



STATE OF INDIANA
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February 10, 2016

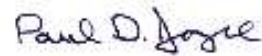
Charter School Board
KIPP Indianapolis, Inc.
1740 East 30th Street
Indianapolis, IN 46218

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Greenwalt CPAs, Inc. Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. 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, Inc. as of June 30, 2015, and the results of its operations for the period then ended, on the basis of accounting described in the report.

Please see the Schedule of Prior Findings and Questioned Costs for the status of the two prior year audit findings.

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

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


Paul D. Joyce, CPA
State Examiner

KIPP INDIANAPOLIS, INC.
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT
JUNE 30, 2015 AND 2014

KIPP INDIANAPOLIS, INC.

TABLE OF CONTENTS JUNE 30, 2015 AND 2014

Independent Auditors' Report	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	7
Independent Auditors' Report on Supplementary Information	14
Statements of Financial Position KIPP Indy College Prep Middle, KIPP Indy Unite Elementary and Administration	15
Statements of Activities KIPP Indy College Prep Middle, KIPP Indy Unite Elementary and Administration.....	16
Schedule of Expenditures of Federal Awards.....	17
Note to the Schedule of Expenditures of Federal Awards	17
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18
Report on Compliance for Each Major Program and on Internal Control over Compliance.....	20
Schedule of Findings and Questioned Costs	22
Schedule of Prior Findings and Questioned Costs.....	22
Other Report.....	23



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
KIPP Indianapolis, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of KIPP Indianapolis, Inc. (an Indiana public charter school, "the School"), which comprise the statements of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and *Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources* and *Guidelines of Audits of Charter Schools performed by Private Examiners* established 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 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 the School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of the School as of June 30, 2014, were audited by other auditors whose opinion, dated February 27, 2015, was unmodified. As discussed in Note 7, the School has restated its fiscal year 2014 financial statements during the current year to correct the treatment of unearned revenue and accrued license fees. During the fiscal year 2015, management determined the amount previously recorded as unearned revenue was in fact earned and should have been recorded as revenue during fiscal year 2014. Accordingly, amounts reported for unearned revenue have been restated in the fiscal year 2014 financial statements included in this presentation, and an adjustment has been made to net assets as of June 30, 2015, to correct the error. During the fiscal year 2015, management also determined that licensing fees owed for fiscal years 2011 through 2014 had not been accrued. These amounts have been recorded as a liability in the fiscal year 2014 financial statements included in this presentation and an adjustment has been made to net assets as of June 30, 2015, to correct the error. The other auditors reported on the fiscal year 2014 financial statements before the restatement.

As part of our audit of the fiscal year 2015 financial statements, we audited adjustments described in Note 7 that were applied to restate the fiscal year 2014 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the fiscal year 2014 financial statements of the School other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the fiscal year 2014 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 January 25, 2016, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Greenwald CPAs, Inc.

January 25, 2016

KIPP INDIANAPOLIS, INC.
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2015 AND 2014 (RESTATED)

ASSETS

	<u>2015</u>	<u>RESTATED</u> <u>2014</u>
CURRENT ASSETS		
Cash	\$ 588,948	\$ 328,402
Grants receivable	233,133	58,290
Prepaid expenses	27,321	8,309
	<hr/>	<hr/>
<i>Total current assets</i>	849,402	395,001
	<hr/>	<hr/>
LAND AND BUILDING AVAILABLE FOR SALE (NOTE 3)	352,636	-
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT		
Land	-	900,000
Buildings and building improvements	-	1,949,536
Leasehold improvements	-	243,974
Books and education materials	35,403	2,164
Furniture and equipment	139,234	51,363
Computer equipment	353,652	256,576
Software	74,332	74,332
Accumulated depreciation	(348,702)	(423,028)
	<hr/>	<hr/>
<i>Total property and equipment, net</i>	253,919	3,054,917
	<hr/>	<hr/>
<i>Total assets</i>	<u>\$ 1,455,957</u>	<u>\$ 3,449,918</u>
	<hr/>	<hr/>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 80,665	\$ 45,903
Accrued personnel costs	10,097	42
Other accrued expenses	129,675	73,380
Related party payable	-	225,758
Current portion of note payable	46,428	46,428
	<hr/>	<hr/>
<i>Total current liabilities</i>	266,865	391,511
	<hr/>	<hr/>
LONG TERM LIABILITIES		
Note payable, net of current portion	159,587	206,016
	<hr/>	<hr/>
<i>Total liabilities</i>	426,452	597,527
	<hr/>	<hr/>
NET ASSETS		
Unrestricted	1,000,775	2,835,953
Temporarily restricted	28,730	16,438
	<hr/>	<hr/>
<i>Total net assets</i>	1,029,505	2,852,391
	<hr/>	<hr/>
<i>Total liabilities and net assets</i>	<u>\$ 1,455,957</u>	<u>\$ 3,449,918</u>
	<hr/>	<hr/>

KIPP INDIANAPOLIS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (RESTATED)

				RESTATED		
	UNRESTRICTED	TEMPORARILY RESTRICTED	2015	UNRESTRICTED	TEMPORARILY RESTRICTED	2014
REVENUE AND SUPPORT						
Private funding	\$ 1,127,210	\$ 18,649	\$ 1,145,859	\$ 725,933	\$ 7,285	\$ 733,218
State funding	3,254,405	-	3,254,405	2,249,481	-	2,249,481
Federal funding	1,261,058	-	1,261,058	687,685	-	687,685
Other Income	94,631	-	94,631	48,413	-	48,413
<i>Total</i>	<u>5,737,304</u>	<u>18,649</u>	<u>5,755,953</u>	<u>3,711,512</u>	<u>7,285</u>	<u>3,718,797</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>6,357</u>	<u>(6,357)</u>	<u>-</u>	<u>2,162</u>	<u>(2,162)</u>	<u>-</u>
<i>Total revenue and support</i>	<u>5,743,661</u>	<u>12,292</u>	<u>5,755,953</u>	<u>3,713,674</u>	<u>5,123</u>	<u>3,718,797</u>
EXPENSES						
Instructional expenses						
Personnel costs	2,174,716	-	2,174,716	1,379,292	-	1,379,292
Professional services	87,778	-	87,778	380,259	-	380,259
Supplies and materials	153,081	-	153,081	118,506	-	118,506
<i>Total instructional expenses</i>	<u>2,415,575</u>	<u>-</u>	<u>2,415,575</u>	<u>1,878,057</u>	<u>-</u>	<u>1,878,057</u>
Administration expenses						
Personnel costs	1,145,752	-	1,145,752	786,113	-	786,113
Professional services	257,305	-	257,305	95,347	-	95,347
Staff training	130,408	-	130,408	-	-	-
Community relations	22,046	-	22,046	27,972	-	27,972
Supplies and materials	96,855	-	96,855	22,787	-	22,787
Other	7,476	-	7,476	20,859	-	20,859
<i>Total administration expenses</i>	<u>1,659,842</u>	<u>-</u>	<u>1,659,842</u>	<u>953,078</u>	<u>-</u>	<u>953,078</u>
Other expenses:						
Facilities	300,145	-	300,145	267,480	-	267,480
Technology	47,899	-	47,899	19,867	-	19,867
Interest	12,105	-	12,105	14,567	-	14,567
Depreciation and amortization	159,112	-	159,112	98,075	-	98,075
Student transportation and other	683,946	-	683,946	368,640	-	368,640
Loss on disposal of assets	289,312	-	289,312	-	-	-
<i>Total other expenses</i>	<u>1,492,519</u>	<u>-</u>	<u>1,492,519</u>	<u>768,629</u>	<u>-</u>	<u>768,629</u>
<i>Total expenses</i>	<u>5,567,936</u>	<u>-</u>	<u>5,567,936</u>	<u>3,599,764</u>	<u>-</u>	<u>3,599,764</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>175,725</u>	<u>12,292</u>	<u>188,017</u>	<u>113,910</u>	<u>5,123</u>	<u>119,033</u>
IMPAIRMENT LOSS ON LAND AND BUILDING AVAILABLE FOR SALE (NOTE 3)	<u>(2,218,123)</u>	<u>-</u>	<u>(2,218,123)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>(2,042,398)</u>	<u>12,292</u>	<u>(2,030,106)</u>	<u>113,910</u>	<u>5,123</u>	<u>119,033</u>
NET ASSETS, BEGINNING OF YEAR (NOTES 2 AND 7)	<u>3,043,173</u>	<u>16,438</u>	<u>3,059,611</u>	<u>2,722,043</u>	<u>11,315</u>	<u>2,733,358</u>
NET ASSETS, END OF YEAR	<u>\$ 1,000,775</u>	<u>\$ 28,730</u>	<u>\$ 1,029,505</u>	<u>\$ 2,835,953</u>	<u>\$ 16,438</u>	<u>\$ 2,852,391</u>

See accompanying notes to financial statements.

NET CHANGE IN CASH

	<u>2015</u>	<u>RESTATED</u> <u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from private funding	\$ 1,145,859	\$ 733,218
Cash received from state and federal funding	4,268,713	2,863,616
Cash received from other income sources	94,516	48,413
Cash paid to suppliers and employees	(4,953,400)	(3,238,288)
Interest income received	115	-
Interest paid	(12,105)	(14,567)
	<u> </u>	<u> </u>
<i>Net cash provided by operating activities</i>	543,698	392,392
	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(218,185)	(132,169)
	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(46,429)	(46,429)
	<u> </u>	<u> </u>
NET CHANGE IN CASH	279,084	213,794
CASH, BEGINNING OF YEAR (NOTES 2 AND 7)	<u>309,864</u>	<u>114,608</u>
CASH, END OF YEAR	<u><u>\$ 588,948</u></u>	<u><u>\$ 328,402</u></u>
NON-CASH OPERATING ACTIVITIES		
In-kind services	<u><u>\$ 71,907</u></u>	<u><u>\$ 40,000</u></u>

RECONCILIATION OF CHANGE IN NET ASSETS TO
 NET CASH PROVIDED BY OPERATING ACTIVITIES

	<u>2015</u>	<u>RESTATED 2014</u>
CHANGE IN NET ASSETS	\$ (2,030,106)	\$ 119,033
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	159,112	98,075
Loss on disposal of property and equipment	289,312	-
Impairment loss on land and building available for sale	2,218,123	-
<i>Increase (decrease) in operating assets:</i>		
Grants receivable	(174,843)	(33,550)
Prepaid expenses	(19,012)	(6,384)
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	34,762	(40,261)
Accrued personnel costs	10,055	(258)
Other accrued expenses	56,295	29,979
Related party payable	-	225,758
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 543,698</u>	<u>\$ 392,392</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

KIPP Indianapolis, Inc. (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 network of tuition-free, open-enrollment, college preparatory, public charter schools. The School currently manages the KIPP Indy College Prep Middle School and KIPP Indy Unite Elementary School. The School is 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's main sources of revenue are state and federal grants.

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 eighth grade.

The School provides an age-appropriate curriculum for reading, language arts, math, science, and social studies at each grade level. Grade levels kindergarten and first grade as well as fifth through eighth grade are currently being served. Spanish is also offered to fifth through eighth graders, and all students are enrolled in Physical Education. Teachers also lead an advisory role, which consists of instruction in the values, life skills, and study skills.

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The accompanying financial statements have been prepared on the accrual basis of accounting. 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.

FINANCIAL STATEMENT PRESENTATION

In accordance with the Not-for-Profit Organizations Revenue Recognition Accounting Standards, donations and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence or nature of any donor restrictions.

In accordance with Accounting Standards for the Preparation of Financial Statements of Not-For-Profit Organizations, 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. In addition, the School is required to present a statement of cash flows. The School had unrestricted and temporarily restricted net assets at June 30, 2015 and 2014.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2015 and 2014.

At June 30, 2015, the School maintained cash in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC).

GRANTS AND ACCOUNTS RECEIVABLE

Grants receivable represent the uncollected portion of funds from grants awarded to the School. Grants receivable are unsecured and are due from Indiana governmental entities and private funders over periods of time up to thirty days from the statement of financial position date. Grants receivable are stated at the amount determined by public statute or by the underlying private funding agreements. Generally, there is not significant risk of loss of these amounts due since they are statutorily determined and obligated. However, there is some risk that public funding from the State of Indiana could be reduced from amounts previously determined during periods of prolonged economic downturn.

Grants receivable are reported net of an allowance for doubtful accounts. The School reviews grants receivable and writes off any amount to be deemed uncollectible. There were no allowances as of June 30, 2015 and 2014.

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.

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. During fiscal year 2015, management determined that its 42nd Street building was recorded at a value higher than its potential sale value. See Note 3.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES , CONTINUED

NET ASSETS

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

Unrestricted

These include revenue and expenses from the regular operations of the School, which are at the discretion of management and the Board of Directors.

Temporarily Restricted

These include donations and grant revenues used to meet expenses of current operations in accordance with restrictions specified by the donors or grantors. 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. As of June 30, 2015 and 2014, the School had \$28,730 and \$16,438 of temporarily restricted net assets.

Permanently Restricted

As of June 30, 2015 and 2014, the School had no permanently restricted net assets.

CONTRIBUTED SERVICES

Pursuant to the Not-for-Profit Organizations Revenue Recognition Accounting Standards for contributed services, contributions of services are recognized if the services received (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 \$71,907 and \$40,000 of in-kind contributions during the years ended June 30, 2015 and 2014 for School nursing services. These in-kind contributions have been included in private funding on the statements of activities. They have been treated as non-cash activities for the purposes of the statements of cash flows.

Volunteers provide program services throughout the year that do not meet the recognition criteria for contributed services. These services include volunteering at events, picking up donations, and various clerical tasks. The effect of these services has not been reflected in the statements of activities.

Advertising

Advertising expenses totaled \$22,046 and \$8,591 for fiscal years 2015 and 2014, respectively. The School's policy is to record advertising expenditures in the period in which they are incurred.

KIPP INDIANAPOLIS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES , CONTINUED

EXPENSE ALLOCATION

Expenses have been classified as program services and general and administrative based on the actual direct expenditures and cost allocation based on estimates of time and usage by personnel and programs.

A summary of expenses by functional classification for the years ended June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Program services	\$ 3,908,094	\$ 2,646,686
General and administrative	<u>1,659,842</u>	<u>953,078</u>
Total functional expenses	<u>\$ 5,567,936</u>	<u>\$ 3,599,764</u>

INCOME TAXES

The School is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509 (a) of the Internal Revenue Code. The School's tax periods 2011 and prior are no longer subject to examination.

CONCENTRATION OF CREDIT RISK

Operating Funds from the Indiana Department of Education amounted to 56% and 60% of the School's total revenue and support during fiscal years 2015 and 2014. 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. Federal funding, including Title I, Title II, breakfast and lunch reimbursement programs, and other miscellaneous federal programs, was 22% and 18% of the School's total revenue and support during the fiscal years 2015 and 2014.

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, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

SUBSEQUENT EVENTS

Subsequent events have been considered through January 25, 2016, which was the date the financial statements were available to be issued. See Note 8.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements as of and for the year ended June 30, 2014 include only the operations of KIPP Indy College Prep Middle School. KIPP Indy Unite Elementary School opened for the 2014-2015 school year. As KIPP Indy Unite Elementary School had some start-up activity prior to June 30, 2014, beginning of year net assets and beginning of year cash presented in the June 30, 2015 financial statements include KIPP Indy Unite Elementary School balances.

3. LAND AND BUILDING AVAILABLE FOR SALE AND IMPAIRMENT LOSS

After the 2014 school year, the School vacated its property at 3202 E. 42nd Street. The School plans to sell the building. During fiscal year 2015, management determined that the property was recorded at a value higher than its potential sale value. The resulting loss has been reflected as impairment loss on land and building available for sale in the statements of activities.

4. NOTE PAYABLE

The School obtained a loan from a financial institution for \$325,000 in February 2013, which matures in February 2018. The interest rate on this loan is variable and is subject to changes based on the Daily LIBOR Rate (3.25% at June 30, 2015). The balance of the loan at June 30, 2015 and 2014 was \$206,015 and \$252,444, respectively.

The future aggregate minimum principal payments on the note payable are as follows for the years ending June 30:

2016	\$	46,428
2017		46,428
2018		113,159
Total	\$	<u>206,015</u>

Total interest expense during fiscal years 2015 and 2014 was \$12,105 and \$14,567, respectively.

5. OPERATING LEASES

In fiscal year 2014, the School entered into a lease with The Board of School Commissioners of the City of Indianapolis for educational facilities. The lease, which expired on June 30, 2015, required a minimum monthly payment of \$14,732. During the fiscal years 2015 and 2014, \$176,784 was expensed each year for facility lease. The lease was superseded by two agreements with The Board of School Commissioners of the City of Indianapolis for KIPP Indy College Prep Middle School and KIPP Indy Unite Elementary School to become Innovation Network Charter Schools, beginning July 1, 2015. See Note 8.

The School leases office equipment expiring in August 2017. This lease requires minimum monthly payments of \$1,582, plus various charges for usage overages. Lease expense on this equipment was \$36,163 and \$34,430, respectively, for the fiscal years 2015 and 2014.

5. OPERATING LEASES, CONTINUED

Future minimum rental payments for all operating leases are as follows for the years ending June 30:

2016	\$	18,989
2017		18,989
2018		<u>1,582</u>
	\$	<u>39,560</u>

6. RETIREMENT AND PENSION PLANS

The School's faculty and certain administrative employees are participants in a 403(b) defined contribution retirement plan (the Plan). All participants may contribute to the Plan. There was a 7% employer match to the Plan during fiscal years 2015 and 2014, for which the School contributed \$164,164 and \$102,010, respectively.

The School elected to become a participating employer in the Teachers' Retirement Fund (TRF). The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan that is managed by the Indiana Public Retirement System (INPRS). TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Retirement plan expense for TRF was \$6,661 and \$18,069 for fiscal years 2015 and 2014, respectively.

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.

7. RESTATEMENT

During fiscal year 2015, the School discovered that a grant received in fiscal year 2014 was reflected as deferred revenue in the statement of financial position, rather than contribution revenue in the statement of activities. The School also discovered license fees that were not recorded as a liability in the statement of financial position in fiscal year 2014 for the fiscal years ended 2011-2014.

KIPP INDIANAPOLIS, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015 AND 2014

7. RESTATEMENT, CONTINUED

These corrections resulted in the following restatement of financial position for June 30, 2014:

	As Previously <u>Reported</u>	<u>As Restated</u>	<u>Adjustment</u>
Statement of Financial Position			
Total Assets	\$ 3,449,918	\$ 3,449,918	\$ -
Total liabilities	741,146	597,527	(143,619)
Unrestricted net assets	2,692,334	2,835,953	143,619
Statement of Activities			
Total revenue	3,509,282	3,718,797	209,515
Total expenses	3,577,269	3,599,764	22,495
Net assets, beginning of year	2,708,772	2,852,391	143,619

8. SUBSEQUENT EVENT

The School entered into two agreements with The Board of School Commissioners of the City of Indianapolis for KIPP Indy College Prep Middle School and KIPP Indy Unite Elementary School to become Innovation Network Charter Schools, beginning July 1, 2015 through June 30, 2022. Under the agreements, the School is permitted use of the IPS Building located at 1740 E 30th Street in Indianapolis. The agreements are not leases, as they provide no real estate interest in the building or land. In addition to use of facilities, the School also receives IPS transportation services. In exchange, the School has agreed to pay IPS \$14,584 per month plus \$48.75 per student enrolled in the School, based on 90% of the School's most recent ADM count.

9. RECLASSIFICATIONS

Certain items in the 2014 financial statements have been reclassified to conform to the 2015 presentation. These reclassifications had no effect on net assets at June 30, 2014.



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
KIPP Indianapolis, Inc.:

We have audited the financial statements of the School as of and for the year ended June 30, 2015, and our report thereon dated December XX, 2015, which expressed an unmodified opinion on those financial statements, appears on page two. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by the *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 are not a required part of the financial statements. The accompanying statements of financial position and activities of KIPP Indy College Prep Middle, KIPP Indy Unite Elementary, and Administration as of and for the year ended June 30, 2015, have been presented for purposes of additional analysis and are 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.

Greenwalt CPAs, Inc.

January 25, 2016

KIPP INDIANAPOLIS, INC.

STATEMENTS OF FINANCIAL POSITION OF KIPP INDY COLLEGE PREP MIDDLE, KIPP INDY UNITE ELEMENTARY, AND ADMINISTRATION
 JUNE 30, 2015

	ASSETS				
	COLLEGE PREP MIDDLE	UNITE ELEMENTARY	ADMINISTRATION	ELIMINATIONS	TOTAL
CURRENT ASSETS					
Cash	\$ 72,823	\$ 83,928	\$ 432,197	\$ -	\$ 588,948
Grants receivable	68,865	160,945	3,323	-	233,133
Interfund receivable	-	-	85,000	(85,000)	-
Prepaid expenses	5,060	8,631	13,630	-	27,321
<i>Total current assets</i>	<u>146,748</u>	<u>253,504</u>	<u>534,150</u>	<u>(85,000)</u>	<u>849,402</u>
LAND AND BUILDING AVAILABLE FOR SALE	<u>352,636</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>352,636</u>
PROPERTY AND EQUIPMENT					
Books and education materials	2,164	33,239	-	-	35,403
Furniture and equipment	89,505	49,729	-	-	139,234
Computer equipment	318,624	31,019	4,009	-	353,652
Software	74,332	-	-	-	74,332
Accumulated depreciation	(318,770)	(28,596)	(1,336)	-	(348,702)
<i>Total property and equipment, net</i>	<u>165,855</u>	<u>85,391</u>	<u>2,673</u>	<u>-</u>	<u>253,919</u>
<i>Total assets</i>	<u>\$ 665,239</u>	<u>\$ 338,895</u>	<u>\$ 536,823</u>	<u>\$ (85,000)</u>	<u>\$ 1,455,957</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 47,226	\$ 24,955	\$ 8,484	\$ -	\$ 80,665
Interfund payable	-	85,000	-	(85,000)	-
Accrued personnel costs	225	-	9,872	-	10,097
Other accrued expenses	107,930	6,894	14,851	-	129,675
Current portion of note payable	46,428	-	-	-	46,428
<i>Total current liabilities</i>	201,809	116,849	33,207	(85,000)	266,865
LONG TERM LIABILITIES					
Note payable, net of current portion	159,587	-	-	-	159,587
<i>Total liabilities</i>	<u>361,396</u>	<u>116,849</u>	<u>33,207</u>	<u>(85,000)</u>	<u>426,452</u>
NET ASSETS					
Unrestricted	293,762	210,570	496,443	-	1,000,775
Temporarily restricted	10,081	11,476	7,173	-	28,730
<i>Total net assets</i>	<u>303,843</u>	<u>222,046</u>	<u>503,616</u>	<u>-</u>	<u>1,029,505</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 665,239</u>	<u>\$ 338,895</u>	<u>\$ 536,823</u>	<u>\$ (85,000)</u>	<u>\$ 1,455,957</u>

KIPP INDIANAPOLIS, INC.

STATEMENTS OF ACTIVITIES OF KIPP INDY COLLEGE PREP MIDDLE, KIPP INDY UNITE ELEMENTARY, AND ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2015

	COLLEGE PREP MIDDLE	UNITE ELEMENTARY	ADMINISTRATION	TOTAL
UNRESTRICTED REVENUE AND SUPPORT				
Private funding	\$ 67,064	\$ 190,200	\$ 876,303	\$ 1,133,567
State funding	2,617,784	636,621	-	3,254,405
Federal funding	859,461	401,597	-	1,261,058
Other Income	17,534	74,519	2,578	94,631
<i>Total</i>	3,561,843	1,302,937	878,881	5,743,661
TEMPORARILY RESTRICTED REVENUE, NET OF RELEASES	<u>(6,357)</u>	<u>11,476</u>	<u>7,173</u>	<u>12,292</u>
<i>Total revenue and support</i>	3,555,486	1,314,413	886,054	5,755,953
EXPENSES				
Instructional expenses:				
Personnel costs	1,713,217	461,499	-	2,174,716
Professional services	56,749	31,029	-	87,778
Supplies and materials	99,503	53,578	-	153,081
<i>Total instructional expenses</i>	<u>1,869,469</u>	<u>546,106</u>	<u>-</u>	<u>2,415,575</u>
Administration expenses:				
Personnel costs	369,620	302,943	473,189	1,145,752
Professional services	123,867	99,110	34,328	257,305
Staff training	86,137	32,037	12,234	130,408
Community relations	4,039	6,208	11,799	22,046
Supplies and materials	66,329	27,805	2,721	96,855
Other	4,336	789	2,351	7,476
<i>Total administration expenses</i>	<u>654,328</u>	<u>468,892</u>	<u>536,622</u>	<u>1,659,842</u>
Other expenses:				
Facilities	194,532	62,348	43,265	300,145
Technology	28,830	12,781	6,288	47,899
Interest	12,105	-	-	12,105
Depreciation and amortization	129,180	28,596	1,336	159,112
Student transportation and other	498,640	180,864	4,442	683,946
Loss on disposal of property and equipment	289,312	-	-	289,312
<i>Total other expenses</i>	<u>1,152,599</u>	<u>284,589</u>	<u>55,331</u>	<u>1,492,519</u>
<i>Total expenses</i>	<u>3,676,396</u>	<u>1,299,587</u>	<u>591,953</u>	<u>5,567,936</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(120,910)	14,826	294,101	188,017
IMPAIRMENT LOSS ON LAND AND BUILDING AVAILABLE FOR SALE	<u>(2,218,123)</u>	<u>-</u>	<u>-</u>	<u>(2,218,123)</u>
CHANGE IN NET ASSETS	(2,339,033)	14,826	294,101	(2,030,106)
NET ASSETS, BEGINNING OF YEAR RESTATED (NOTES 2 AND 7)	<u>2,642,876</u>	<u>207,220</u>	<u>209,515</u>	<u>3,059,611</u>
NET ASSETS, END OF YEAR	<u>\$ 303,843</u>	<u>\$ 222,046</u>	<u>\$ 503,616</u>	<u>\$ 1,029,505</u>

KIPP INDIANAPOLIS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Indiana Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.56	FY2014-2015	\$ 198,783
National School Lunch Program	10.56	FY2013-2014	36,922
Total for child Nutrition Cluster			<u>235,705</u>
Total for U.S. Department of Agriculture			235,705
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	FY2014-2015	365,101
		FY2013-2014	86,069
Total for Title I, Part A Cluster			<u>451,170</u>
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	FY2014-2015	69,392
		FY2013-2014	10,247
Total for Special Education Cluster (IDEA)			<u>79,639</u>
Improving Teacher Quality State Grants	84.367	FY2014-2015	8,211
Teacher Incentive Fund	84.374	FY2014-2015	130,561
Total passed through the Indiana Department of Education			<u>669,581</u>
Passed through the KIPP Foundation			
Investing in Innovation (i3) Fund	84.411	FY2014-2015	40,538
		FY2013-2014	13,000
Total passed through the KIPP Foundation			<u>53,538</u>
Total U.S. Department of Education			<u>723,119</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 958,824</u></u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.



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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*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
KIPP Indianapolis, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of KIPP Indianapolis, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 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 the 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 the 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 results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Greenwald CPAs, Inc.

January 25, 2016



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
KIPP Indianapolis, Inc.:

Report on Compliance for Each Major Federal Program

We have audited KIPP Indianapolis, Inc.'s (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2015. The 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 the compliance for each of the 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 of America; 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 the 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 on the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2015.

Report on Internal Control Over Compliance

Management of the 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 the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order 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 the 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 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Greenwald CPAs, Inc.

January 25, 2016

A. SUMMARY OF AUDIT RESULTS

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:

Material weakness(es) identified?	_____yes	__X__no
Significant deficiency(ies) identified?	_____yes	__X__none reported
3. Noncompliance material to financial statements noted?

	_____yes	__X__no
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4. Internal control over major programs:

Material weakness(es) identified?	_____yes	__X__no
Significant deficiency(ies) identified?	_____yes	__X__none reported
5. Type of auditors' report issued on compliance for major programs: Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

	_____yes	__X__no
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7. Identification of major program:

	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	10.555	Child Nutrition Cluster
	84.010	Title I, Part A Cluster
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. Auditee qualified as low-risk auditee?

	_____yes	__x__no
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B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

D. PRIOR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

2013-001 U.S. Department of Agriculture and Department of Education

Condition: The finding was a significant deficiency stating that 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.

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.

Current Status: The audit for the year ended June 30, 2013 was completed on June 20, 2014.

2014-002 Title I, Part A Cluster - CFDA No. 84.010: Grant Period: July 1, 2013 - September 2014

Condition: The finding was a significant deficiency stating that the School claimed reimbursement for expenses that did not follow the grant's allowability compliance.

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

Current status: The Executive Director reviewed and modified controls and procedures to address the significant deficiency. No similar findings were noted in the 2015 audit.

KIPP INDIANAPOLIS, INC.

OTHER REPORT

JUNE 30, 2015

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

Supplemental Audit Report of KIPP Indianapolis, Inc.