

KIPP Austin Public Schools, Inc.

Financial Statements
and Single Audit Reports
for the year ended June 30, 2016

KIPP Austin Public Schools, Inc.

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of June 30, 2016 and 2015	3
Statement of Activities for the year ended June 30, 2016	4
Statement of Activities for the ten months ended June 30, 2015	5
Statements of Cash Flows for the year ended June 30, 2016 and the ten months ended June 30, 2015	6
Notes to Financial Statements for the year ended June 30, 2016 and the ten months ended June 30, 2015	7
Supplementary Information:	
Supplemental Statements of Activities for the year ended June 30, 2016 and the ten months ended June 30, 2015	14
Schedules of Expenses for the year ended June 30, 2016 and the ten months ended June 30, 2015	16
Schedules of Capital Assets as of June 30, 2016 and 2015	17
Budgetary Comparison Schedule for the year ended June 30, 2016	18
Maintenance of Effort for the year ended June 30, 2016	20
Schedule of Expenditures of Federal Awards for the year ended June 30, 2016	21
Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2016	23
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	26
Schedule of Findings and Questioned Costs for the year ended June 30, 2016	28

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of KIPP Austin Public Schools, Inc. (KIPP Austin), which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities and of cash flows for the year ended June 30, 2016 and the ten months ended June 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP Austin as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the year ended June 30, 2016 and the ten months ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 14 through 20 is presented for purposes of additional analysis as required by the Texas Education Agency and is not a required part of the financial statements. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended June 30, 2016 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016 on our consideration of KIPP Austin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KIPP Austin's internal control over financial reporting and compliance.

Blazek & Vetterling

November 14, 2016

KIPP Austin Public Schools, Inc.

Statements of Financial Position as of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash	\$ 16,728,133	\$ 14,097,231
Prepaid expenses and other assets	359,085	438,750
Government grant and other receivables (Note 8)	6,752,497	7,449,677
Pledges receivable, net (Note 2)	<u>66,090</u>	<u>203,887</u>
Total current assets	23,905,805	22,189,545
Pledges receivable, net (Note 2)	184,346	129,667
Bond proceeds held in trust (Notes 3 and 6)	20,124,137	16,419,110
Property, net (Note 5)	<u>61,916,594</u>	<u>45,181,613</u>
TOTAL ASSETS	<u>\$ 106,130,882</u>	<u>\$ 83,919,935</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,212,035	\$ 1,831,730
Accrued expenses	1,351,688	1,671,118
Construction payable	1,076,868	1,983,219
Accrued interest	646,112	609,254
Current portion of bonds and notes payable, net (Note 6)	<u>1,737,741</u>	<u>897,115</u>
Total current liabilities	6,024,444	6,992,436
Bonds and notes payable, net (Note 6)	<u>71,335,935</u>	<u>52,221,822</u>
Total liabilities	<u>77,360,379</u>	<u>59,214,258</u>
Net assets:		
Unrestricted	28,291,166	24,216,056
Temporarily restricted (Note 7)	<u>479,337</u>	<u>489,621</u>
Total net assets	<u>28,770,503</u>	<u>24,705,677</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 106,130,882</u>	<u>\$ 83,919,935</u>

See accompanying notes to financial statements.

KIPP Austin Public Schools, Inc.

Statement of Activities for the year ended June 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Government grants <i>(Note 8)</i>	\$ 47,997,739		\$ 47,997,739
Contributions <i>(Note 2)</i>	770,778	\$ 364,023	1,134,801
Special events	271,982		271,982
Direct donor benefit costs	(59,245)		(59,245)
Other revenue	<u>1,436,869</u>		<u>1,436,869</u>
Total revenue	50,418,123	364,023	50,782,146
Net assets released from restrictions:			
Expenditures for program purposes	311,300	(311,300)	
Expiration of time restriction	<u>63,007</u>	<u>(63,007)</u>	
Total	<u>50,792,430</u>	<u>(10,284)</u>	<u>50,782,146</u>
EXPENSES:			
Program expenses:			
Instructional program	34,587,591		34,587,591
Auxiliary services	<u>7,973,653</u>		<u>7,973,653</u>
Total program expenses	42,561,244		42,561,244
General and administrative	3,776,806		3,776,806
Fundraising	<u>379,270</u>		<u>379,270</u>
Total expenses	<u>46,717,320</u>		<u>46,717,320</u>
CHANGES IN NET ASSETS	4,075,110	(10,284)	4,064,826
Net assets, beginning of year	<u>24,216,056</u>	<u>489,621</u>	<u>24,705,677</u>
Net assets, end of year	<u>\$ 28,291,166</u>	<u>\$ 479,337</u>	<u>\$ 28,770,503</u>

See accompanying notes to financial statements.

KIPP Austin Public Schools, Inc.

Statement of Activities for the ten months ended June 30, 2015

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

See accompanying notes to financial statements.

KIPP Austin Public Schools, Inc.

Statements of Cash Flows for the year ended June 30, 2016 and the ten months ended June 30, 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 4,064,826	\$ 8,738,298
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,038,286	863,566
Amortization of bond issuance costs	46,248	12,762
Amortization of bond premium	(43,989)	(26,022)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	79,665	(245,419)
Government grant and other receivables	697,180	(5,804,288)
Pledges receivable	83,118	(173,028)
Accounts payable	(619,695)	738,706
Accrued expenses	(319,430)	365,933
Accrued interest	<u>36,858</u>	<u>609,254</u>
Net cash provided by operating activities	<u>5,063,067</u>	<u>5,079,762</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(18,679,618)</u>	<u>(9,154,084)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bond proceeds held in trust	(3,705,027)	(16,419,110)
Proceeds from bonds and notes payable	29,500,000	54,119,806
Principal repayments of bonds and notes payable	(9,110,197)	(30,004,874)
Bond issuance costs	<u>(437,323)</u>	<u>(656,288)</u>
Net cash provided by financing activities	<u>16,247,453</u>	<u>7,039,534</u>
NET CHANGE IN CASH	2,630,902	2,965,212
Cash, beginning of year	<u>14,097,231</u>	<u>11,132,019</u>
Cash, end of year	<u>\$ 16,728,133</u>	<u>\$ 14,097,231</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest payments	\$2,923,014	\$745,343

See accompanying notes to financial statements.

KIPP Austin Public Schools, Inc.

Notes to Financial Statements for the year ended June 30, 2016 and the ten months ended June 30, 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – KIPP Austin Public Schools, Inc. (KIPP Austin) is a high-performing school district in Austin with a focus on serving students from low-income communities and families. Incorporated in 2002, KIPP Austin is a single charter holder and does not conduct any other charter or non-charter activities. KIPP Austin is part of the nationally-recognized “Knowledge Is Power Program” network of free, open-enrollment, college-preparatory public schools. KIPP Austin believes that every child, regardless of economic background, has the right to an exemplary education. KIPP Austin empowers students to thrive in and graduate from college, choose their paths, and positively impact their communities. In 2016, KIPP Austin operated four elementary schools, four middle schools, and one high school with enrollment of approximately 4,400 students in kindergarten through twelfth grades.

Federal income tax status – KIPP Austin is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii).

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

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

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

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

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

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

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

In-kind contributions – Donated materials and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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

Recent accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will significantly impact the presentation and disclosures of the financial statements. KIPP Austin will adopt this ASU effective for the fiscal year ended June 30, 2019.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are comprised of the following:

	<u>2016</u>	<u>2015</u>
Total pledges receivable	\$ 273,635	\$ 356,753
Allowance for uncollectible pledges	<u>(23,199)</u>	<u>(23,199)</u>
Pledges receivable, net	<u>\$ 250,436</u>	<u>\$ 333,554</u>

Pledges receivable at June 30, 2016 are expected to be collected as follows:

2017	\$ 89,289
2018	127,679
2019	<u>56,667</u>
Total pledges receivable	<u>\$ 273,635</u>

Conditional pledge receivable – At June 30, 2016, KIPP Austin has a \$839,270 conditional pledge receivable. The commitment is conditioned upon certain milestones being met and raising matching funds. This gift will be recognized as contribution revenue when the conditions the donor has established are substantially met.

Concentrations – In 2016, approximately 70% of contributions were from two donors. In 2015, approximately 43% of contributions were from three donors. At June 30, 2016, approximately 51% of pledges receivable was due from two donors. At June 30, 2015, approximately 53% of pledges receivable was due from two donors.

NOTE 3 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Bond proceeds held in trust:				
Money market mutual fund	\$ 20,124,137	_____	_____	\$ 20,124,137
Total assets measured at fair value	<u>\$ 20,124,137</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,124,137</u>

Assets measured at fair value at June 30, 2015 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Bond proceeds held in trust:				
Money market mutual fund	\$ 16,419,110	_____	_____	\$ 16,419,110
Total assets measured at fair value	<u>\$ 16,419,110</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,419,110</u>

Mutual funds are valued at the reported net asset value of shares held. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while KIPP Austin believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of significant financial instruments, including cash, pledges receivable, bond proceeds held in trust and other short-term assets and liabilities approximates fair value as of June 30, 2016 and 2015. The fair value of bonds and notes payable at June 30, 2016 carried at \$73,073,676 was \$76,049,658. The fair value of bonds and notes payable at June 30, 2015 carried at \$53,118,937 was \$55,048,558.

NOTE 5 – PROPERTY

Property is comprised of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 10,254,541	\$ 10,254,541
Buildings and improvements	34,478,696	34,478,696
Furniture and equipment	1,880,810	1,869,569
Vehicles and equipment	35,161	30,398
Library books and media	27,056	27,056
Land improvements	17,525	17,525
Construction in progress	<u>19,611,047</u>	<u>1,853,784</u>
Total property, at cost	66,304,836	48,531,569
Accumulated depreciation	<u>(4,388,242)</u>	<u>(3,349,956)</u>
Property, net	<u>\$ 61,916,594</u>	<u>\$ 45,181,613</u>

NOTE 6 – BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following:

	<u>2016</u>	<u>2015</u>
Education Revenue Bonds, Series 2014A, issued by Texas Public Finance Authority Charter School Finance Corporation. The bonds bear interest at rates from 2% to 5% (4.16% at June 30, 2016) and are due in installments through August 15, 2044. The proceeds were used to refinance existing bank debt and to fund building construction on specified campuses. The bonds are secured by unrestricted revenue and real property and are guaranteed by Texas Education Agency (TEA) under the Permanent School Fund Guarantee Program.	\$ 38,090,000	\$ 38,595,000
Taxable Education Revenue Qualified Zone Academy Bonds, Series 2015Z, issued by Texas Public Finance Authority Charter School Finance Corporation. Interest on the bonds of 4.64% is paid to the bondholder by the Federal government as part of a federal tax credit bond program. The bonds are due on August 15, 2035. The proceeds were used to fund building construction on specified campuses. The bonds are secured by unrestricted revenue and real property and are guaranteed by TEA under the Permanent School Fund Guarantee Program.	25,377,000	
Taxable Education Revenue Qualified Zone Academy Bonds, Series 2014Z, issued by Texas Public Finance Authority Charter School Finance Corporation. Interest on the bonds of 4.39% is paid to the bondholder by the Federal government as part of a federal tax credit bond program. The bonds are due on August 15, 2029. The proceeds were used to refinance existing bank debt and to fund building construction on specified campuses. The bonds are secured by unrestricted revenue and real property and are guaranteed by TEA under the Permanent School Fund Guarantee Program.	5,250,000	5,623,000

Education Revenue Bonds, Series 2015A, issued by Hilshire Village Higher Education Finance Corporation. The bonds bear interest at 2.9% and are due in installments through August 15, 2030. The proceeds were used to refinance existing bank debt and to fund building construction on specified campuses. The bonds are secured by unrestricted revenue and real property and are guaranteed by TEA under the Permanent School Fund Guarantee Program.

4,123,000

A \$25,000,000 non-revolving line of credit agreement with a bank used to acquire, construct and renovate future school campuses. Amounts borrowed under this agreement bear interest at one-month LIBOR plus 1.60%. The line is secured by unrestricted revenue and real property and improvements financed with the line of credit and is subject to an unused fee of 0.15% of the unused balance that is due and payable quarterly.

8,232,197

Total bonds and notes payable

72,840,000 52,450,197

Bond premium

1,268,277 1,312,266

Bond issuance costs

(1,034,601) (643,526)

Bonds and notes payable, net

\$ 73,073,676 \$ 53,118,937

Maturities of bonds and notes payable at June 30, 2016 are as follows:

2017	\$ 1,740,000
2018	1,897,000
2019	2,090,000
2020	2,360,000
2021	2,450,000
Thereafter	<u>62,303,000</u>
Total	<u>\$ 72,840,000</u>

KIPP Austin capitalized interest totaling approximately \$368,000 in 2016. Interest expense totaled approximately \$2,668,000 and \$1,337,000 in 2016 and 2015, respectively.

Bond proceeds held in trust are held in money market mutual funds and include the following:

	<u>2016</u>	<u>2015</u>
Bond funds available for projects	\$ 17,816,448	\$ 14,957,341
Escrowed for debt service	<u>2,307,689</u>	<u>1,461,769</u>
Total bond proceeds held in trust	<u>\$ 20,124,137</u>	<u>\$ 16,419,110</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Future operations	\$ 232,635	\$ 295,642
KIPP Austin expansion	194,829	
KIPP Austin Beacon Prep Middle School	20,000	40,000
KIPP Austin Collegiate	10,297	31,008
KIPP Through College program	6,614	26,330
KIPP Austin Leadership Elementary		40,864
KIPP Austin Obras Elementary		40,864
Other	<u>14,962</u>	<u>14,913</u>
Total temporarily restricted net assets	<u>\$ 479,337</u>	<u>\$ 489,621</u>

NOTE 8 – GOVERNMENT GRANTS

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

	<u>2016</u>	<u>2015</u>
Federal grants:		
U. S. Department of Education	\$ 3,820,250	\$ 2,490,661
U. S. Department of Agriculture	3,520,550	2,827,700
Charter School Program		<u>211,481</u>
Total federal grants	<u>7,340,800</u>	<u>5,529,842</u>
State grants:		
Foundation School Program Act	40,479,129	34,066,907
Textbook and Kindergarten Materials	162,000	159,908
Other	<u>15,810</u>	<u>30,223</u>
Total state grants	<u>40,656,939</u>	<u>34,257,038</u>
Total government grants	<u>\$ 47,997,739</u>	<u>\$ 39,786,880</u>

At June 30, 2016 and 2015, approximately 98% and 89% of government grant and other receivables were due from Texas Education Agency, respectively.

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

NOTE 9 – MULTIEMPLOYER PENSION PLAN

KIPP Austin employees working more than half-time participate in the Teacher Retirement System of Texas (TRS), a cost-sharing, multiemployer defined benefit pension plan, except that risks and costs are not shared by KIPP Austin, but are the liability of the State of Texas. TRS administers retirement and

disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas.

Contribution requirements are not actuarially determined, but are established and amended by the Texas State Legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system; and (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Plan member contributions increased on September 1, 2015 from 6.7% to 7.2% of their annual covered salary. In 2015 and 2016, state law provides for an employer contribution rate of 6.8% for new members for the first 90 days of employment and for employees whose salaries are federally or privately funded. Additionally, KIPP Austin made a 1.5% non-OASDI contribution on all TRS eligible employees for 2016 and 2015 totaling \$893,765 and \$562,171, respectively. KIPP Austin's contributions do not represent more than 5% of the pension plan's total contributions.

The risks of participating in a multiemployer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Total TRS plan assets as of August 31, 2015 and 2014 were \$149.8 billion and \$157.3 billion, respectively. Accumulated benefit obligations as of August 31, 2015 and 2014 were \$163.9 billion and \$159.5 billion, respectively. The plan was 78.43% funded at August 31, 2015 and 83.25% funded at August 31, 2014.

NOTE 10 – COMMITMENTS

As of June 30, 2016, KIPP Austin has entered into various construction agreements totaling approximately \$20.1 million. Unpaid commitments under these agreements at June 30, 2016 was approximately \$2.8 million.

NOTE 11 – SUBSEQUENT EVENTS

Compliance with the Davis Bacon Act is a condition of the Qualified Zone Academy Bonds used to fund a portion of KIPP Austin's construction efforts. Management has determined that its contracts with general contractors do not contain this provision and that prevailing wages were not paid on certain projects. Management is working with the general contractors to determine the cost to remediate this difference and expects to correct the underpayments during KIPP Austin's 2017 fiscal year. The additional payments will be capitalized as part of the cost of the projects involved. Because management is unable to estimate the cost of remediation no accrual for this matter has been made in the statement of financial position at June 30, 2016.

Management has evaluated subsequent events through November 14, 2016, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

KIPP Austin Public Schools, Inc.

Supplemental Statements of Activities for the year ended June 30, 2016
and the ten months ended June 30, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTALS		
			2016	2015	
REVENUE:					
Local program revenue:					
5740	Other revenue from local sources	\$ 2,101,737	\$ 364,023	\$ 2,465,760	\$ 2,470,408
5750	Co-curriculum/enterprising	318,647		318,647	221,034
Federal program revenue:					
5910	Federal revenue distributed through government entities		90,555	90,555	462,501
5920	Federal revenue distributed by Texas Education Agency		6,029,014	6,029,014	4,919,917
5940	Federal revenue distributed directly from the Federal government		1,221,231	1,221,231	147,424
State program revenue:					
5810	Foundation School Program Act revenue		40,479,129	40,479,129	34,066,907
5820	State program revenue distributed by Texas Education Agency		177,810	177,810	172,631
5830	State revenue from State of Texas government agencies				17,500
	Total revenue	2,420,384	48,361,762	50,782,146	42,478,322
Net assets released from restrictions:					
	Program expenditures	45,749,299	(45,749,299)		
	Expiration of time restriction	63,007	(63,007)		
	Total	48,232,690	2,549,456	50,782,146	42,478,322
EXPENSES:					
11	Instruction	20,973,761		20,973,761	16,959,105
12	Instructional resources and media services	31,433		31,433	
13	Curriculum development and instructional staff development	1,648,187		1,648,187	1,186,915
21	Instructional leadership	192,552		192,552	149,460
23	School leadership	4,713,871		4,713,871	2,700,012
31	Guidance counseling and evaluation services	274,540		274,540	121,170
32	Social work services	518,496		518,496	320,599
33	Health services	6,425		6,425	29,276
34	Student transportation	3,031,316		3,031,316	2,042,513
35	Food services	3,794,461		3,794,461	2,870,602

(continued)

KIPP Austin Public Schools, Inc.

Supplemental Statements of Activities for the year ended June 30, 2016
and the ten months ended June 30, 2015

(continued)

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTALS</u>	
			<u>2016</u>	<u>2015</u>
EXPENSES: <i>(continued)</i>				
36	Co-curricular and extracurricular activities	30,552	30,552	31,467
41	General administration	3,093,345	3,093,345	2,056,365
51	Plant maintenance and operations	4,004,620	4,004,620	2,744,333
52	Security and monitoring services	18,652	18,652	459
53	Data processing services	968,806	968,806	535,080
61	Community services	345,120	345,120	205,683
71	Debt service	2,697,695	2,697,695	1,337,145
81	Fundraising	<u>373,488</u>	<u>373,488</u>	<u>449,840</u>
	Total expenses	<u>46,717,320</u>	<u>46,717,320</u>	<u>33,740,024</u>
CHANGES IN NET ASSETS				
		1,515,370	2,549,456	4,064,826
	Net assets, beginning of year	<u>7,851,057</u>	<u>16,854,620</u>	<u>24,705,677</u>
	Net assets, end of year	<u>\$ 9,366,427</u>	<u>\$19,404,076</u>	<u>\$28,770,503</u>

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

KIPP Austin Public Schools, Inc.

Schedules of Expenses for the year ended June 30, 2016 and the ten months ended June 30, 2015

	<u>2016</u>	<u>2015</u>
6100 Payroll costs	\$ 29,606,515	\$ 20,113,050
6200 Professional and contracted services	7,368,953	5,279,038
6300 Supplies and materials	4,848,160	4,704,503
6400 Other operating costs	2,225,927	2,306,288
6500 Interest on debt	<u>2,667,765</u>	<u>1,337,145</u>
Total	<u>\$ 46,717,320</u>	<u>\$ 33,740,024</u>

KIPP Austin Public Schools, Inc.

Schedules of Capital Assets as of June 30, 2016 and 2015

		2016		
		OWNERSHIP INTEREST		
		<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1510	Land and improvements	\$ 10,254,541	\$ 17,525	
1520	Buildings and improvements	33,733,407	745,289	
1531	Vehicles and equipment		35,161	
1539	Furniture and equipment	1,624,502	202,473	\$ 53,835
1560	Library books and media	27,056		
1590	Other capital assets	<u>19,611,047</u>		
Total capital assets		<u>\$ 65,250,553</u>	<u>\$ 1,000,448</u>	<u>\$ 53,835</u>

		2015		
		OWNERSHIP INTEREST		
		<u>LOCAL</u>	<u>STATE</u>	<u>FEDERAL</u>
1510	Land and improvements	\$ 10,254,541	\$ 17,525	
1520	Buildings and improvements	33,733,407	745,289	
1531	Vehicles and equipment		30,398	
1539	Furniture and equipment	1,624,502	191,232	\$ 53,835
1560	Library books and media	27,056		
1590	Other capital assets	<u>1,853,784</u>		
Total capital assets		<u>\$ 47,493,290</u>	<u>\$ 984,444</u>	<u>\$ 53,835</u>

KIPP Austin Public Schools, Inc.

Budgetary Comparison Schedule for the year ended June 30, 2016

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE FROM FINAL BUDGET	
	ORIGINAL	FINAL			
REVENUE:					
Local program revenue:					
5740	Other revenue from local sources	\$ 2,577,383	\$ 2,577,383	\$ 2,465,760	\$ (111,623)
5750	Co-curriculum/enterprising	273,680	273,680	318,647	44,967
Federal program revenue:					
5910	Federal revenue distributed through government entities			90,555	90,555
5920	Federal revenue distributed by Texas Education Agency	6,240,649	6,240,649	6,029,014	(211,635)
5940	Federal revenue distributed directly from the Federal government			1,221,231	1,221,231
State program revenue:					
5810	Foundation School Program Act Revenue	38,321,443	38,321,443	40,479,129	2,157,686
5820	State program revenue distributed by Texas Education Agency	<u>309,171</u>	<u>309,171</u>	<u>177,810</u>	<u>(131,361)</u>
	Total revenue	<u>47,722,326</u>	<u>47,722,326</u>	<u>50,782,146</u>	<u>3,059,820</u>
EXPENSES:					
11	Instruction	20,661,316	20,661,316	20,973,761	312,445
12	Instructional resources and media services	110,145	110,145	31,433	(78,712)
13	Curriculum development and instructional staff development	1,440,842	1,440,842	1,648,187	207,345
21	Instructional leadership	500,685	500,685	192,552	(308,133)
23	School leadership	4,390,926	4,390,926	4,713,871	322,945
31	Guidance counseling and evaluation services	463,580	463,580	274,540	(189,040)
32	Social work services	612,884	612,884	518,496	(94,388)
33	Health services	36,045	36,045	6,425	(29,620)
34	Student transportation	3,011,033	3,011,033	3,031,316	20,283
35	Food services	3,841,207	3,841,207	3,794,461	(46,746)
36	Co-curricular and extracurricular activities	45,500	45,500	30,552	(14,948)
41	General administration	3,188,763	3,188,763	3,093,345	(95,418)
51	Plant maintenance and operations	3,890,213	3,890,213	4,004,620	114,407
52	Security and monitoring services	56,800	56,800	18,652	(38,148)
53	Data processing services	898,224	898,224	968,806	70,582

(continued)

KIPP Austin Public Schools, Inc.

Budgetary Comparison Schedule for the year ended June 30, 2016

(continued)

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	VARIANCE FROM <u>FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
EXPENSES: <i>(continued)</i>				
61 Community services	308,556	308,556	345,120	36,564
71 Debt service	3,827,672	3,827,672	2,697,695	(1,129,977)
81 Fundraising	<u>422,985</u>	<u>422,985</u>	<u>373,488</u>	<u>(49,497)</u>
Total expenses	<u>47,707,376</u>	<u>47,707,376</u>	<u>46,717,320</u>	<u>(990,056)</u>
CHANGES IN NET ASSETS				
	14,950	14,950	4,064,826	4,049,876
Net assets, beginning of year	<u>24,705,677</u>	<u>24,705,677</u>	<u>24,705,677</u>	<u> </u>
Net assets, end of year	<u>\$24,720,627</u>	<u>\$24,720,627</u>	<u>\$28,770,503</u>	<u>\$ 4,049,876</u>

KIPP Austin Public Schools, Inc.

Maintenance of Effort for the year ended June 30, 2016

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

Total health care insurance premiums	<u>\$ 2,219,344</u>
Less non-medical expenditures:	
Life insurance	0
Dental insurance	0
Vision insurance	0
Long-term disability	0
Short-term disability	77,017
Alternate plans	0
COBRA expense	0
Retiree expense	0
One-time catastrophic claims	<u>0</u>
Total non-medical expenditures	<u>77,017</u>
Total maintenance of effort	<u>\$ 2,142,327</u>

KIPP Austin Public Schools, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2016

FEDERAL GRANTOR

Pass-through Grantor

<u>Program Title & Period</u>	<u>CFDA Number</u>	<u>Pass-through Grant Number</u>	<u>Revenue</u>	<u>Expenses</u>	
U. S. DEPARTMENT OF AGRICULTURE					
Passed through Texas Education Agency:					
National School Breakfast Program					
(a) #1	10/01/14 – 09/30/15	10.553	71401501	\$ 217,073	\$ 217,073
(a) #2	10/01/15 – 09/30/16	10.553	71401601	805,458	805,458
Subtotal			<u>1,022,531</u>	<u>1,022,531</u>	
Passed through Texas Education Agency					
National School Lunch Program					
(a) #3	10/01/14 – 09/30/15	10.555	71301501	478,858	478,858
(a) #4	10/01/15 – 09/30/16	10.555	71301601	1,916,504	1,916,504
Passed through Capital Area Food Bank:					
National School Lunch Program (Food Commodities)					
(a) #5	09/01/15 – 06/30/16	10.555	N/A	102,657	102,657
Subtotal			<u>2,498,019</u>	<u>2,498,019</u>	
Total U. S. Department of Agriculture			<u>3,520,550</u>	<u>3,520,550</u>	

U. S. DEPARTMENT OF EDUCATION

Passed through KIPP Foundation:					
Title II, Part A, Supporting Effective Instruction State Grant					
#6	01/01/16 – 06/30/16	84.367D	U367D150018	90,555	90,555
Passed through Texas Education Agency:					
Title II, Part A, Supporting Effective Instruction State Grant					
#7	09/03/14 – 09/30/15	84.367A	15694501227820	4,325	4,325
#8	09/04/15 – 09/30/16	84.367A	16694501227820	236,908	236,908
Subtotal			<u>331,788</u>	<u>331,788</u>	
Passed through Texas Education Agency					
Title I, Part A, Improving Basic Programs					
#9	09/03/14 – 09/30/15	84.010A	15610101227820	31,533	31,533
#10	09/04/15 – 09/30/16	84.010A	16610101227820	1,230,463	1,230,463
Subtotal			<u>1,261,996</u>	<u>1,261,996</u>	

(continued)

KIPP Austin Public Schools, Inc.

Schedule of Expenditures of Federal Awards for the year ended June 30, 2016 *(continued)*

FEDERAL GRANTOR

<u>Pass-through Grantor</u>	<u>CFDA Number</u>	<u>Pass-through Grant Number</u>	<u>Revenue</u>	<u>Expenses</u>
<u>Program Title & Period</u>				

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

IDEA-B Formula, Special Education Grants to States					
(b) #11	07/15/15 – 09/30/16	84.027A	166600012278206000	642,573	642,573
IDEA-B Formula Residential, Special Education Grants to States					
(b) #12	02/10/16 – 07/31/16	84.027A	166600122278206000	136,707	136,707
IDEA-B Special Education Preschool Grants					
(b) #13	07/15/15 – 09/30/16	84.173A	166610012278206000	<u>19,155</u>	<u>19,155</u>
Subtotal				<u>798,435</u>	<u>798,435</u>
Title III, Part A, English Language Acquisition State Grants					
#14	09/03/14 – 09/30/15	84.365A	15671001227820	121,378	121,378
#15	09/04/15 – 09/30/16	84.365A	16671001227820	<u>85,422</u>	<u>85,422</u>
Subtotal				<u>206,800</u>	<u>206,800</u>
Qualified Zone Academy Bonds Interest, ARRA					
#16	11/25/14 – 08/15/29	84.XXX	N/A	232,522	232,522
#17	08/13/15 – 08/15/35	84.XXX	N/A	<u>988,709</u>	<u>988,709</u>
Subtotal				<u>1,221,231</u>	<u>1,221,231</u>
Total U. S. Department of Education				<u>3,820,250</u>	<u>3,820,250</u>
TOTAL FEDERAL AWARDS				<u>\$ 7,340,800</u>	<u>\$ 7,340,800</u>
(a) Child Nutrition Cluster				\$3,520,550	\$3,520,550
(b) Special Education Cluster (IDEA)				\$798,435	\$798,435

See accompanying note to schedule of expenditures of federal awards.

KIPP Austin Public Schools, Inc.

Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenses include allowable expenses funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and the standards of OMB Circular A-122, *Cost Principles for Non-Profit Organizations* and include costs that are recognized as expenses in KIPP Austin’s financial statements in conformity with generally accepted accounting principles. KIPP Austin has elected not to use the 10% de minimus rate for indirect costs.

Because the schedule presents only a selected portion of the operations of KIPP Austin, they are not intended to and do not present the financial position, changes in net assets, or cash flows of KIPP Austin.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of KIPP Austin Public Schools, Inc. (KIPP Austin) which comprise the statement of financial position as of June 30, 2016 and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KIPP Austin's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KIPP Austin's internal control. Accordingly, we do not express an opinion on the effectiveness of KIPP Austin's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blazek & Vetterling

November 14, 2016

**Independent Auditors' Report on Compliance for Each Major
Federal Program and Report on Internal Control Over
Compliance Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited KIPP Austin Public Schools, Inc.'s (KIPP Austin) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of KIPP Austin's major federal programs for the year ended June 30, 2016. KIPP Austin's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of KIPP's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KIPP Austin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of KIPP Austin's compliance.

Opinion on Each Major Federal Program

In our opinion, KIPP Austin complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as finding #2016-001. Our opinion on each major federal program is not modified with respect to this matter.

KIPP Austin's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. KIPP Austin's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

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



November 14, 2016

Section III – Federal Award Findings and Questioned Costs

Finding #2016-001 – Other Non-Compliance

Applicable federal program:

Department of Education
Qualified Zone Academy Bonds Interest, ARRA
CFDA # 84.XXX
Contract Year
08/13/15 – 08/15/35

Criteria: Special provisions – KIPP Austin is responsible for having a system in place to ensure that the contractors or subcontractors on projects funded by the federal government comply with the prevailing wage requirements of the Davis-Bacon Act.

Condition and context: KIPP Austin’s construction contract did not include the requirement to comply with the prevailing wage requirement of the Davis-Bacon Act.

Effect: Failure to notify contractors or subcontractors of the prevailing wage requirement of the Davis-Bacon Act could lead to failure of these contractors or subcontractors to comply with federal regulations.

Questioned costs: Unknown

Recommendation: Identify special provisions applicable to government contracts and ensure that these special provisions are being performed in a timely manner.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See the Corrective Action Plan.



CORRECTIVE ACTION PLAN

November 14, 2016

DEPARTMENT OF EDUCATION

KIPP Austin Public Schools, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2016. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The finding from the June 30, 2016 schedule of findings and questioned costs is discussed below.

Section III – Federal Award Findings and Questioned Costs

Finding #2016-001 – Other Non-Compliance

Applicable federal program:

Department of Education
Qualified Zone Academy Bonds Interest, ARRA
CFDA # 84.XXX
Contract Year
08/13/15 – 08/15/35

Recommendation: Identify special provisions applicable to government contracts and ensure that these special provisions are being performed in a timely manner.

Views of responsible officials and planned corrective actions: KIPP Austin has implemented a corrective action plan to ensure that all laborers who performed labor on any KIPP Austin projects for the identified QZAB contract year has been and will be paid the applicable minimum prevailing wage rates, as determined by the U.S. Department of Labor Wage and Hour Division.

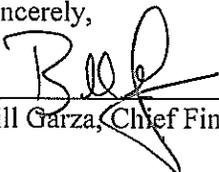
KIPP Austin has negotiated amendments to the affected construction contracts to include the prevailing wage rates required under the Davis-Bacon Act (40 U.S.C. 3141-48), as well as all Davis-Bacon contract provisions required under Title 29 C.F.R. 5.5 to be included in construction contracts. To the extent any additional wages are due to any laborers who have already performed on such projects, KIPP Austin will issue a change order to its prime contractor for the additional required labor costs. On a going forward basis, KIPP Austin will ensure that all contractors and subcontractors comply with the Davis-Bacon requirements, and will verify that all laborers are being paid the applicable federal prevailing wages under Davis-Bacon.

Responsible officer: Bill Garza

Estimated completion date: As of October 31, 2016, corrective action plan has been implemented.

If the DEPARTMENT OF EDUCATION has questions regarding this plan, please call Bill Garza at (512) 501-3643.

Sincerely,



Bill Garza, Chief Financial Officer