

KIPP ACADEMY CHARTER SCHOOL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
KIPP Academy Charter School
Bronx, New York

Report on the Financial Statements

We have audited the accompanying financial statements of KIPP Academy Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, 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 *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Academy Charter School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the KIPP Academy Charter School's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2018 on our consideration of KIPP Academy Charter School'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of KIPP Academy Charter School's 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 Academy Charter School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 24, 2018

**KIPP ACADEMY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 2,223,809	\$ 3,469,309
Grants and Contracts Receivable	1,593,465	514,625
Prepaid Expenses and Other Assets	240,431	46,153
Equipment and Improvements	475,493	493,283
Total Assets	\$ 4,533,198	\$ 4,523,370
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 644,885	\$ 530,292
Refundable Advances	39,068	19,755
Due to Related Parties	1,049,502	1,307,370
Total Liabilities	1,733,455	1,857,417
NET ASSETS		
Unrestricted	2,746,860	2,635,502
Temporarily Restricted	52,883	30,451
Total Net Assets	2,799,743	2,665,953
Total Liabilities and Net Assets	\$ 4,533,198	\$ 4,523,370

See accompanying Notes to Financial Statements.

**KIPP ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE						
State and Local Per Pupil Operating Revenue	\$ 17,334,238	\$ -	\$ 17,334,238	\$ 17,326,109	\$ -	\$ 17,326,109
Federal Government Grants and Contracts	1,090,580	-	1,090,580	961,376	-	961,376
Nonfederal Grants and Contracts	594,045	-	594,045	522,908	-	522,908
Total Operating Revenue	<u>19,018,863</u>	<u>-</u>	<u>19,018,863</u>	<u>18,810,393</u>	<u>-</u>	<u>18,810,393</u>
OPERATING EXPENSES						
Program Services	19,660,015	-	19,660,015	18,685,484	-	18,685,484
Supporting Services	2,037,212	-	2,037,212	2,023,168	-	2,023,168
Total Expenses	<u>21,697,227</u>	<u>-</u>	<u>21,697,227</u>	<u>20,708,652</u>	<u>-</u>	<u>20,708,652</u>
SCHOOL OPERATING REVENUE (DEFICIT)	<u>(2,678,364)</u>	<u>-</u>	<u>(2,678,364)</u>	<u>(1,898,259)</u>	<u>-</u>	<u>(1,898,259)</u>
OTHER REVENUE AND EXPENSES						
Contributions and Other Grants	1,719,359	948,004	2,667,363	1,520,332	171,046	1,691,378
Interest and Other Income	144,791	-	144,791	120,819	-	120,819
Total Other Revenue and Expenses, Net	<u>1,864,150</u>	<u>948,004</u>	<u>2,812,154</u>	<u>1,641,151</u>	<u>171,046</u>	<u>1,812,197</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>925,572</u>	<u>(925,572)</u>	<u>-</u>	<u>145,478</u>	<u>(145,478)</u>	<u>-</u>
CHANGE IN NET ASSETS	111,358	22,432	133,790	(111,630)	25,568	(86,062)
Net Assets – Beginning of Year	<u>2,635,502</u>	<u>30,451</u>	<u>2,665,953</u>	<u>2,747,132</u>	<u>4,883</u>	<u>2,752,015</u>
NET ASSETS – END OF YEAR	<u>\$ 2,746,860</u>	<u>\$ 52,883</u>	<u>\$ 2,799,743</u>	<u>\$ 2,635,502</u>	<u>\$ 30,451</u>	<u>\$ 2,665,953</u>

See accompanying Notes to Financial Statements.

**KIPP ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program Services			Services	Total Expenses
	Regular Education	Special Education	Total	Management and General	
Employee Wages	\$ 9,808,145	\$ 1,535,713	\$ 11,343,858	\$ -	\$ 11,343,858
Payroll Taxes and Employee Benefits	3,343,833	158,481	3,502,314	-	3,502,314
Licensing and Management Fee	37,017	-	37,017	2,035,728	2,072,745
Litigation and Legal Services Fees	936,449	-	936,449	-	936,449
Other Professional Fees	678,306	10,215	688,521	-	688,521
Supplies and Materials	520,963	514	521,477	-	521,477
Occupancy	375,430	-	375,430	-	375,430
Telephone and Internet	336,967	-	336,967	-	336,967
Technology Equipment and Materials	362,344	-	362,344	-	362,344
Equipment and Maintenance	198,018	-	198,018	-	198,018
Academic Programming	325,491	4,220	329,711	-	329,711
Professional Development	258,722	473	259,195	-	259,195
Insurance	149,084	-	149,084	-	149,084
Depreciation and Amortization	211,790	-	211,790	-	211,790
Field Lessons	140,064	-	140,064	-	140,064
Consultants	40,843	22,960	63,803	-	63,803
Events	43,318	-	43,318	1,484	44,802
Student Transportation and Other Fees	66,299	-	66,299	-	66,299
Memberships and Subscriptions	24,184	-	24,184	-	24,184
Accounting and Audit Services Fees	20,945	-	20,945	-	20,945
Printing and Publications	26,556	-	26,556	-	26,556
Uncollectible Receivables	2,302	-	2,302	-	2,302
Postage and Shipping	7,189	-	7,189	-	7,189
Miscellaneous	1,639	-	1,639	-	1,639
Use of Donated Materials and Services	2,557	-	2,557	-	2,557
Bank and Other Fees	267	-	267	-	267
Prior Period Adjustments	8,717	-	8,717	-	8,717
Total Expenditures	\$ 17,927,439	\$ 1,732,576	\$ 19,660,015	\$ 2,037,212	\$ 21,697,227

See accompanying Notes to Financial Statements.

**KIPP ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Program Services			Supporting Services	Total Expenses
	Regular Education	Special Education	Total	Management and General	
Employee Wages	\$ 9,404,714	\$ 1,218,414	\$ 10,623,128	\$ -	\$ 10,623,128
Payroll Taxes and Employee Benefits	3,441,003	176,624	3,617,627	-	3,617,627
Licensing and Management Fee	37,818	-	37,818	2,017,771	2,055,589
Litigation and Legal Services Fees	811,418	-	811,418	-	811,418
Other Professional Fees	625,865	7,230	633,095	-	633,095
Supplies and Materials	475,254	-	475,254	-	475,254
Occupancy	362,580	-	362,580	-	362,580
Telephone and Internet	339,989	-	339,989	-	339,989
Technology Equipment and Materials	303,226	67	303,293	-	303,293
Equipment and Maintenance	245,066	-	245,066	-	245,066
Academic Programming	237,602	2,294	239,896	-	239,896
Professional Development	204,383	111	204,494	-	204,494
Insurance	194,999	-	194,999	-	194,999
Depreciation and Amortization	180,787	-	180,787	-	180,787
Field Lessons	168,338	-	168,338	-	168,338
Consultants	41,103	27,063	68,166	-	68,166
Student Events	53,444	-	53,444	5,397	58,841
Student Transportation and Other Fees	34,203	-	34,203	-	34,203
Memberships and Subscriptions	27,184	-	27,184	-	27,184
Accounting and Audit Services Fees	21,844	-	21,844	-	21,844
Printing and Publications	19,368	-	19,368	-	19,368
Uncollectible Receivables	11,876	-	11,876	-	11,876
Postage and Shipping	5,473	-	5,473	-	5,473
Miscellaneous	2,904	3	2,907	-	2,907
Candidate Recruiting	1,678	-	1,678	-	1,678
Alumni Programming	704	-	704	-	704
Grants to Related Entities	586	-	586	-	586
Use of Donated Materials and Services	271	-	271	-	271
Bank and Other Fees	59	-	59	-	59
Prior Period Adjustments	(61)	-	(61)	-	(61)
Total Expenditures	<u>\$ 17,253,678</u>	<u>\$ 1,431,806</u>	<u>\$ 18,685,484</u>	<u>\$ 2,023,168</u>	<u>\$ 20,708,652</u>

See accompanying Notes to Financial Statements.

**KIPP ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Local, State, and Federal Sources	\$ 17,940,023	\$ 18,620,073
Receipts from Others	2,812,154	1,812,197
Payments to Suppliers and Vendors	(10,459,819)	(9,838,671)
Payments to Employees	<u>(11,343,858)</u>	<u>(10,623,128)</u>
Net Cash Used by Operating Activities	(1,051,500)	(29,529)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	<u>(194,000)</u>	<u>(216,542)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(194,000)</u>	<u>(216,542)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,245,500)	(246,071)
Cash and Cash Equivalents – Beginning of Year	<u>3,469,309</u>	<u>3,715,380</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 2,223,809</u>	<u>\$ 3,469,309</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 133,790	\$ (86,062)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used by Operating Activities:		
Depreciation and Amortization	211,790	180,787
Change in Assets and Liabilities:		
Grants and Contracts Receivable	(1,078,840)	(190,320)
Prepaid Expenses and Other Assets	(194,278)	6,427
Accounts Payable and Accrued Expenses	114,593	286,556
Refundable Advances	19,313	19,168
Due to Related Parties	<u>(257,868)</u>	<u>(246,085)</u>
Total Adjustments	<u>(1,185,290)</u>	<u>56,533</u>
Net Cash Used by Operating Activities	<u>\$ (1,051,500)</u>	<u>\$ (29,529)</u>

See accompanying Notes to Financial Statements.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

KIPP Academy Charter School (the School) is an education corporation that operates as a charter school in the borough of the Bronx, New York City. On May 4, 2000, the Board of Regents of the City of New York for and on behalf of the State Education Department, granted the School a provisional charter valid for a term of five years from the effective date of September 1, 2000 and renewable upon expiration. The provisional charter was renewed on April 14, 2015 and is now effective through June 30, 2019.

The School was converted from an existing New York City Department of Education school. The School's mission is to prepare students with the academic and character skills necessary to succeed in high school, college, and the competitive world beyond.

In fiscal years 2018 and 2017, the School operated classes for students in grades kindergarten through twelve.

The major source of revenue and support for the School is from state and local funding on a per pupil basis. The New York City Department of Food Services provides free and reduced-price lunches and the New York City Department of Transportation provides transportation vouchers directly to a majority of the School's students. Amounts with respect to these items are not included in these financial statements.

Financial Statement Presentation

The financial statements of the School have been prepared on the accrual basis of accounting in accordance with established accounting standards for nonprofit entities. The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. Temporarily restricted net assets contain donor-imposed restrictions that permit the School to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the School. Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently but permit the School to use or expend part or all of the income derived from the restricted assets for either specified or unspecified purposes. The School only has unrestricted and temporarily restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits.

Grants and Contract Receivables

Grants and contract receivables primarily consist of amounts due from the New York Department of Education for federal and state subsidy programs and private grants. Grants and contract receivables are stated at the amount management expects to collect from outstanding balances. As of June 30, 2018 and 2017, no allowance was warranted.

Governmental Funding

Revenue from the state and local governments resulting from the School's charter status is based on the number of students enrolled. The revenue is recorded when services are performed in accordance with the charter agreement. Federal and state funds are recognized by the School when expenditures are incurred and billable.

Revenue from other government grants to which the School is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by the School.

Federal and state funds received prior to the services provided or the related expenditures being incurred are deferred and recorded as refundable advances.

Contributions

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Goods and Services

Donated goods and services are recorded at their fair value when such services are rendered or goods are donated. Contributed services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) required specialized skills and are performed by people with those skills and would otherwise be purchased by the School and (c) are measurable.

A number of volunteers have made a contribution of their time to the School. These in-kind contributions have not been reflected in the financial statements since they do not meet the criteria for recognition under accounting standards for contributions.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equipment, Improvements, Depreciation, and Amortization

Equipment is recorded at cost. The School capitalizes purchases of equipment in excess of \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Equipment acquired with certain government contract funds are recorded as expenses when the grantor retains title.

Improvements to the facility are amortized over the useful life as there is no set lease term for the school building.

Expense Allocation

The costs of providing services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated to the program and support services benefited.

Concentration of Credit Risk

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

Income Taxes

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable income tax regulations of the state of New York. No provision for income taxes has been established, as the School has no unrelated business activity.

The School follows the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. This standard had no impact on the School's financial statements.

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 24, 2018, the date the financial statements were available to be issued.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 RELATED PARTY TRANSACTIONS

The Knowledge is Power Program Foundation (KIPP Foundation) is a national, nonprofit organization that trains school leaders to open and run academically rigorous public schools. The School is a member of KIPP Foundation's KIPP Network of Schools and, as such, is eligible for a range of benefits and fee-based services. KIPP Foundation charges a license fee to all of the KIPP Charter Schools. See Note 7 for additional information about the license fee agreement.

KIPP NYC, LLC (LLC) is the sole member of KIPP New York, Inc. (KNYI). The School received grants from KNYI in the amounts of \$2,600,000 and \$1,500,000 for the years ended June 30, 2018 and 2017, respectively. Amounts due to and from related parties represent short-term timing differences of expenses incurred on behalf of the School that have not been paid or received as of the financial statement date. As of June 30, 2018 and 2017, the School had receivables balances for grants in the amounts of \$1,000,000 and \$-0-, respectively.

LLC is considered a related party due to the usage of the LLC shared services team who handles the back-office functions for the School. In July 2009, the School entered into a shared services fee agreement with LLC for the back-office functions. The management fee is 11% of the revenue as defined in the shared services agreement. The School incurred a management fee to LLC in the amount of \$2,035,728 and \$2,017,771 for the years ended June 30, 2018 and 2017, respectively. The amount due to LLC for shared services as of June 30, 2018 and 2017 was \$83,870 and \$34,679, respectively.

KNYI is the sole member of KTC NYC, LLC (KTC). Amounts due to and from related parties represent short-term timing differences of grants received and expenses incurred on behalf of the School that have not been paid or received as of the financial statement date.

KTC is considered a related party due to the services they provide to the KIPP New York charter schools and school alumni to prepare them for college. The services KTC provides are college advisory, counseling and placement, transition programs, college scholars and career preparation. There were no transactions between KTC and the School during the year.

KIPP NYC Facilities II LLC (Facilities) is a single member limited liability company with KIPP NYC Facility Holdings, Inc. as its sole member. KIPP NYC Facility Holdings Inc. is a Delaware nonstock charitable membership corporation with a mission of securing long-term facilities for KIPP charter schools operating in New York City. KNYI, the School, and KIPP NYC Public Charter Schools are members of KIPP NYC Facility Holdings Inc. The School had no transactions with Facilities during the years ended June 30, 2018 and 2017.

The School and KIPP NYC Public Charter Schools share some common membership on their board of directors.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 3 EQUIPMENT AND IMPROVEMENTS

Equipment and improvements consist of the following:

	<u>2018</u>	<u>2017</u>
Furniture and Fixtures	\$ 98,020	\$ 98,022
Technology	1,642,678	1,636,334
Leasehold Improvements	691,174	534,727
Construction in Progress	23,721	-
Equipment	<u>249,358</u>	<u>241,864</u>
Total	2,704,951	2,510,947
Less: Accumulated Depreciation and Amortization	<u>(2,229,458)</u>	<u>(2,017,664)</u>
Total Equipment and Improvements	<u>\$ 475,493</u>	<u>\$ 493,283</u>

NOTE 4 RESTRICTIONS ON NET ASSET BALANCES

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2018</u>	<u>2017</u>
Purpose Restrictions:		
Arts and Music Programs	\$ 7,240	\$ 7,240
Academic Programs	<u>45,643</u>	<u>23,211</u>
Total Temporarily Restricted Net Assets	<u>\$ 52,883</u>	<u>\$ 30,451</u>

NOTE 5 PENSION PLAN

The School is part of the KIPP NYC 403(b) Retirement Plan, a multi-employer defined contribution plan, under Section 403(b) of the IRC which employees of the School can elect to contribute. Employees, whom option for this plan, can contribute up to the level set by the Internal Revenue Service. The Employer match is a discretionary contribution. The employer contributions to this Plan amounted \$128,832 and \$113,883 for the years ended June 30, 2018 and 2017, respectively.

The School also contributes to the Teachers Retirement System of the City of New York, a multi-employer defined benefit pension plan (the Plan), on behalf of the eligible teachers. The Plan provides New York City educators with retirement, disability, and death benefit services. The School's participation in the Plan constitutes less than 1% of total Plan contributions. The funded status of the Plan was 56.4% at June 30, 2015, the date of the most recent actuarial calculation as indicated in the June 30, 2017 plan audit. The amount charged to operations for contributions to this Plan amounted to \$950,782 and \$1,245,990 for the years ended June 30, 2018 and 2017, respectively.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 SCHOOL FACILITY

The School occupies three facilities to support its operations. Approximately 25,000 square feet of dedicated and shared space located at 250 East 156th St. in the South Bronx, New York is occupied through an agreement with the New York City Department of Education, which provides the space at no cost. The School is responsible for any overtime-related costs for services provided beyond regular opening hours. These costs have been included in building costs in the accompanying statement of functional expenses.

The School also jointly occupies approximately 132,500 square feet of space at 201 East 144th St in the South Bronx where the joint high school for KIPP Academy Charter School and KIPP NYC Public Charter Schools resides. The facility was provided to the School at no cost, but the School must provide for continuing maintenance and operating expenses. The expenses are also included in building costs in the accompanying statement of functional expenses. The School also occupies the Mott Haven Facility.

NOTE 7 TRADEMARK LICENSE AGREEMENT

The School has entered into a trademark license agreement with KIPP Foundation subject to a license fee of 1% per pupil operating revenue not to exceed \$30,000 per elementary school, middle school, or high school. For the years ended June 30, 2018 and 2017, the School incurred licensing fees amounting to \$37,017 and \$37,818, respectively.

NOTE 8 OPERATING EXPENSES

Operating expenses are presented in the statement of functional expenses classified according to the significant program activity related to the purpose for which the school exists or supporting service.

The significant activities are:

Program Services – Regular Education and Special Education

Represents work (time and materials) that is specifically related to or necessary for the programming aspects of the School under the regular education and special education areas. The activities and related costs directly affecting students or parents fall under these program areas.

The significant supporting services are:

Management and General

Time and materials relating to operating the nonprogrammatic/back-end operational functions of the School are reflected as management and general expenses. These expenses include, but are not limited to, human resources, finance, and technology activities.

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 8 OPERATING EXPENSES (CONTINUED)

Fundraising

Represents work (time and materials) associated with the School's fund-raising program including but not limited to annual mailings, donor meeting, and events. The fundraising expenses were incurred by KIPP NYC, LLC.

NOTE 9 CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements for such potential claims. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

**KIPP ACADEMY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal Grantor/ Pass-Through Grantor/ Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant/ Contract Period	Grant Amount	Accrued or (Deferred) Revenue at 7/1/16	Total Received for the Year	Federal Disbursements/ Expenditures	Accrued or (Deferred) at 6/30/17
<u>U.S. Department of Education:</u>									
Pass-through New York Department of Education:									
Title I Grant – Improving Academic Achievement	I	84.010A	0021-174110	9/1/16-8/31/17	\$ 627,294	\$ (15)	\$ 103,609	\$ 103,624	\$ -
Title I Grant – Improving Academic Achievement	I	84.010A	0021-184110	9/1/17-8/31/18	729,030	-	544,285	612,416	68,131
Total Title I Grant – Improving Academic Achievement						(15)	647,894	716,040	68,131
Title II Grant – Teaching, Principal Training, Recruitment	I	84.367A	0147-174110	9/1/16-8/31/17	21,512	-	3,585	3,585	-
Title II Grant – Teaching, Principal Training, Recruitment	I	84.367A	0147-184110	9/1/17-8/31/18	178,878	-	134,158	90,225	(43,933)
Total Title II Grant – Teaching, Principal Training, Recruitment						-	137,743	93,810	(43,933)
Total U.S. Department of Education						(15)	785,637	809,850	24,198
<u>U.S. Department of Agriculture:</u>									
Pass-through New York Department of Education:									
Child Nutrition Cluster - School Lunch Program	I	10.555	n/a	9/1/17-8/31/18	136,733	-	134,590	134,590	-
Total U.S. Department of Agriculture						-	134,590	134,590	-
Total Federal Expenditures						\$ (15)	\$ 920,227	\$ 944,440	\$ 24,198

I – Indirect Funding

**KIPP ACADEMY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

NOTE 1 GENERAL INFORMATION

The accompanying schedule of expenditures of federal awards presents the activities of the federal financial assistance programs of KIPP Academy Charter School (the School). Financial awards received directly from federal agencies, as well as financial assistance passed through other governmental agencies or nonprofit organizations, are included in the schedule.

NOTE 2 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School and is presented 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 Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS

The schedule of expenditures of federal awards presents only a selected portion of the activities of the School. It is not intended to, nor does it, present either the balance sheet, revenue, expenditures, or changes in net assets. The financial activity for the aforementioned awards is reported in the School's statement of activities.

NOTE 4 INDIRECT COST RATE

KIPP Academy Charter School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



**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***

Board of Directors
KIPP Academy Charter School
Bronx, New York

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 Academy Charter School, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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.

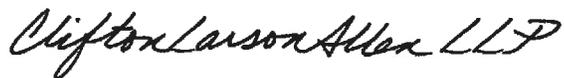
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Academy Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 24, 2018



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

Board of Directors
KIPP Academy Charter School
Bronx, New York

Report on Compliance for Each Major Federal Program

We have audited KIPP Academy Charter School's 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 Academy Charter School's major federal programs for the year ended June 30, 2018. KIPP Academy Charter School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, KIPP Academy Charter School 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, 2018.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 24, 2018

**KIPP ACADEMY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
3. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
2. Type of auditor’s report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of Major Federal Programs

CFDA Number(s)

84.010A

Name of Federal Program or Cluster

U.S. Department of Education – Title I - Basic, Concentration, Targeted and Education Finance Incentive Grants

Dollar threshold used to distinguish between Type A or Type B programs was:

\$ 750,000

Auditee qualified as low-risk auditee?

_____ yes X no

**KIPP ACADEMY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with the Federal Single Audit Act.

Section IV – Prior Audit Findings

There were no prior year findings required to be reported under the Federal Single Audit Act.



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Wealth Advisors, LLC, an SEC-registered investment advisor.
