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April 1, 2015

Charter School Board
KIPP Indianapolis College Preparatory
1740 East 30th Street
Indianapolis, IN 46218

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Sikich, LLP, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the KIPP Indianapolis College Preparatory, as of June 30, 2014, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. The report contains two federal major program findings. Please see the Schedule of Findings and Questioned Costs for complete details related to these findings.

In addition to the report presented herein, a Supplemental Audit Report for KIPP Indianapolis College Preparatory was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

KIPP Indianapolis College Preparatory

Financial Statements
With Supplemental Information

For the Years Ended
June 30, 2014 and 2013

KIPP INDY

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8555 N. River Rd., Suite 300
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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
KIPP Indianapolis College Preparatory
Indianapolis, Indiana:

Report on the Financial Statements

We have audited the accompanying financial statements of KIPP Indianapolis College Preparatory (an Indiana non-profit organization) (the "School"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities 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.

Auditor's 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; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the School as of June 30, 2014 and 2013, and the statement of activities and net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the School is a component of KIPP Indianapolis, Inc. and is subject to oversight by the Indiana State Board of Accounts in conjunction with the Indiana Department of Education. A separate audit of the School is required by these regulatory agencies. The School's financial statements are not intended to be a complete presentation of the assets, liabilities, revenues, and expenses of KIPP Indianapolis, Inc. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015, on our consideration of the 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 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 the School's internal control over financial reporting and compliance.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
February 27, 2015

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS:		
Cash and cash equivalents	$ 328,402	$ 114,608
Grants receivable	39,753	24,740
Related party receivable	18,537	-
Prepaid expenses	8,309	1,925
Total Current Assets	395,001	141,273
PROPERTY AND EQUIPMENT:		
Books and educational materials	2,164	2,164
Furniture and equipment	51,363	49,689
Computer hardware	256,576	134,879
Computer software	74,332	72,495
Leasehold improvements	243,974	237,013
Land	900,000	900,000
Building	1,949,536	1,949,536
Less: accumulated depreciation	(423,028)	(324,953)
Total Property and Equipment, net	3,054,917	3,020,823
	$ 3,449,918	$ 3,162,096

KIPP INDIANAPOLIS COLLEGE PREPARATORY

STATEMENTS OF FINANCIAL POSITION
(continued)
JUNE 30, 2014 AND 2013

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES:		
Accounts payable	$ 53,387	$ 86,164
Related party payable	225,758	-
Current maturities of long-term debt	46,428	46,428
Accrued payroll	42	300
Deferred revenue	209,515	-
Total Current Liabilities	535,130	132,892
LONG TERM LIABILITIES:		
Long-term debt, net of current portion	206,016	252,445
Total Long Term Liabilities	206,016	252,445
Total Liabilities	741,146	385,337
NET ASSETS:		
Unrestricted	2,692,334	2,765,444
Temporary restricted	16,438	11,315
Total Net Assets	2,708,772	2,776,759
	$ 3,449,918	$ 3,162,096

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT:			
School lunch program	$ 273	$ -	$ 273
Student and adult fees	7,354	-	7,354
Contributions and donations	464,441	7,285	471,726
Grant revenue	732,035	-	732,035
State support	2,249,481	-	2,249,481
In-kind contributions	40,000	-	40,000
Other revenue	8,413	-	8,413
Net assets released from restrictions by satisfaction of temporary restrictions	2,162	(2,162)	-
Total Revenues and Support	3,504,159	5,123	3,509,282
PROGRAM AND SUPPORTING SERVICE EXPENSES:			
Program services	2,569,392	-	2,569,392
Supporting services:			
General and administrative	1,007,877	-	1,007,877
Total Expenses	3,577,269	-	3,577,269
CHANGE IN NET ASSETS	(73,110)	5,123	(67,987)
NET ASSETS, beginning of year	2,765,444	11,315	2,776,759
NET ASSETS, end of year	$ 2,692,334	$ 16,438	$ 2,708,772

See accompanying notes to the financial statements.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT:			
School lunch program	$ 552	$ -	$ 552
Student and adult fees	13,614	-	13,614
Contributions and donations	276,426	-	276,426
Grant revenue	741,396	2,422	743,818
State support	2,224,632	-	2,224,632
In-kind contributions	35,000	-	35,000
Other revenue	13,765	-	13,765
Net assets released from restrictions by satisfaction of temporary restrictions	32,649	(32,649)	-
Total Revenues and Support	3,338,034	(30,227)	3,307,807
PROGRAM AND SUPPORTING SERVICE EXPENSES:			
Program services	2,421,293	-	2,421,293
Supporting Services:			
General and administrative	852,039	-	852,039
Total Expenses	3,273,332	-	3,273,332
OPERATING REVENUE	64,702	(30,227)	34,475
NON-OPERATING REVENUE:			
Gain due to changes in legislative funding	394,176	-	394,176
CHANGE IN NET ASSETS	458,878	(30,227)	428,651
NET ASSETS, beginning of year	2,306,566	41,542	2,348,108
NET ASSETS, end of year	$ 2,765,444	$ 11,315	$ 2,776,759

See accompanying notes to the financial statements.

KIPP INDIANAPOLIS COLLEGE PREPARATORY

STATEMENTS OF CASH FLOWS

JUNE 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (67,987)	$ 428,651
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	98,075	81,675
Gain due to changes in legislation	-	(394,176)
(Increase) decrease in:		
Grants receivable	(15,013)	(2,259)
Related party receivable	(18,537)	-
State support receivable	-	(55,114)
Prepaid expenses	(6,384)	5,636
Increase (decrease) in:		
Accounts payable	(32,777)	73,504
Related party payable	225,758	-
Accrued interest	-	(146,618)
Accrued payroll	(258)	(1,064)
Deferred revenue	209,515	-
NET CASH FROM OPERATING ACTIVITIES:	392,392	(9,765)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(132,169)	(216,235)
NET CASH FROM INVESTING ACTIVITIES	(132,169)	(216,235)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt borrowings	-	625,000
Long-term debt repayments	(46,429)	(478,732)
NET CASH FROM FINANCING ACTIVITIES	(46,429)	146,268
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	213,794	(79,732)
CASH AND CASH EQUIVALENTS - beginning of year	114,608	194,340
CASH AND CASH EQUIVALENTS - end of year	$ 328,402	$ 114,608
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 14,567	$ 20,239

See accompanying notes to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – KIPP Indianapolis College Preparatory (the "School") was incorporated March 21, 2003, under the laws of the State of Indiana and commenced operations in September 2004. The School is a free, open-enrollment, public college preparatory middle school dedicated to preparing students in the under-served communities of Indianapolis for success in college and life. A longer school day, academic and character development, a relentless focus on student outcomes and college completion – coupled with unparalleled professional development programs for teachers and school leaders – create "The KIPP Effect".

The School is a component of KIPP Indianapolis, Inc. and is subject to oversight by the Indiana State Board of Accounts in conjunction with the Indiana Department of Education. A separate audit of the School is required by these regulatory agencies. The School's financial statements are not intended to be a complete presentation of the assets, liabilities, revenues, and expenses of KIPP Indianapolis, Inc.

Basis of Accounting – The financial statements of the School have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses when the obligation is incurred.

Basis of Presentation – As required by Financial Statement Presentation Disclosure topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), 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.

Net Assets – The financial statements report amounts separately by class of net assets:

> ***Unrestricted net assets –*** Unrestricted amounts are those currently available for use in the School's activities.
>
> ***Temporarily restricted net assets –*** Temporarily restricted expendable amounts are those which are restricted by donors for specific purposes. As of June 30, 2014 and 2013, the School had $16,438 and $11,315 of temporarily restricted net assets.
>
> ***Permanently restricted net assets –*** Net assets subject to donor-imposed stipulations require that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2014 and 2013, the School had no permanently restricted net assets.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the School considers all investments purchased with a maturity of three months or less to be cash equivalents.

In the normal course of business, the School may maintain cash held at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limit, but it is management's intention to maintain a cash balance under the FDIC limit.

Grants Receivable – Grants receivable represent the uncollected portion of funds from grants awarded to the School.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2014 and 2013, based on management's estimate of the amount of receivables that will actually be collected. Grant receivables are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

State Support Receivable – Tuition support is determined by state law and is dependent upon the geographic location of the school. The tuition is also indexed to the poverty date of the enrolled students and other factors. The payment schedule is likewise determined by state law. Tuition support is payable in equal monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, tuition support will be paid currently in monthly installments that coincide with the School's fiscal year.

Property and Equipment – Property and equipment are recorded at cost or, if contributed, at the estimated fair value at the date of the gift. The School capitalizes additions of property and equipment in excess of $1,000 cost, or fair value if contributed. Depreciation of property and equipment is computed using the straight-line method and based upon the estimated useful lives of the assets ranging from 3 to 40 years. Expenditures for property and equipment and for renewals or improvements which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

Depreciation expense was $98,075 and $81,675 for the years ended June 30, 2014 and 2013.

Impairment of Long-lived Assets – The School evaluates long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has determined that no impairment existed for the year ended June 30, 2014 and 2013.

Deferred Revenue – Deferred revenue represents grant revenue which has been received, but for which the agreement has not yet been completed. The School recognizes revenue under the grant in the amounts of costs and expenses at the time they are incurred.

Contributed Materials and Services – Contributed services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

The School received $40,000 and $35,000 of in-kind contributions during the years ended June 30, 2014 and 2013.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Volunteers provide program services throughout the year that are not recognized as contributions in the financial statements since they do not meet the recognition criteria under generally accepted accounting principles. These services include volunteering at events, picking up donations, and various clerical work.

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments in January through December following the start of the academic school year. Revenue is recognized in the year in which the educational services are rendered. See Note 3 regarding legislative changes affecting revenue recognition.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under the grants in the amounts of costs and expenses at the time they are incurred.

Functional Expense Allocation – The costs of providing the various programs and other activities have been summarized in the statement of activities. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions. The allocation is based on a formula contained within the grant documents.

Costs are allocated to the programs and supporting services. Management periodically evaluates its allocation method and revises it when necessary. Management and general expenses include those expenses that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the School.

Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could vary from the estimates that were used.

Advertising – The School expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2014 and 2013 was $8,591 and $6,281, respectively.

Income Taxes – The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The School is not considered to be a private foundation. Accordingly, no provision for income taxes has been reflected in the School's financial statements.

The School has adopted the provisions of Uncertain Tax Positions Disclosure Topics of FASB ASC, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. This guidance also addresses de-recognition, classification, interest and penalties, disclosure, and transition. In the normal course of business, the School is subject to examination by taxing authorities. The School's tax returns for years subsequent to fiscal year 2010 are open, by statute, for review by authorities. However, at present there are no ongoing

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

income tax audits or unresolved disputes with the various tax authorities that The School currently files or has filed.

Concentration of Credit Risk – Financial instruments that potentially subject the School to concentrations of credit risk consist principally of temporary cash investments and grants receivable.

The School places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. There were $104,390 and $0 in excess of the FDIC insured limit at June 30, 2014 and 2013, respectively.

Concentrations of credit risk with respect to grants receivable are limited due to the School's ability to accomplish the terms of the grants. Credit losses, if any, have been provided in the financial statements and have been within management's expectations.

Operating Funds from the Indiana Department of Education amounted to 64% and 67% of the School's support and revenue in June 30, 2014 and 2013. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the school during the year.

Risks and Uncertainties – KIPP provides education instruction services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, KIPP is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the Academy.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2014 and 2013, nearly half of the receivable balance was due from the State of Indiana.

Cash Flow Information – The School had a non-cash financing transaction relating to forgiveness of debt of $0 and $1,588,611 for the years ended June 30, 2014 and 2013, respectively.

NOTE 2 – DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Education – The academic program of the School is designed to challenge every student to achieve on or above grade level performance in all academic subjects. While students may enter the school below grade level in many areas, the school is prepared for the challenge of equipping students with the knowledge, skills, and habits necessary for success in an academically rigorous college preparatory high school. The school's curriculum is based upon the Indiana Academic Standards and is taught rigorously to ensure that students are prepared for a college preparatory high school upon completion of the 8^{th} grade.

The School provides an age-appropriate curriculum for reading, writing, math, science, and social studies at each grade level. Students also participate in music, physical education, digital learning, and art on a rotating schedule.

NOTE 3 – LEGISLATIVE FUNDING CHANGES

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered.

Effective July 1, 2013, school funding was paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School received forgiveness of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

	2013
Forgiveness of Common School Fund loans	$ 1,506,981
Allowance for doubtful accounts related to changes legislative funding	(1,112,805)
Net gain due to changes in legislation	$ 394,176

NOTE 4 – GRANTS RECEIVABLE

Grants receivable for the years ended June 30, 2014 and 2013 represented amounts due from the following sources:

	2014	2013
KIPP Foundation	$ -	$ 13,095
Special Education 12 - 14	-	4,143
TIF/TAP	5,685	5,882
Title I	7,884	1,620
Nutrition Reimbursement	18,434	-
Compensation Systems	43	-
Federal Special Ed	4,333	-
Title II	1,116	-
Medicaid Reimbursement	2,258	-
	$ 39,753	$ 24,740

NOTE 5 – OPERATING LEASES

The School entered into a two year lease with The Board of School Commissioners of the City of Indianapolis for educational facilities. The first payment on the lease is due July 1, 2014, and the lease expires on June 30, 2016. In the first year of the lease, the required monthly payments are $14,732. In the second year of the lease, commencing July 1, 2015, the monthly payments will be increased to $19,152.

The School leases copiers from Ikon Financial Services. The lease expired September of 2013. The School continues to lease the postage machine on a month to month basis. The School entered into a four year lease agreement with Ricoh USA, Inc., effective September 2013, for a copier that requires monthly payments of $1,582. The lease will expire in September 2017. During the year ended June 30, 2014 and 2013, $34,430 and $39,921, respectively, was expensed for equipment lease.

The future minimum rental payments required under the operating lease for the years subsequent to June 30, 2014 are as follows:

Year	Amount
2015	$ 222,291
2016	222,291
2017	18,989
2018	3,165
	$ 466,735

NOTE 6 – PENSION PLAN

403(b) Plan

The School's faculty and certain administrative employees are participants in a 403(b) defined contribution retirement plan. All participants may contribute to the Plan. There was a 7% employer match to the Plan for the years ended June 30, 2014 and 2013. For years ended June 30, 2014 and 2013, the School contributed $102,010 and $99,010, respectively.

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011. The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is a cost-sharing multiple-employer public employee retirement plan, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Retirement plan expense for PERF and TRF was $18,069 and $10,042 for June 30, 2014 and 2013, respectively.

NOTE 6 – PENSION PLAN (Continued)

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

NOTE 7 – LONG-TERM DEBT ACTIVITY

The School obtained a loan from PNC Bank for $325,000 on February 7, 2013, which matures on February 7, 2018. The interest rate on this loan is variable and is subject to changes based on the Daily LIBOR Rate. The balance of the loan as of June 30, 2014 and 2013 was $252,444 and $298,873 , respectively. During the year ended June 30, 2013, the Common School Loans were forgiven in full.

The aggregate minimum principal maturities of long-term debt obligations are as follows:

Year	Amount
2015	$ 46,428
2016	46,428
2017	46,428
2018	113,160
	$ 252,444

Total interest expense during the year ended June 30, 2014 and 2013 was $14,567 and $20,239.

NOTE 8 – RELATED PARTIES

KIPP Indy Unite Elementary (“Unite”) opened for the 2014-2015 school year. The School and Unite share the same management, Board of Directors, and building space, and both are a component of KIPP Indianapolis, Inc. Employees of both organizations are paid by the School, though Unite reimburses the School for the amount paid.

The School and Unite are subject to oversight by the Indiana State Board of Accounts in conjunction with the Indiana Department of Education. A separate audit of the School and Unite is required by these regulatory agencies.

During the year ended June 30, 2014, the School paid start-up costs for Unite, resulting in a receivable due from Unite to the School. At the years ended June 30, 2014 and 2013, related party accounts receivable totaled $18,537 and $0, respectively.

During the year ended June 30, 2014, the School received contributions and grants that were specifically intended for Unite, resulting in a payable due to Unite from the School. At the years ended June 30, 2014 and 2013, related party accounts payable totaled $225,758 and $0, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 are available for the following purposes:

	2014	2013
Morgridge Family Foundation	$ 10,153	$ 9,153
Fairbanks Foundation	6,285	-
Title II	-	2,162
	$ 16,438	$ 11,315

During June 30, 2014, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Morgridge Family Foundation	$ -	$ 28,347
KIPP Foundation	-	4,042
State Technology Grant	-	260
Title II	2,162	-
	$ 2,162	$ 32,649

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The School participated in the E-rate program in 2012. Under the provisions of the program, the school anticipates they will receive reimbursement. At June 30, 2014, the amount of the reimbursement has not been determined or approved.

NOTE 11 – SUBSEQUENT EVENT

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through February 27, 2015, the date the financial statements were available to be issued.

KIPP INDIANAPOLIS COLLEGE PREPARATORY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

	Program Service Expenses			Supporting Services	
	Grants	Academics	Total Program Services	Management and General	Total Expenses
Salaries and benefits	$ 348,998	$ 1,030,104	$ 1,379,102	$ 786,303	$ 2,165,405
Instructional services	-	173,123	173,123	-	173,123
IT services	-	-	-	19,867	19,867
Legal services	-	-	-	720	720
Accounting services	-	-	-	66,774	66,774
Payroll services	-	-	-	4,026	4,026
Other services	1,947	15,927	17,874	17,051	34,925
Course materials/supplies	61,584	46,996	108,580	20,859	129,439
Nutritional support	43	166,553	166,596	6,947	173,543
Sales and marketing	-	15,274	15,274	4,688	19,962
Travel and entertainment	12,359	339	12,698	28,025	40,723
Vehicle/transportation expense	-	368,454	368,454	-	368,454
Rent and facilities	-	259,039	259,039	8,441	267,480
Depreciation	-	68,652	68,652	29,423	98,075
Interest expense	-	-	-	14,567	14,567
Miscellaneous	-	-	-	186	186
	$ 424,931	$ 2,144,461	$ 2,569,392	$ 1,007,877	$ 3,577,269

See accompanying notes to the financial statements.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	Program Service Expenses			Supporting Services	
	Grants	Academics	Total Program Services	Management and General	Total Expenses
Salaries and benefits	$ 394,560	$ 866,146	$ 1,260,706	$ 573,299	$ 1,834,005
Instructional services	563	206,938	207,501	-	207,501
IT services	-	-	-	19,530	19,530
Legal services	-	-	-	975	975
Accounting services	-	-	-	65,305	65,305
Payroll services	-	-	-	2,996	2,996
Other services	11,440	10,610	22,050	15,264	37,314
Course materials/supplies	17,224	63,087	80,311	25,740	106,051
Nutritional support	177	240,491	240,668	6,317	246,985
Travel and entertainment	(50)	-	(50)	27,134	27,084
Vehicle/transportation expense	-	348,661	348,661	-	348,661
Rent and facilities	37,683	223,763	261,446	6,395	267,841
Depreciation	-	-	-	81,675	81,675
Interest expense	-	-	-	20,239	20,239
Miscellaneous	-	-	-	7,170	7,170
	$ 461,597	$ 1,959,696	$ 2,421,293	$ 852,039	$ 3,273,332

See accompanying notes to the financial statements.

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INDEPENDENT AUDITOR'S 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 Indianapolis College Preparatory
Indianapolis, Indiana:

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 Indianapolis College Preparatory, Inc., which comprise the statement of financial position as of June 30, 2014 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KIPP Indianapolis College Preparatory, Inc.'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 Indianapolis College Preparatory, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 Indianapolis College Preparatory, Inc.'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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
February 27, 2015

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Passed through the Indiana Department of Education		
Child Nutrition Cluster		
National School Lunch Program	10.555	$ 112,458
School Breakfast Program	10.553	62,725
Total for Child Nutrition Cluster		175,183
Total for U.S. Department of Agriculture		175,183
U.S. DEPARTMENT OF EDUCATION		
Passed through the Indiana Department of Education		
Title I, Part A Cluster		
Title I Grants to Local Educational Agencies	84.010*	92,376
		181,939
Total for Title I, Part A Cluster	84.010*	274,315
Special Education Cluster (IDEA)		
Special Education Grants to States	84.027	12,640
		32,859
Total for Special Education Cluster (IDEA)	84.027	45,499
Improving Teacher Quality State Grants	84.367	21,994
		16,214
Total for program	84.367	38,208
Teacher Incentive Fund	84.374*	65,494
		55,398
Total for program	84.374*	120,892
Total passed through the Indiana Department of Education		478,914
Passed through the KIPP Foundation		
Investing in Innovation (i3) Fund	84.411	33,588
Total passed through the KIPP Foundation		33,588
Total U.S. Department of Education		512,502
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 687,685

* Denotes a major program

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of KIPP Indianapolis College Preparatory and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of $500,000 in any fiscal year unless by constitution or statute a less frequent audit is required.

NOTE 2 – OTHER

There were no amounts provided to sub-recipients; there was no federal non-cash assistance; there was no federal insurance in effect; and there were no loans or loan guarantees with continuing compliance requirements.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
of KIPP Indianapolis College Preparatory
Indianapolis, Indiana:

Report on Compliance for Each Major Federal Program

We have audited KIPP Indianapolis College Preparatory, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of KIPP Indianapolis College Preparatory, Inc.'s major federal programs for the year ended June 30, 2014. KIPP Indianapolis College Preparatory, Inc.'s major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of KIPP Indianapolis College Preparatory, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KIPP Indianapolis College Preparatory, Inc.'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 Indianapolis College Preparatory, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, KIPP Indianapolis College Preparatory, Inc. 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-2002. Our opinion on each major federal program is not modified with respect to these matters.

KIPP Indianapolis College Preparatory, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. KIPP Indianapolis College Preparatory, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of KIPP Indianapolis College Preparatory, Inc. 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 Indianapolis College Preparatory, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KIPP Indianapolis College Preparatory, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

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

Sikich, LLP

Sikich LLP

Indianapolis, Indiana
February 27, 2015

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- Type of auditor's report issued: **unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(s) identified that are not considered to be material weaknesses? ____ Yes __X__ No

Compliance:

- Noncompliance material to financial statements noted? ____ Yes __X__ No

OMB Circular A-133:

Internal control over major programs:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(s) identified that are not considered to be material weaknesses? __X__ Yes ____ No

Compliance with requirements applicable to each major program:

- Identification of major programs: **84.010 Title I, Part A Cluster**
  84.374 Teacher Incentive Fund

- Dollar threshold used to distinguish between type A type B programs: **$ 300,000**
- Auditee qualified as low-risk auditee? ____ Yes __X__ No
- Type of auditors' report issued on compliance for major programs: **unmodified**
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? __X__ Yes ____ No

SECTION II – FINANCIAL STATEMENTS FINDINGS

- *None*

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Questioned Costs

U.S. Department of Agriculture and Department of Education

2014-001 *Condition*: An audit of the School's financial statements and compliance with major program requirements for the year ended June 30, 2013 was not conducted within the time frame required by OMB Circular A-133. We consider this lack of timely reporting to be a significant deficiency in compliance with OMB Circular A-133.

Criteria: OMB Circular A-133, Subpart B §__.200 paragraph (a) states: "Non-Federal entities that expend $500,000 or more in a year in federal awards shall have a single or program specific audit conducted for that year in accordance with the provisions of this part." Additionally, OMB Circular A-133 requires annual audits except in certain circumstances in which case biennially. In either case, the audit must be completed within 9 months of the audit period.

Cause: The School had engaged with a certified public accountant to conduct the June 30, 2013 audit as required by OMB Circular A-133. However, during the course of the audit, difficulties were faced receiving needed documentation due to the School's move to a new location, which delayed completion of the audit. This was outside the control of the School.

Effect: The School is not in Compliance with OMB Circular A-133 for the year ended June 30, 2013.

Recommendation: Since the School now has a completed audit for the year ended June 30, 2013 no formal recommendation is necessary. The audit was completed on June 20, 2014.

Management Corrective Action: We have now completed the audit for the year ended June 30, 2013 so no further action is necessary.

Questioned Costs

U.S. Department of Education

2014-002 Title I, Part A Cluster – CFDA No. 84.010; Grant Period: July 1, 2013-September 30, 2014. We consider this to be a finding for the School's allowability compliance.

Condition: The School claimed reimbursement for expenses that did not follow the grant's allowability compliance.

Criteria: The Title I compliance supplement defines allowable costs as costs that are reasonable for the performance of the award and be allocable in accordance with A-122.

Cause: The Director of Finance inadvertently submitted an unallowable expense for reimbursement.

$2,717

Effect: An unallowable expense of $2,717 was claimed for reimbursement under the grant. As a result, these costs are questioned.

Recommendation: We recommend that the School revise their policies on tracking which expenditures are claimed for reimbursement from their federal grants.

Management Corrective Action: Effective immediately, the Executive Director will review and modify controls and procedures to address significant deficiencies.

KIPP INDIANAPOLIS COLLEGE PREPARATORY

OTHER REPORT
FOR THE YEAR ENDED JUNE 30, 2014

The reports presented herein were prepared in addition to another report prepared for the School as listed below:

Supplemental Audit Report of KIPP Indianapolis College Preparatory