KIPP Colorado Schools

Independent Auditor's Report and Financial Statements

June 30, 2015

KIPP Colorado Schools

June 30, 2015

KIPP Colorado Board of Directors

2014-15

Board Chair	Nina Lopez
Board Vice Chair	Bruce Siegel
Treasurer	Erik Schmidt
Secretary	Katy Anthes
Director	Polly Breit
Director	Alicia Economos
Director	Dan Friesen
Director	Ken Joel
Director	Kellie O’Keefe
Director	Lisa Roy
Director	Elizabeth Shaw
Director	Drew Tyrie
Director	Maribeth Younger

KIPP Colorado Schools
June 30, 2015

Contents

BKD LLP
CPAs & Advisors
1700 Lincoln Street, Suite 1400 // Denver, CO 80203-4514
303.861.4545 // fax 303.832.5705 // bkd.com

Independent Auditor's Report

Board of Directors
KIPP Colorado Schools
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of KIPP Colorado Schools (the Organization) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Organization's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Directors
KIPP Colorado Schools

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Organization as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10, during the year ended June 30, 2015, the Organization adopted new accounting guidance, Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary and pension information listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2015, on our consideration of the Organization'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
September 15, 2015

KIPP Colorado Schools
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2015

As management of KIPP Colorado Schools, a charter school management organization (the Organization), we offer readers of the School's financial statements this narrative and analysis of the financial activities of KIPP Colorado Schools for the period from July 1, 2014 to June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements and footnotes.

Financial Highlights

- With the implementation of GASB 68, the government-wide financial statements of the Organization, like those of all Colorado PERA participants, present a material change this year. This change consists of the inclusion of a net pension liability as well as deferred inflows, deferred outflows, and expenses related to the pension. Though the change is material and creates an overall deficit in the financial presentation on the government-wide financial statements, the new GASB standard only impacts the accounting presentation of these pension related items, and the change does not represent an actual funding obligation of the Organization. A review of the governmental fund financial statements presents a more accurate depiction of the flow of funds for the Organization in the fiscal year. For further information on the implementation of GASB 68, see the attached statements and Notes 6 and 10 in the Notes to the Financial Statements.

- The period from July 1, 2014 through June 30, 2015 covers the 12th year of operation for the Organization. The total fund balance at the end of the year according to the governmental fund balance sheet is $2,592,865, an increase of $270,141 over the prior year.

- The net position at the end of the year according to the government-wide financial statements is ($2,210,681). This deficit is driven by the implementation of GASB 68 in the fiscal year.

- The operations of the Organization are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was $8,593,706 compared to $7,264,218 the prior year.

- Moving into the 15-16 school year, the Organization now operates five schools in addition to the school services team; the original middle school in Southwest Denver (KIPP Sunshine Peak Academy), a high school, also in Southwest Denver (KIPP Denver Collegiate), a second middle school in Montbello (KIPP Montbello College Prep), a new elementary school which opened August 2015 in Green Valley Ranch (KIPP Montbello Elementary), and a new high school which opened August 2015 in Montbello (KIPP Montbello Collegiate High School).

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the Organization's financial statements. The statements are comprised of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Organization's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all the Organization's assets and liabilities, with the difference between the two being reported as total net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of the Organization is improving or deteriorating.

The *statement of activities* presents information showing how the Organization's net position changed during the period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Organization keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

For the year ended June 30, 2015, the Organization's liabilities and deferred inflows exceeded assets and deferred outflows by $2,210,681 in the government-wide financial statements. Though the fund balance in the governmental fund increased by $270,141, the inclusion of the net pension liability in the government-wide statements creates an overall deficit in the government-wide presentation of the financials. Of the total net position, $322,362 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. $19,537 is restricted for school programming in the subsequent fiscal year, and $510,096 is the Net Investment in Capital Assets. Accordingly, these funds are not available to satisfy general operating expenses of the Organization.

Condensed Statement of Net Position

	2015	2014
Assets		
Current (noncapital)	$ 3,150,492	$ 2,602,061
Noncurrent (capital)	533,461	524,652
Cash held by DPS	246,499	213,319
Total Assets	3,930,452	3,340,032
Deferred Outflow of Resources*	857,024	-
Liabilities		
Current	804,126	492,656
Noncurrent*	6,192,648	88,524
Total Liabilities	6,996,774	581,180
Deferred Inflow of Resources*	1,383	-
Net Position		
Net investment in capital assets	510,097	436,128
Restricted for emergencies	322,362	276,204
Restricted for school programming	19,537	
Unrestricted (deficit) *	(3,062,677)	2,046,520
Total Net Position	$ (2,210,681)	$ 2,758,852

KIPP Colorado Schools

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2015

Condensed Statement of Activities

	2015	2014
Revenues		
Charges for services	$ 106,928	$ 109,068
Grants & contributions (unrestricted)	3,010,746	2,301,554
Per pupil operating revenue	8,593,706	7,264,218
Mill levy	925,715	940,115
Investment income	2,124	2,822
Miscellaneous	2,961	1,432
Total Revenue	12,642,180	10,619,209
Expenses		
Instruction*	6,812,909	5,695,457
Support services*	6,171,730	4,759,698
Interest on long-term debt	4,119	8,494
Total Expenses	12,988,758	10,463,649
Change in Net Position	(346,578)	155,560
Net Position - July 1, as previously reported	2,758,852	2,603,292
Change in accounting principle - GASB 68*	(4,622,955)	-
Net Position - July 1, as restated	(1,864,103)	2,603,292
Net Position, End of Year	$ (2,210,681)	$ 2,758,852

* See notes 6 and 10 in Notes to the Financial Statements for further information on GASB 68. Information in this table regarding fiscal year ending June 30th, 2014 has not been restated with the implementation of GASB 68.

The Organization increased the total number of students served from 1,019 to 1,152 (for all combined schools in operation in fiscal year 2015), which explains much of the increase in per pupil operating revenue.

The FYE 2015 increase in expenses is due to several factors. The Organization increased staffing in the areas of student support, KIPP Through College, instructional support, academic data analysis, and operational leadership in order to support new schools opening Fall 2015. Additionally, the schools incurred some 'year 0' expenses in preparation for the Fall 2015 opening of two new schools. Other factors included increases in teacher and administrator salaries and the previously mentioned reflection of the pension expense related to GASB 68.

KIPP Colorado Schools
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2015

Financial Analysis of the Organization's Funds

The focus of the Organization's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Organization's financing requirements. In particular, unassigned, unrestricted fund balance may serve as a useful measure of the Organization's net resources available for spending at the end of the fiscal year.

As stated previously, as of June 30, 2015, the Organization's governmental fund reported an ending fund balance of $2,592,865. This amount represents an increase of $270,141 from the previous year.

General Fund Budgetary Highlights

The Organization presents an annual budget to the Board for monitoring and approval.

The Organization budgeted for expenditures of $12,673,773 for the year ended June 30, 2015. Actual expenditures were $12,372,040.

There were two budget amendments during the year. These amendments were primarily due to the receipt of unexpected revenues (ELPA Excellence Award), increased student count from what was originally budgeted, and expenses incurred regarding a prospective building purchase, which did not materialize.

Capital Asset and Debt Administration

Capital assets

The Organization's capital assets consist of modular buildings and equipment (transportation vans). Depreciation on equipment in 2014-2015 was $10,400 and depreciation on buildings was $32,791. Total capital asset value at June 30, 2015 net of accumulated depreciation was $533,461.

Long-term debt

As of June 30, 2015, the Organization had debt due within one year of $23,364 for the modular buildings, which constituted total debt in the amount of $23,364.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the Organization is student enrollment. Enrollment for the 2014-2015 school year was 1,152. Enrollment for the 2015-2016 school year is projected to be 1,493, including 390 students for KIPP Sunshine Peak Academy, 381 students for KIPP Denver Collegiate High School, 425 students for KIPP Montbello College Prep, 161 students for KIPP Montbello Elementary, and 150 students for KIPP Montbello Collegiate High School. The Organization is aware of projected funding levels for fiscal 2015-2016 and budgets according to the current estimates provided by the Colorado Department of Education and Denver Public Schools.

Financial Statements

KIPP Colorado Schools
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash and investments	$ 2,592,990
Grants receivable	544,636
Other receivables	1,542
Prepaid expenses	11,324
Emergency reserve held by Denver Public Schools	246,499
Capital assets, net of accumulated depreciation	533,461
Total assets	3,930,452
Deferred Outflows of Resources	857,024
Liabilities	
Accounts payable	235,977
Accrued liabilities	247,481
Unearned revenue	320,668
Noncurrent liabilities	
Due within one year	
Loan payable	23,364
Due in more than one year	
Net pension liability	6,169,284
Total liabilities	6,996,774
Deferred Inflows of Resources	1,383
Net Position	
Net investment in capital assets	510,097
Restricted for emergencies	322,362
Restricted for school programming	19,537
Unrestricted (deficit)	(3,062,677)
Total net position (deficit)	$ (2,210,681)

KIPP Colorado Schools

Statement of Activities

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants	Net (Expense) Revenue and Change in Net Position: Governmental Activities
Primary Government					
Governmental activities					
Instruction	$ 6,812,909	$ 100,981	$ 935,405	$ 210,195	$ (5,566,328)
Supporting services	6,171,730	5,947	585,329	-	(5,580,454)
Interest on long-term debt	4,119	-	-	-	(4,119)
Total governmental activities	$ 12,988,758	$ 106,928	$ 1,520,734	$ 210,195	(11,150,901)
General Revenues					
Per pupil revenue					8,593,706
At-risk supplemental aid					98,940
District mill levy					925,715
Grants and contributions not restricted to specific programs					1,180,877
Investment income					2,124
Miscellaneous					2,961
Total general revenues					10,804,323
Change in Net Position					(346,578)
Net Position - July 1, as Previously Reported					2,758,852
Change in Accounting Principle - GASB 68					(4,622,955)
Net Position (deficit) - July 1, as Restated					(1,864,103)
Net Position (deficit), Ending					$ (2,210,681)

KIPP Colorado Schools

Balance Sheet

Governmental Fund

June 30, 2015

	General Fund
Assets	
Cash and investments	$ 2,592,990
Grants receivable	544,636
Other receivables	1,542
Prepaid expenditures	11,324
Emergency reserve held by Denver Public Schools	246,499
Total assets	$ 3,396,991
Liabilities and Fund Balance	
Liabilities	
Accounts payable	$ 235,977
Accrued liabilities	247,481
Unearned revenue	320,668
Total liabilities	804,126
Fund Balance	
Nonspendable prepaid expenditures	11,324
Restricted for emergencies	322,362
Restricted for school programming	19,537
Unrestricted, unassigned	2,239,642
Total fund balance	2,592,865
Total liabilities and fund balance	$ 3,396,991

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total fund balance of the Governmental Fund	$ 2,592,865
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds	533,461
Deferred inflows of resources are not available in the current period and, therefore, are not recorded in the funds	(1,383)
Deferred outflows of resources are not financial resources and, therefore, are not reported in the funds	857,024
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds	(6,169,284)
Long-term liabilities are not due and payable in the current year-end, therefore, are not reported in governmental funds	(23,364)
Total net position of governmental activities	$ (2,210,681)

KIPP Colorado Schools

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Fund

June 30, 2015

	General Fund
Revenues	
Local sources	$ 11,001,216
State sources	538,338
Federal sources	1,102,627
Total revenues	12,642,181
Expenditures	
Current	
Instruction	6,348,439
Supporting services	5,902,322
Capital outlay	52,000
Debt service	
Principal	65,160
Interest	4,119
Total expenditures	12,372,040
Net Change in Fund Balance	270,141
Fund Balance, Beginning	2,322,724
Fund Balance, Ending	$ 2,592,865

Amounts reported for Governmental Activities in the Statement of Net Position are different because:	
Net change in Fund Balance of the Governmental Fund	$ 270,141
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	
Depreciation expense	(43,191)
Capital outlay	52,000
Excess of capital outlay expense over depreciation	8,809
Some expenses recorded in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(690,688)
Pension expense	
Repayment of long-term debt is an expenditure in governmental funds, but reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. This amount represents loan payments in the current year	65,160
Change in Net Position of Governmental Activities	$ (346,578)

Note 1: Summary of Significant Accounting Policies

KIPP Colorado Schools (the Organization) was formed on January 23, 2002, to operate charter schools as provided in the Colorado Charter Schools Act. The Organization is a non-profit organization as defined by Section 501(c)(3) of the Internal Revenue Code. The Organization currently operates two middle schools and a high school in the Denver Public Schools (the District) and will open an elementary school and an additional high school for the 2015-2016 school year.

The accounting policies of the Organization conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the Organization, organizations for which the Organization is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the Organization. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Organization. Legally separate organizations for which the Organization is financially accountable are considered part of the reporting entity. Financial accountability exists if the Organization appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on, the Organization.

Based on the application of this criteria, the Organization does not include additional organizations within its reporting entity other than the schools it operates.

Government-wide and Fund Financial Statements

The government-wide financial statements (*i.e.,* the statement of net position and the statement of activities) report information on all activities of the Organization. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported in a single column. The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted revenues not properly included among program revenues are reported instead as general revenues. A management fee has been charged by the Organization to each of the charter schools. This fee has been eliminated upon consolidation.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Organization considers revenues to be available if they are collected within 60 days of the end of the current year. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the Organization. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the Organization’s policy to use restricted resources first, and the unrestricted resources as they are needed.

In the fund financial statements, the Organization reports the following major governmental fund:

General Fund

This fund is the general operating fund of the Organization. It is currently used to account for all financial activities of the Organization.

Assets, Liabilities and Fund Balance/Net Position

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

Capital Assets

Capital assets, which include buildings and building improvements, are reported in the government-wide financial statements. Capital assets are defined by the Organization as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the government-wide financial statements. Depreciation is provided over the estimated useful lives of the assets using the straight-line method, as follows:

Vehicles and Equipment	4-5 years
Buildings and Improvements	25 years

Unearned Revenues

Unearned revenues include grants collected before qualifying expenditures have been incurred.

Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as a liability. In the fund financial statements, governmental funds recognize the face amount of debt issued during the current year as other financing sources.

Net Position/Fund Balance

In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Board of Directors is authorized to establish a fund balance commitment through passage of a resolution, and may assign fund balances to a specific purpose through an informal action.

The Organization has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available, the Organization uses restricted fund balance first, followed by committed, assigned and unassigned fund balances.

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to employees; and natural disasters. The Organization carries commercial insurance for risks of loss, including liability, property, errors and omissions, and workers' compensation. Settled claims resulting from these risks have not exceeded the Organization's insurance coverage for fiscal years 2015, 2014, and 2013.

Budgets and Budgetary Accounting

Annually, the Board of Trustees adopts a budget for the Organization as a whole, on a basis consistent with generally accepted accounting principles.

A proposed budget is submitted to the Board of Directors for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them. Revisions that alter the total expenditures must be approved by the Board of Directors. All appropriations lapse at fiscal year-end.

Note 2: Cash and Investments

Cash and investments at June 30, 2015, consisted of the following:

Deposits

The financial institution holding the Organization's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Interest-bearing transaction accounts were subject to the $250,000 limit on FDIC insurance per covered institution.

The Organization's investment policy conforms to state statute for governmental entities. All accounts established at financial institutions should, in the aggregate, total less than $250,000 so as to provide maximum insurance coverage provided by the FDIC. If, however, deposits exceed the $250,000 insurance coverage level, the excess must be (1) fully collateralized at face value with government securities, (2) separately segregated in the Organization's name, and (3) held at a Federal Reserve Bank or another depository.

Under the provisions of GASB 40, *Deposit and Investment Risk Disclosures*, deposits are not deemed exposed to custodial credit risk if they are collateralized with securities held by the pledging financial institutions under Colorado Public Deposit Protection Act (PDPA), as discussed below. Custodial credit risk is the risk that in the event of bank failure, the Organization's deposits may not be returned.

Colorado State statutes govern the Organization's deposit of cash. The PDPA requires the Organization to make deposits only in eligible public depositories as defined by the regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The PDPA requires the eligible depository with public deposits in excess of the federal insurance levels to create single institution collateral pools for all public funds. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group.

Investments

The Organization is required to comply with state statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

At June 30, 2015, the Organization had no investments and its cash balances at June 30, 2015 consisted of the following:

Description	Carrying Amount	Bank Balance	Amount Covered Under PDPA
Checking	$ 2,592,990	$ 2,404,842	$ 2,154,842

Note 3: Capital Assets

Changes in capital assets for the year ended June 30, 2015 are summarized below.

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
Capital assets being depreciated				
Vehicles and equipment	$ 61,795	$ 52,000	$ -	$ 113,795
Buildings and improvements	819,767	-	-	819,767
Total capital assets, being depreciated	881,562	52,000	-	933,562
Less accumulated depreciation				
Vehicles and equipment	(61,795)	(10,400)	-	(72,195)
Buildings and improvements	(295,115)	(32,791)	-	(327,906)
Total accumulated depreciation	(356,910)	(43,191)	-	(400,101)
Total capital assets being depreciated, net	$ 524,652	$ 8,809	$ -	$ 533,461

Depreciation expense was charged to the instructional and supporting services programs.

Note 4: Long-term Debt

Changes in long-term debt for the year ended June 30, 2015 were as follows.

	Balance at July 1, 2014	Additions	Payments	Balance at June 30, 2015	Due Within One Year
Loans payable	$ 88,524	$ -	$ (65,160)	$ 23,364	$ 23,364

In May 2005, the Organization entered into a loan agreement in the amount of $500,000 to finance a portion of the purchase and construction of a modular building to be used for an education facility. The loan accrues interest at the rate of 6.875% per annum and is due in monthly payments of $5,773, through October 2015. Future debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2016	$ 23,364	$ 347	$ 23,711

Note 5: Leases

The Organization leases office space under a noncancelable operating lease agreement. The lease expires in February 2020. Rent expense for the lease for the year ended June 30, 2015, was $15,404.

Minimum annual rental payments required under the operating lease for each year ending June 30, are as follows:

2016	$ 30,807
2017	30,807
2018	30,807
2019	30,807
2020	20,538
Total	$ 143,766

Note 6: Defined Benefit Pension Plan

Summary of Significant Accounting Policies

The Organization participates in the Denver Public Schools Division Trust Fund (DPS Division), a single-employer defined benefit pension plan. In accordance with GASB 68, the Organization accounts for and reports its participation in the plan as if it was a cost-sharing employer. The plan is administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the Organization have been determined using the same basis as they are reported by the DPS Division, which uses the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan Description

Eligible employees of the Organization are provided with pensions through the DPS Division. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado state law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.

- Fifteen times the first 10 years of service credit plus 20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

The service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of two percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of two percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of two percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the DPS Division.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions

Eligible employees and the Organization are required to contribute to the DPS Division at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq*. Eligible employees are required to contribute eight percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2014	For the Year Ended December 31, 2015
Employer Contribution Rate [1]	13.75%	10.15%
Amount of Employer Contribution apportioned to the DPS Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) [1]	(1.02)%	(1.02)%
PCOP Offset as specified in C.R.S. § 24-51-412	(16.89)%	(15.97)%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1]	3.80%	4.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 [1]	3.50%	4.00%
Total Employer Contribution Rate to the DPS Division [1]	3.14%	1.36%

[1] Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42)

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member and the Organization is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from the Organization were $206,594 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Organization reported a liability of $6,169,284 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. The Organization’s proportion of the net pension liability was based on the Organization’s contributions to the DPS Division for the calendar year 2014 relative to the total contributions of participating employers to the DPS Division.

At December 31, 2014, the Organization’s proportion was 0.99 percent, which was an increase of 0.09 percent from its proportion measured as of December 31, 2013.

For the year ended June 30, 2015, the Organization recognized pension expense of $897,282. At June 30, 2015, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 1,383
Changes of assumptions or other inputs	—	—
Net difference between projected and actual earnings on pension plan investments	438,014	—
Changes in proportion and differences between contributions recognized and proportionate share of contributions	322,689	—
Differences between contributions recognized and proportionate share of contributions	19,107	—
Contributions subsequent to the measurement date	77,214	—
Total	$ 857,024	$ 1,383

$77,214 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2016	$ 153,536
2017	153,536
2018	153,536
2019	153,536
2020	153,536
Thereafter	10,747
	$ 778,427

Actuarial Assumptions

The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to January 1, 2007; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after December 31, 2006 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back one year, and Females set back two years.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

The DPS Division's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

* In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50 percent

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those assumptions, the DPS Division's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the Organization's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50 percent) or one-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	$ 10,509,730	$ 6,169,284	$ 2,530,654

Pension Plan Fiduciary Net Position

Detailed information about the DPS Division's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Note 7: Pension Certificates of Participation

The District issued Taxable Pension Certificates of Participation (PCOPs) to fully fund the unfunded actuarial accrued liability of its pension plan (see Note 6). For the years ended June 30, 2015, 2014 and 2013, the Organization contributed 9.84%, 10.80% and 11.36% of covered salaries, respectively, to the District to cover its obligation relating to the PCOPs.

During the years ended June 30, 2015, 2014 and 2013, the Organization contributed $626,091, $576,166 and $530,228, respectively, to the District for its PCOPs obligation.

Note 8: Postemployment Healthcare Benefits

Plan Description

The Organization contributes to the Denver Public Schools Health Care Trust Fund (DPS HCTF), considered to be a cost-sharing multiple-employer healthcare trust administered by PERA. The DPS HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the DPS HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the DPS HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The Organization is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Organization are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the DPS HCTF is established under Title 24, Article 51, Section 208(1)(f.5) of the C.R.S., as amended. For the years ended June 30, 2015, 2014 and 2013, the Organization's contributions to the DPS HCTF were $64,892, $54,423 and $47,730, respectively, equal to their required contributions for each year.

Note 9: Commitments and Contingencies

Claims and Judgments

The Organization participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the Organization may be required to reimburse the other government. At June 30, 2015, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Organization.

Litigation

The Organization is involved in pending litigation. The Organization anticipates no potential claims resulting from this litigation which would materially affect the financial statements of the Organization.

TABOR Amendment

In November 1992, Colorado voters approved the TABOR Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The TABOR Amendment is subject to many interpretations, but the Organization believes it is in substantial compliance with the TABOR Amendment. In accordance with the TABOR Amendment, the Organization has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2015, the District held $246,499 on behalf of the Organization for this reserve, which is included in the $322,362 reserve reported as restricted net position/fund balance.

Facility Use Agreement

The Organization has approved facility use agreements with the District to utilize educational facilities owned by the District. For the year ended June 30, 2015, the Organization paid facility use fees of $742 per student, which totaled $267,757 and $304,843, respectively, for the Denver Collegiate High School and Montbello College Prep campuses. The agreements require facility use fees of $775 per student for the year ending June 30, 2016.

Note 10: Implementation of New Accounting Standard

The Organization implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (Statement No. 68), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The Organization provides its employees with pension benefits through the plan described in Note 6. Statement No. 68 requires employers participating in such plans to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The Organization has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA. The implementation of GASB 68 resulted in a $(4,622,955) restatement of net position as of July 1, 2014. Information regarding PERA's current funding status can be found in their Comprehensive Annual Financial Report.

Required Supplementary Information

KIPP Colorado Schools

Schedule of the Organization's Proportionate Share of the Net Pension Liability

Year Ended June 30, 2015

KIPP Colorado Schools' proportion of the net pension liability		0.99%
KIPP Colorado Schools' proportionate share of the net pension liability	$	6,169,284
KIPP Colorado Schools' covered-employee payroll	$	6,361,937
KIPP Colorado Schools' proportionate share of the net pension liability as a percentage of its covered-employee payroll		96.97%
Plan fiduciary net position as a percentage of the total pension liability		83.94%

Note: Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented.

KIPP Colorado Schools
Schedule of the Organization's Contributions
Year Ended June 30, 2015

Contractually required contribution	$ 206,594
Contributions in relation to the contractually required contribution	206,594
Contribution deficiency (excess)	$ -
KIPP Colorado Schools' covered-employee payroll	$ 6,361,937
Contributions as a percentage of covered-employee payroll	3.25%

Note: Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented.

KIPP Colorado Schools
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Local sources				
Per pupil revenue	$ 8,287,171	$ 8,593,353	$ 8,593,706	$ 353
District mill levy	968,280	921,443	925,715	4,272
Student activities	100,800	99,800	100,981	1,181
Food service fees	7,000	7,000	5,947	(1,053)
Grants and contributions	1,630,486	1,409,971	1,369,782	(40,189)
Investment income	2,690	2,690	2,124	(566)
Miscellaneous	-	-	2,961	2,961
Total local sources	10,996,427	11,034,257	11,001,216	(33,041)
State sources				
At-risk supplemental aid	75,000	98,940	98,940	-
Capital construction	68,625	127,923	129,678	1,755
Grants	4,400	305,963	309,720	3,757
Total state sources	148,025	532,826	538,338	5,512
Federal sources				
Grants	869,470	1,087,454	1,102,627	15,173
Total revenues	12,013,922	12,654,537	12,642,181	(12,356)
Expenditures				
Current				
Salaries	6,568,595	6,524,607	6,605,784	(81,177)
Employee benefits	1,650,565	1,542,535	1,360,548	181,987
Purchased professional services	240,950	527,600	508,297	19,303
Purchased property services	189,520	200,890	193,501	7,389
Other purchased services	2,488,062	2,542,710	2,441,194	101,516
Supplies and materials	507,900	562,700	552,222	10,478
Property and equipment	280,500	567,390	511,753	55,637
Miscellaneous	81,407	136,062	129,462	6,600
Debt service				
Principal	65,160	65,160	65,160	-
Interest	4,119	4,119	4,119	-
Total expenditures	12,076,778	12,673,773	12,372,040	301,733
Net Change in Fund Balance	(62,856)	(19,236)	270,141	289,377
Fund Balance, Beginning	2,263,017	2,322,724	2,322,724	-
Fund Balance, Ending	$ 2,200,161	$ 2,303,488	$ 2,592,865	$ 289,377
Appropriated Reserves				
Contingency	$ 192,407	$ 35,000	N/A	N/A
Release of appropriated fund balance	305,000	125,000	N/A	N/A
Fund balance reserve	1,702,754	2,143,488	N/A	N/A
	$ 2,200,161	$ 2,303,488		

KIPP Colorado Schools
Notes to Supplementary Information
Year Ended June 30, 2015

Note 1: Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

A budget is adopted for the Organization on a basis consistent with generally accepted accounting principles.

A proposed budget is submitted to the Board of Directors for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them.

As stipulated in state statutes, expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

All appropriations lapse at fiscal year-end.

BKD LLP
CPAs & Advisors
1700 Lincoln Street, Suite 1400 // Denver, CO 80203-4514
303.861.4545 // fax 303.832.5705 // bkd.com

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
KIPP Colorado Schools
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of KIPP Colorado Schools (the Organization), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated September 15, 2015.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization's 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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. We consider the deficiency described in the accompanying Schedule of Findings as Item 2015-01 to be a significant deficiency.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors
KIPP Colorado Schools

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the Colorado Department of Education's *Financial Policies and Procedures Handbook*, 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*.

We noted certain matters that we reported to the Organization's management in a separate letter dated September 15, 2015.

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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
September 15, 2015

KIPP Colorado Schools

Schedule of Findings

Year Ended June 30, 2015

Reference Number	Finding
2015-01	**Finding:** Financial Information Preparation

Criteria or Specific Requirement: Grants that are received for a particular purpose or with particular time constraints that are subsequently not expended due to those restrictions should be recorded as unearned revenue at year end.

Condition: During our review of the financial information, we discovered that unexpended grant revenue was credited directly to fund balance rather than unearned revenue.

Effect: Crediting grant revenue directly to fund balance caused fund balances not to roll from the previous year, overstated fund balances, and understated liabilities.

Cause: During 2015, KIPP received several grants that applied to the opening of two new schools and were restricted for use during the first year the schools were to be open, which was the 2015-2016 school year. A misinterpretation of GASB 33 caused KIPP's accounting staff to record this grant directly to restricted fund balance.

Recommendation: We recommend that KIPP strengthen its existing review policies and procedures to ensure the accurate presentation of financial information necessary for external reporting. In addition, we recommend that KIPP consult its advisors on difficult accounting issues.

Views of Responsible Officials and Planned Corrective Actions:

Response: Prior to the audit, the KIPP accounting and finance team discussed GASB 33 internally and with external accounting professionals.

During the audit, the KIPP Colorado staff clarified its understanding of GASB 33 with the audit team, specifically identifying when multi-year grants should be recorded as unearned revenue for future use due to time and purpose constraints, and when grants should be fully recognized in the fiscal year on the Income Statement and recorded as restricted fund balance on the Balance Sheet.

Given the clarification in the interpretation of GASB 33, the booking of multi-year grants will be correct going forward. Beginning in FY16, the Director of Accounting and Finance will review any multi-year gifts with the Chief Operating Officer monthly. Additionally, KIPP staff will consult with its auditors prior to the fiscal year close for any complicated accounting matters to ensure all liabilities and fund balance accounts are properly stated.

Person(s) responsible for implementing: Jeremy O’Grady, Manager of Accounting and Finance

Implementation date: Effective immediately