348,393	348,393	320,599	(27,794)
33	Health services	31,963	31,963	29,276	(2,687)
34	Student transportation	2,230,000	2,230,000	2,042,513	(187,487)
35	Food services	3,107,220	3,107,220	2,870,602	(236,618)
36	Co-curricular and extracurricular activities	39,193	39,193	31,467	(7,726)
41	General administration	2,026,281	2,026,281	2,056,365	30,084
51	Plant maintenance and operations	2,256,623	2,256,623	2,744,333	487,710

(continued)

**KIPP Austin Public Schools, Inc.**

Budgetary Comparison Schedule for the ten months ended June 30, 2015

*(continued)*

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE FROM FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
EXPENSES: <i>(continued)</i>				
52 Security and monitoring services			459	459
53 Data processing services	522,396	522,396	535,080	12,684
61 Community services	205,670	205,670	205,683	13
71 Debt service	3,250,000	3,250,000	1,337,145	(1,912,855)
81 Fundraising	<u>468,693</u>	<u>468,693</u>	<u>449,840</u>	<u>(18,853)</u>
Total expenses	<u>34,848,499</u>	<u>34,848,499</u>	<u>33,740,024</u>	<u>(1,108,475)</u>
CHANGES IN NET ASSETS	5,803,114	5,803,114	8,738,298	2,935,184
Net assets, beginning of period	<u>15,967,379</u>	<u>15,967,379</u>	<u>15,967,379</u>	<u>                    </u>
Net assets, end of period	<u>\$21,770,493</u>	<u>\$21,770,493</u>	<u>\$24,705,677</u>	<u>\$ 2,935,184</u>

**KIPP Austin Public Schools, Inc.**

Maintenance of Effort for the ten months ended June 30, 2015

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The amount paid by KIPP Austin for employee health care insurance premiums is as follows:

Total health care insurance premiums	<u>\$ 1,323,073</u>
Less non-medical expenditures:	
Life insurance	0
Dental insurance	0
Vision insurance	0
Long-term disability	0
Short-term disability	64,592
Alternate plans	0
COBRA expense	0
Retiree expense	0
One-time catastrophic claims	<u>0</u>
Total non-medical expenditures	<u>64,592</u>
Total maintenance of effort	<u>\$ 1,258,481</u>

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**KIPP Austin Public Schools, Inc.**

Schedule of Expenditures of Federal Awards for the ten months ended June 30, 2015

FEDERAL GRANTOR

Pass-through Grantor

Program Title & Period

CFDA Number

Pass-through  
Grant Number

Revenue

Expenses

U. S. DEPARTMENT OF AGRICULTURE

Passed through Texas Education Agency:

(a) #1	National School Breakfast Program 10/01/13 – 09/30/14	10.553	71401401	\$ 105,704	\$ 105,704
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(a) #2	National School Breakfast Program 10/01/14 – 09/30/15	10.553	71401501	<u>711,798</u>	<u>711,798</u>
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Subtotal				<u>817,502</u>	<u>817,502</u>
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(a) #3	National School Lunch Program 10/01/13 – 09/30/14	10.555	71301401	243,533	243,533
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(a) #4	National School Lunch Program 10/01/14 – 09/30/15	10.555	71301501	<u>1,670,145</u>	<u>1,670,145</u>
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Subtotal				<u>1,913,678</u>	<u>1,913,678</u>
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Passed through Capital Area Food Bank:

#5	Emergency Food Assistance Program 09/01/14 – 05/31/15	10.569	N/A	<u>96,520</u>	<u>96,520</u>
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Total U. S. Department of Agriculture				<u>2,827,700</u>	<u>2,827,700</u>
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U. S. DEPARTMENT OF EDUCATION

Passed through KIPP Foundation:

#6	Investing in Innovation Grant 07/01/14 – 06/30/15	84.396A	U396A10031	<u>251,020</u>	<u>251,020</u>
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Passed through Texas Education Agency:

#7	Title I, Part A, Improving Basic Programs 09/03/14 – 09/30/15	84.010A	15610101227820	<u>1,014,978</u>	<u>1,014,978</u>
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#8	IDEA-B Formula 07/01/14 – 09/30/15	84.027A	156600012278206000	647,809	647,809
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#9	IDEA-B Formula Residential 01/27/15 – 07/31/15	84.027A	156600122278206677	<u>93,658</u>	<u>93,658</u>
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Subtotal				<u>741,467</u>	<u>741,467</u>
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(continued)

**KIPP Austin Public Schools, Inc.**

Schedule of Expenditures of Federal Awards for the ten months ended June 30, 2015 *(continued)*

FEDERAL GRANTOR

Pass-through Grantor

Program Title & Period

CFDA Number

Pass-through

Grant Number

Revenue

Expenses

U. S. DEPARTMENT OF EDUCATION *(continued)*

#10	Title III, Part A, Limited English Proficient Program 09/03/14 – 09/30/15	84.365A	15671001227820	<u>168,984</u>	<u>168,984</u>
#11	Title II, Part A, Teacher and Principal Training & Recruiting 09/03/14 – 09/30/15	84.367A	15694501227820	<u>166,788</u>	<u>166,788</u>
#12	Qualified Zone Academy Bonds Interest, ARRA 11/25/14 – 08/15/29	84.XXX	N/A	<u>147,424</u>	<u>147,424</u>
Total U. S. Department of Education				<u>2,490,661</u>	<u>2,490,661</u>
TOTAL FEDERAL AWARDS				<u>\$ 5,318,361</u>	<u>\$ 5,318,361</u>
(a) Child Nutrition Cluster				\$2,731,180	\$2,731,180

See accompanying note to schedule of expenditures of federal awards.

**KIPP Austin Public Schools, Inc.**

Note to Schedule of Expenditures of Federal Awards for the ten months ended June 30, 2015

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Allowable expenses include only amounts paid with federal funds. These programs are supplemented with funding from non-governmental sources. 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*. Allowable expenses are determined according to the standards of Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments*, and are expensed or capitalized in KIPP Austin’s financial statements in conformity with generally accepted accounting principles.

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**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 of  
KIPP Austin Public Schools, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of KIPP Austin Public Schools, Inc. (KIPP Austin) which comprise the statement of financial position as of June 30, 2015 and the related statements of activities and of cash flows for the ten months ended June 30, 2015, and the related notes to the financial statements and have issued our report thereon dated **DATE OPEN**.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered KIPP Austin'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KIPP Austin's internal control. Accordingly, we do not express an opinion on the effectiveness of KIPP Austin's internal control.

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

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether KIPP Austin'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.

**DATE OPEN PENDING MANAGEMENT REVIEW AND APPROVAL**

**Independent Auditors' Report on Compliance for Each Major  
Federal Program and Report on Internal Control  
Over Compliance Required by OMB Circular A-133**

To the Board of Directors of  
KIPP Austin Public Schools, Inc.:

**Report on Compliance for Each Major Federal Program**

We have audited KIPP Austin Public Schools, Inc.'s (KIPP Austin) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of KIPP Austin's major federal programs for the ten months ended June 30, 2015. KIPP Austin's major federal programs are identified in the summary of auditors' 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 KIPP Austin'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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KIPP Austin'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 KIPP Austin's compliance.

***Opinion on Each Major Federal Program***

In our opinion, KIPP Austin 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 ten months ended June 30, 2015.

**Report on Internal Control Over Compliance**

Management of KIPP Austin 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 KIPP Austin’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 KIPP Austin’s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**DATE OPEN PENDING MANAGEMENT REVIEW AND APPROVAL**

