

KIPP COLORADO SCHOOLS
Denver, Colorado

FINANCIAL STATEMENTS

June 30, 2014

KIPP COLORADO SCHOOLS

Board of Directors June 30, 2014

Nina Lopez - Chairperson

Bruce Siegel - Vice Chairperson

Brooke Borgen - Secretary

John Blood - Treasurer

Catherine Anthes

John Balcom

Alicia Economos

Kenneth Joel

Erik Schmidt

Elizabeth Shaw

Drew Tyrie

Jeff Wash

Maribeth Younger

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	
Management's Discussion and Analysis	i - iv
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Balance Sheet - Governmental Fund	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	4
Notes to Financial Statements	5 - 10
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	11
Notes to Required Supplementary Information	12



Board of Directors
KIPP Colorado Schools
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of KIPP Colorado Schools, component unit of Denver School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of KIPP Colorado Schools, 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.

Auditors' 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. 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 auditors' judgement, 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 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 internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of KIPP Colorado Schools as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

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

Swainland & Company LLC

September 10, 2014

KIPP Colorado Schools

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2014

As management of KIPP Colorado Schools (School), we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of KIPP Colorado Schools for the period from July 1, 2013 to June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements and footnotes.

Financial Highlights

The period from July 1, 2013 through June 30, 2014 covers the eleventh year of operation for the School. The net position at the end of the year is \$2,758,852. The organization currently operates three schools in addition to the schools services team; the original middle school in Southwest Denver (KIPP Sunshine Peak Academy), a high school, also in Southwest Denver (KIPP Denver Collegiate), and a second middle school in Montbello (KIPP Montbello College Prep).

The operations of the School 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 \$7,264,218 compared to \$6,227,866 the prior year.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the School's basic financial statements. The basic 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 School's finances in a manner similar to a private-sector business.

The statement of net position presents information on all the School'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 School is improving or deteriorating.

The statement of activities presents information showing how the School'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 School 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.

The School adopts an annual budget. Budgetary comparisons have been provided to demonstrate compliance with this budget.

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

As noted previously, net position over time may serve as a useful indicator of the School's financial position. For the year ended June 30, 2014, the School's assets exceeded liabilities by \$2,758,852. Of these funds, \$276,204 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. \$436,128 is the Net Investment in Capital Assets. Accordingly, these funds are not available to satisfy general operating expenses of the School. The remaining \$2,046,520 is unrestricted and available to meet the School's ongoing financial obligations.

			6/30/14	6/30/13
Assets				
		Cash	\$2,059,355	\$1,927,262
		Grants Receivable	\$534,130	\$508,389
		Prepaid Expenses	\$8,576	\$2,494
		Cash held by DPS	\$213,319	\$162,452
		Capital Assets, Net of Accumulated Depreciation	<u>\$524,652</u>	<u>\$557,443</u>
	Total Assets		\$3,340,032	\$3,158,040
Liabilities				
		Accounts Payable	\$354,893	\$244,273
		Accrued Liabilities	\$100,769	\$105,354
		Unearned (Deferred) Revenue	\$36,994	\$55,812
		Due within One Year	\$65,160	\$60,785
		Due in More than One Year	<u>\$23,364</u>	<u>\$88,524</u>
	Total Liabilities		<u>\$581,180</u>	<u>\$554,748</u>
	Net Position			
		Net Investment in Capital	\$436,128	\$408,134

		Assets		
		Restricted (TABOR)	\$276,204	\$238,518
		Restricted (Secondary Arts)	\$0	\$25,447
		Restricted (Textbooks)	\$0	\$34,480
		Unrestricted	\$2,046,520	\$1,896,713
		TOTAL NET POSITION	\$2,758,852	\$2,603,292

Change in Net Position

			6/30/14	6/30/13
Revenues				
		Charges for Services	\$109,068	\$94,801
		Grants and Contributions	\$2,157,803	\$2,587,843
		Per Pupil Revenue	\$7,264,218	\$6,227,866
		At-Risk Supplemental Aid	\$77,557	\$76,336
		Mill Levy	\$940,115	\$571,721
		Capital Construction	\$66,194	\$55,495
		Investment Earnings	\$2,822	\$2,730
		Miscellaneous Income	\$1,432	\$6,542
	Total Revenue		\$10,619,209	\$9,623,334
Expenses				
		Instruction	(\$5,695,457)	(\$5,607,566)
		Support Services	(\$4,759,698)	(\$3,408,814)
		Interest on Long Term Debt	(\$8,494)	(\$12,575)
	Total Expenses		(\$10,463,649)	(\$9,028,955)
		Change in Net Position	\$155,560	\$594,379
		Net Position, Beginning	\$2,603,292	\$2,008,913
		Net Position, Ending	\$2,758,852	\$2,603,292

The School increased the total number of students served from 892 to 1,019 (for all three schools) which explains much of the increase in per pupil operating revenue. The School also received new Mill Levy revenue from the 2012 Mill Levy, increased student count, and a one-time payment to charter schools from district Mill Levy reserves.

The FYE 2014 increase in expense for Support Services is due to several factors. Denver Public Schools reclassified the Special Education fee KIPP pays to the district (approximately \$500,000) from the Instruction expense category to Support Services. KIPP Sunshine Peak Academy and KIPP Denver Collegiate both had large, non-recurring construction costs (a roof repair and the construction of a sports field), totaling approximately \$200,000. The School also increased staffing in the areas of student support, KIPP Through College, instructional support, and academic data analysis. These additional roles will support the region as it prepares to open two additional schools in FY15-16, an elementary school and a high school, which will both be located in Montbello.

Financial Analysis of the School's Funds

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

As of June 30, 2014, the School's governmental fund reported an ending fund balance of \$2,322,724 (Net Position, Ending: \$2,758,852 less Capital Assets, Net of Accumulated Depreciation: \$524,652, plus long-term liabilities not reported in governmental funds: \$88,524). This amount represents an increase of \$127,566 from the previous year.

General Fund Budgetary Highlights

The School budgeted for expenditures of \$11,086,778 for the year ended June 30, 2014. Actual expenditures were \$10,491,643.

There were two budget amendments during the year. These amendments were primarily due to the timing of construction and the addition of technology funds to support readiness for common core.

Capital Asset and Debt Administration

Capital assets

The School's capital assets consist of modular buildings and equipment (transportation vans). All equipment in 2013-2014 was fully depreciated and depreciation on buildings was \$32,791. Total capital asset value at June 30, 2014 net of depreciation was \$524,652.

Long-term debt

As of June 30, 2014, the School had debt due within one year of \$65,160 for the modular buildings and total debt in the amount of \$88,524.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2013-2014 school year was 1,019. Enrollment for the 2014-2015 school year is projected to be 1150, including 375 students for KIPP Sunshine Peak Academy, 370 students for KIPP Denver Collegiate High School, and 405 students for KIPP Montbello College Prep. The School is aware of projected funding levels for fiscal 2014-2015 and budgets according to the current estimates provided by the Colorado Department of Education and Denver Public Schools.

BASIC FINANCIAL STATEMENTS

KIPP COLORADO SCHOOLS

STATEMENT OF NET POSITION

June 30, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 2,059,355
Grants Receivable	534,130
Prepaid Expenses	8,576
Emergency Reserve Held by Denver School District	213,319
Capital Assets, Net of Accumulated Depreciation	<u>524,652</u>
TOTAL ASSETS	<u>3,340,032</u>
LIABILITIES	
Accounts Payable	354,893
Accrued Liabilities	100,769
Unearned Revenues	36,994
Noncurrent Liabilities	
Due Within One Year	65,160
Due in More Than One Year	<u>23,364</u>
TOTAL LIABILITIES	<u>581,180</u>
NET POSITION	
Net Investment in Capital Assets	436,128
Restricted for Emergencies	276,204
Unrestricted	<u>2,046,520</u>
TOTAL NET POSITION	<u>\$ 2,758,852</u>

The accompanying notes are an integral part of the financial statements.

KIPP COLORADO SCHOOLS

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
PRIMARY GOVERNMENT						
Governmental Activities						
Instruction	\$ 5,695,457	\$ 103,747	\$ 772,068	\$ 22,693	\$	(4,796,949)
Supporting Services	4,759,698	5,321	555,267	-	\$	(4,199,110)
Interest on Long-Term Debt	8,494	-	-	-		(8,494)
Total Governmental Activities	\$ <u>10,463,649</u>	\$ <u>109,068</u>	\$ <u>1,327,335</u>	\$ <u>22,693</u>		<u>(9,004,553)</u>
GENERAL REVENUES						
						7,264,218
						77,557
						940,115
						66,194
						807,775
						2,822
						1,432
						<u>9,160,113</u>
						155,560
						<u>2,603,292</u>
						<u>\$ 2,758,852</u>

The accompanying notes are an integral part of the financial statements.

KIPP COLORADO SCHOOLS

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2014

	<u>GENERAL</u>
ASSETS	
Cash	\$ 2,059,355
Grants Receivable	534,130
Prepaid Items	8,576
Emergency Reserve Held by Denver School District	<u>213,319</u>
 TOTAL ASSETS	 \$ <u>2,815,380</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 354,893
Accrued Liabilities	100,769
Unearned Revenues	<u>36,994</u>
 TOTAL LIABILITIES	 <u>492,656</u>
FUND BALANCE	
Nonspendable Prepaid Items	8,576
Restricted for Emergencies	276,204
Unrestricted, Unassigned	<u>2,037,944</u>
 TOTAL FUND BALANCE	 <u>2,322,724</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ <u>2,815,380</u>
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 2,322,724
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	524,652
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(88,524)</u>
Total Net Position of Governmental Activities	\$ <u>2,758,852</u>

The accompanying notes are an integral part of the financial statements.

KIPP COLORADO SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2014

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 9,324,758
State Sources	195,316
Federal Sources	1,099,135
 TOTAL REVENUES	 10,619,209
EXPENDITURES	
Instruction	5,695,457
Supporting Services	4,726,907
Debt Service	
Principal	60,785
Interest	8,494
 TOTAL EXPENDITURES	 10,491,643
 NET CHANGE IN FUND BALANCE	 127,566
FUND BALANCE, Beginning	2,195,158
FUND BALANCE, Ending	\$ 2,322,724

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balance of the Governmental Fund	\$ 127,566
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 amount represents depreciation expense in the current year.	(32,791)
Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position and does not affect the statement of activities. This amount represents principal payments in the current year.	60,785
Change in Net Position of Governmental Activities	\$ 155,560

The accompanying notes are an integral part of the financial statements.

KIPP COLORADO SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

KIPP Colorado Schools (the “School”) was formed on January 23, 2002, to operate charter schools as provided in the Colorado Charter Schools Act. The School is a non-profit organization as defined by Section 501(c)(3) of the Internal Revenue Code. The School currently operates two middle schools and a high school in the Denver School District (the “District”).

The accounting policies of the School 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 School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. Legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School 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 School.

Based on the application of this criteria, the School does not include additional organizations within its reporting entity.

The School is a component unit of the District. The District granted the School’s charter and the majority of the School’s funding is provided by the District.

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 School. 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.

Major individual governmental funds are reported in separate columns in the fund financial statements.

KIPP COLORADO SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 School 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 School. 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 School's policy to use restricted resources first, and the unrestricted resources as they are needed.

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

General Fund - This fund is the general operating fund of the School. It is currently used to account for all financial activities of the School.

Assets, Liabilities and Net Position/Fund Balance

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 - Payments to vendors for services that will benefit subsequent years are reported as prepaid expenses.

Capital Assets - Capital assets, which include buildings and vehicle and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School 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 on the date of donation.

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

Vehicles and Equipment	4 - 5 years
Modular Buildings	25 years

KIPP COLORADO SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position/Fund Balance (Continued)

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 is 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 School 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 School uses restricted fund balance first, followed by committed, assigned and unassigned balances.

Risk Management

The School 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 School carries commercial insurance for these risks of loss.

NOTE 2: CASH AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2014, the School had bank deposits of \$1,906,637 collateralized with securities held by the financial institution's agent, but not in the School's name.

Investments

The School 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.

KIPP COLORADO SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

- 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, 2014, the School had no investments.

NOTE 3: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2014, are summarized below.

	<u>Balance</u> <u>6/30/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/14</u>
Governmental Activities				
Capital Assets, Being Depreciated				
Vehicles and Equipment	\$ 61,795	\$ -	\$ -	\$ 61,795
Buildings	<u>819,767</u>	<u>-</u>	<u>-</u>	<u>819,767</u>
Total Capital Assets, Being Depreciated	<u>881,562</u>	<u>-</u>	<u>-</u>	<u>881,562</u>
Accumulated Depreciation				
Vehicles and Equipment	(61,795)	-	-	(61,795)
Buildings	<u>(262,324)</u>	<u>(32,791)</u>	<u>-</u>	<u>(295,115)</u>
Total Accumulated Depreciation	<u>(324,119)</u>	<u>(32,791)</u>	<u>-</u>	<u>(356,910)</u>
Total Capital Assets, Net	<u>\$ 557,443</u>	<u>\$ (32,791)</u>	<u>\$ -</u>	<u>\$ 524,652</u>

Depreciation expense was charged to the supporting services program of the School.

NOTE 4: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2014:

	<u>Balance</u> <u>6/30/13</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/14</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Modular Loan	<u>\$ 149,309</u>	<u>\$ -</u>	<u>\$ 60,785</u>	<u>\$ 88,524</u>	<u>\$ 65,160</u>

KIPP COLORADO SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 4: LONG-TERM DEBT (Continued)

In May 2005, the School 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:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 65,160	\$ 4,116	\$ 69,276
2016	23,364	347	23,711
Total	<u>\$ 88,524</u>	<u>\$ 4,463</u>	<u>\$ 92,987</u>

NOTE 5: PENSION PLAN

Defined Benefit Pension Plan

Plan Description - The School contributes to the Denver Public Schools Division (DPSD), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The DPSD provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the DPSD. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information. That report may be obtained by contacting PERA at 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-7372.

Funding Policy - The contribution requirements of the DPSD plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members was 8% of covered salaries for the past three years. Title 24, Article 51, Part 4 of the CRS, as amended, allowed the School to offset its contribution rates of 19.25%, 20.15% and 21.05% for calendar years 2012, 2013 and 2014, respectively, by an amount equal to the obligations of the District with respect to the outstanding PCOPs (See Note 6). As a result, the School's contribution rates for calendar years 2012, 2013 and 2014 were 3.88%, 5.64% and 4.16%, respectively. Also, a portion of the School's contribution (1.02% of covered salaries) was allocated to the Denver Public Schools Health Care Trust Fund (See Note 7). The School's contributions to the DPSD for the years ended June 30, 2014, 2013 and 2012 were \$260,912, \$222,634 and \$155,202, respectively, equal to the required contributions for each year.

NOTE 6: 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 5). For the years ended June 30, 2014, 2013 and 2012, the School contributed 10.8%, 11.36% and 12.21% of covered salaries, respectively, to the District to cover its obligation relating to the PCOPs.

During the years ended June 30, 2014, 2013 and 2012, the School contributed \$576,166, \$530,228 and \$496,522, respectively, to the District for its PCOPs obligation.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The School contributes to the Denver Public Schools Division Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to DPSD benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all DPSD members. No member contributions are required. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2014, 2013 and 2012 was \$54,423, \$47,730 and \$41,622, respectively, equal to the required amounts for each year.

NOTE 8: COMMITMENTS AND CONTINGENCIES**Claims and Judgements**

The School 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 School may be required to reimburse the other government. At June 30, 2014, 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 School.

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 Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2014, the District held \$213,319 on behalf of the School for this reserve. In addition, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$276,204.

Facility Use Agreements

The School has approved facility use agreements with the District to utilize educational facilities owned by the District. For the year ended June 30, 2014, the School paid facility use fees of \$710 per student, which totaled \$251,340 and \$205,900, respectively, for the Denver Collegiate and Montbello College Prep campuses. The agreements require facility use fees of \$742 per student for the year ended June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

KIPP COLORADO SCHOOLS

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2014

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 7,274,429	\$ 7,252,616	\$ 7,264,218	\$ 11,602
District Mill Levy	867,682	1,111,811	940,115	(171,696)
Student Activities	76,390	88,629	103,747	15,118
Food Service Fees	7,000	7,000	5,321	(1,679)
Grants and Contributions	1,441,043	1,242,355	1,007,103	(235,252)
Investment Income	2,820	2,820	2,822	2
Miscellaneous	-	-	1,432	1,432
State Sources				
At-Risk Supplemental Aid	-	-	77,557	77,557
Capital Construction	59,562	57,251	66,194	8,943
Grants	42,923	42,923	51,565	8,642
Federal Sources				
Grants	959,066	1,134,266	1,099,135	(35,131)
TOTAL REVENUES	10,730,915	10,939,671	10,619,209	(320,462)
EXPENDITURES				
Current				
Salaries	5,583,415	5,568,895	5,469,736	99,159
Employee Benefits	1,543,348	1,400,779	1,299,669	101,110
Purchased Professional Services	398,063	438,062	363,716	74,346
Purchased Property Services	591,678	159,104	113,846	45,258
Other Purchased Services	1,723,874	2,153,075	2,079,443	73,632
Supplies and Materials	509,107	599,120	552,045	47,075
Property and Equipment	66,000	641,200	489,707	151,493
Miscellaneous	53,006	57,264	54,202	3,062
Debt Service				
Principal	52,856	60,785	60,785	-
Interest	16,423	8,494	8,494	-
TOTAL EXPENDITURES	10,537,770	11,086,778	10,491,643	595,135
NET CHANGE IN FUND BALANCE	193,145	(147,107)	127,566	274,673
FUND BALANCE, Beginning	1,809,440	2,195,158	2,195,158	-
FUND BALANCE, Ending	\$ 2,002,585	\$ 2,048,051	\$ 2,322,724	\$ 274,673

See the accompanying Independent Auditors' Report.

KIPP COLORADO SCHOOLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

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.