



***ANNUAL FINANCIAL REPORT***

***FOR THE YEAR ENDED***

***JUNE 30, 2018***



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Work hard. Be nice.

**Certificate of KIPP Texas, Inc. Board**

KIPP Texas, Inc.  
(Federal Employer Identification Number: 01-0639602)  
(Former Federal Employer Identification Number: 41-2090713)  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of KIPP San Antonio, Inc. was reviewed and (check one)  approved  disapproved for the year ended June 30, 2018, at a meeting of the governing body of the charter holder on the 7<sup>th</sup> day of November, 2018.

Signature of Board Secretary  
Darla Whitaker

Signature of Board President  
Bill Boyar

**NOTE:** The governing body does not approve the financial statements for KIPP San Antonio, Inc. because this board is not the governing board of the former entity. Per discussion with the Texas Education Agency, this board is only required to review the financial statements but not approve them because this board is not the governing board of the former entity.



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
KIPP San Antonio, Inc.  
San Antonio, Texas

### Report on the Financial Statements

We have audited the accompanying combined statements of financial position of KIPP San Antonio, Inc. and KIPP Cevallos, Inc. (collectively "KIPP SA") as of June 30, 2018, and the related combined 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of KIPP SA as of June 30, 2018, and the combined changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

On July 1, 2018, the assets and liabilities of KIPP SA were merged into KIPP Texas Public Schools (“KIPP Texas”), a nonprofit corporation. Management’s plans in regard to this matter are described in Note 17 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of these plans. Our conclusion is not modified with respect to this matter.

### ***Other Matters***

#### ***Other Information***

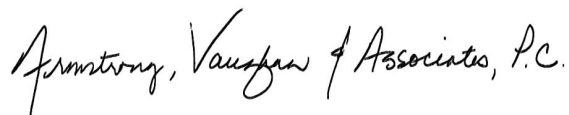
Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Supplementary Information (consisting of the schedule of expenses, schedule of capital assets and budgetary comparison schedule) is presented for the purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. The Supplementary Information and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate 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 other 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 Supplementary Information and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

### **Report on Summarized Comparative Information**

We have previously audited the KIPP SA’s combined financial statements as of and for the year ended June 30, 2017, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 21, 2017. In our opinion, the summarized combined comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018 on our consideration of KIPP San Antonio, Inc.’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 KIPP San Antonio, Inc.’s internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

October 5, 2018



**GENERAL-PURPOSE  
FINANCIAL STATEMENTS**

KIPP SA  
 COMBINED STATEMENT OF FINANCIAL POSITION  
 JUNE 30, 2018  
 (with summarized, combined comparative totals as of June 30, 2017)

	KIPP San Antonio	KIPP Cevallos
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 9,320,744	\$ -
Cash Restricted by Grant Provisions	216,245	-
Accounts Receivable:		
Grants	5,402,939	-
Promises to Give - Current Portion	1,875,001	-
Other	51,056	-
Prepaid Expenses	119,973	-
Deposits	6,400	-
<i>Total Current Assets</i>	16,992,358	-
<i>Property and Equipment, net</i>	45,747,086	-
<i>Other Assets:</i>		
Promises to Give (net of discount and current portion)	1,297,993	-
Cash - Collateral for Note Payable	2,488,235	-
<i>Total Other Assets</i>	3,786,228	-
<b>TOTAL ASSETS</b>	<b>\$ 66,525,672</b>	<b>\$ -</b>
<b>LIABILITIES AND NET ASSETS</b>		
<i>Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	\$ 604,359	\$ -
Interest Payable	1,500	-
Payroll Deductions and Withholdings	4,167	-
Wages Payable	554,474	-
Capital Lease Obligations Due Within One Year	82,909	-
Notes Payable Due Within One Year	299,136	-
<i>Total Current Liabilities</i>	1,546,545	-
<i>Noncurrent Liabilities:</i>		
Capital Lease Obligations (net of current portion)	34,907,552	-
Notes Payable (net of current portion)	18,886,764	-
<i>Total Noncurrent Liabilities</i>	53,794,316	-
<i>Total Liabilities</i>	55,340,861	-
<i>Net Assets:</i>		
Unrestricted	7,677,548	-
Temporarily Restricted	3,507,263	-
<i>Total Net Assets</i>	11,184,811	-
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 66,525,672</b>	<b>\$ -</b>

The accompanying notes are an integral part of this financial statement.

Eliminations	Combined Totals	
	2018	2017
\$ -	\$ 9,320,744	\$ 8,593,220
-	216,245	205,318
-	5,402,939	4,745,110
-	1,875,001	2,308,335
-	51,056	129,746
-	119,973	396,771
-	6,400	6,350
-	<u>16,992,358</u>	<u>16,384,850</u>
-	<u>45,747,086</u>	<u>48,145,549</u>
-	1,297,993	2,147,993
-	2,488,235	-
-	<u>3,786,228</u>	<u>2,147,993</u>
<u>\$ -</u>	<u>\$ 66,525,672</u>	<u>\$ 66,678,392</u>
\$ -	\$ 604,359	\$ 411,363
-	1,500	1,500
-	4,167	236,913
-	554,474	511,188
-	82,909	155,192
-	299,136	250,012
-	<u>1,546,545</u>	<u>1,566,168</u>
-	34,907,552	45,258,279
-	18,886,764	6,736,743
-	<u>53,794,316</u>	<u>51,995,022</u>
-	<u>55,340,861</u>	<u>53,561,190</u>
-	7,677,548	8,416,341
-	3,507,263	4,700,861
-	<u>11,184,811</u>	<u>13,117,202</u>
<u>\$ -</u>	<u>\$ 66,525,672</u>	<u>\$ 66,678,392</u>

KIPP SA  
 COMBINED STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2018  
 (with summarized, combined comparative totals for the year ended June 30, 2017)

	KIPP San Antonio		
	Unrestricted	Temporarily Restricted	Totals
<b>REVENUE</b>			
5700 Local Revenues	\$ 1,609,116	\$ 2,527,884	\$ 4,137,000
5800 State Revenues	-	29,998,912	29,998,912
5900 Federal Revenues	-	4,518,093	4,518,093
	<u>1,609,116</u>	<u>37,044,889</u>	<u>38,654,005</u>
Net Assets Released from Restrictions	38,238,487	(38,238,487)	-
<b>TOTAL REVENUE</b>	<u>39,847,603</u>	<u>(1,193,598)</u>	<u>38,654,005</u>
<b>EXPENSES</b>			
11 Instruction	16,057,155	-	16,057,155
12 Instructional Resources and Media Services	218,856	-	218,856
13 Curriculum Development and Instructional Student Development	418,232	-	418,232
21 Instructional Leadership	780,921	-	780,921
23 School Leadership	3,181,826	-	3,181,826
31 Guidance, Counseling and Evaluation Services	1,423,870	-	1,423,870
32 Social Work Services	356,384	-	356,384
33 Health Services	153,691	-	153,691
34 Student Transportation	1,347,143	-	1,347,143
35 Food Services	2,047,055	-	2,047,055
36 Extracurricular Activities	326,222	-	326,222
41 General Administration	3,955,119	-	3,955,119
51 Plant Maintenance	4,493,481	-	4,493,481
52 Security	720	-	720
53 Data Processing	301,359	-	301,359
61 Community Service	505,383	-	505,383
71 Debt Service	5,097,400	-	5,097,400
81 Fundraising	100,928	-	100,928
<b>TOTAL EXPENSES</b>	<u>40,765,745</u>	<u>-</u>	<u>40,765,745</u>
<b>CHANGE IN NET ASSETS</b>	(918,142)	(1,193,598)	(2,111,740)
<b>NET ASSETS (DEFICIT):</b>			
<b>BEGINNING OF YEAR</b>	<u>8,595,690</u>	<u>4,700,861</u>	<u>13,296,551</u>
<b>END OF YEAR</b>	<u>\$ 7,677,548</u>	<u>\$ 3,507,263</u>	<u>\$ 11,184,811</u>

The accompanying notes are an integral part of this financial statement.

KIPP Cevallos		Combined Totals	
Unrestricted	Eliminations	2018	2017
\$ 189,524	\$ (189,524)	\$ 4,137,000	\$ 3,220,263
-	-	29,998,912	26,320,350
-	-	4,518,093	3,998,702
189,524	(189,524)	38,654,005	33,539,315
-	-	-	-
189,524	(189,524)	38,654,005	33,539,315
-	-	16,057,155	12,521,925
-	-	218,856	197,131
-	-	418,232	663,451
-	-	780,921	1,187,774
-	-	3,181,826	2,895,991
-	-	1,423,870	1,402,311
-	-	356,384	178,072
-	-	153,691	167,266
-	-	1,347,143	1,178,478
-	-	2,047,055	1,983,034
-	-	326,222	580,785
6,819	-	3,961,938	3,149,765
3,356	(189,524)	4,307,313	4,511,486
-	-	720	188,378
-	-	301,359	269,054
-	-	505,383	752,535
-	-	5,097,400	4,315,431
-	-	100,928	224,570
10,175	(189,524)	40,586,396	36,367,437
179,349	-	(1,932,391)	(2,828,122)
(179,349)	-	13,117,202	15,945,324
\$ -	\$ -	\$ 11,184,811	\$ 13,117,202

KIPP SA  
 COMBINED STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2018  
 (with summarized, combined comparative totals for the year ended June 30, 2017)

	KIPP San Antonio	KIPP Cevallos
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
State and Federal Program Payments	\$ 33,859,176	\$ 189,524
Contributions and Miscellaneous Sources	5,499,024	-
Payments to Vendors for Goods and Services	(9,564,090)	(11,316)
Payments to Personnel for Services	(23,981,443)	-
Interest Payments	(4,450,481)	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>1,362,186</b>	<b>178,208</b>
<b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
Proceeds from the Sale of Property and Equipment	-	3,624,563
Sales Tax Rebate on Purchased Property and Equipment	699,736	-
Purchase of Property and Equipment	(3,767,224)	-
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(3,067,488)</b>	<b>3,624,563</b>
<b>CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
Principal Payments on Capital Lease Obligations	(11,056,327)	-
Intercompany Repayments	3,904,840	(3,904,840)
Proceeds from Notes Payable	15,800,000	-
Issuance Costs on Notes Payable	(81,607)	-
Principal Payments on Notes Payable	(3,532,849)	-
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>5,034,057</b>	<b>(3,904,840)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>3,328,755</b>	<b>(102,069)</b>
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<b>8,696,469</b>	<b>102,069</b>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$ 12,025,224</b>	<b>\$ -</b>
<b>RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION</b>		
Cash and Cash Equivalents	\$ 9,320,744	\$ -
Restricted Cash	216,245	-
Cash - Collateral for Note Payable	2,488,235	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 12,025,224</b>	<b>\$ -</b>
<b>ADDITIONAL DISCLOSURES</b>		
Noncash Investing and Financing Activities:		
Purchase of Facilities and Equipment through Capital Lease	\$ -	\$ -

Eliminations	Combined Totals	
	2018	2017
\$ (189,524)	\$ 33,859,176	\$ 29,390,496
-	5,499,024	5,227,506
189,524	(9,385,882)	(10,554,385)
-	(23,981,443)	(20,617,708)
-	(4,450,481)	(2,435,773)
-	1,540,394	1,010,136
(3,624,563)	-	117,924
3,624,563	(142,661)	(234,059)
-	557,075	(116,135)
-	(11,056,327)	(219,966)
-	-	-
-	15,800,000	-
-	(81,607)	-
-	(3,532,849)	(264,828)
-	1,129,217	(484,794)
-	3,226,686	409,207
-	8,798,538	8,389,331
\$ -	\$ 12,025,224	\$ 8,798,538
\$ -	\$ 9,320,744	\$ 8,593,220
-	216,245	205,318
-	2,488,235	-
\$ -	\$ 12,025,224	\$ 8,798,538
\$ -	\$ -	\$ 31,467,989

KIPP SA  
 COMBINED STATEMENT OF CASH FLOWS (CONT.)  
 FOR THE YEAR ENDED June 30, 2018  
 (with summarized, combined comparative totals for the year ended June 30, 2017)

	<u>KIPP</u> <u>San Antonio</u>	<u>KIPP</u> <u>Cevallos</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Increase (Decrease) in Net Assets	\$ (2,111,740)	\$ 179,349
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,841,387	-
Amortization	13,601	-
(Increase) Decrease in Current Assets:		
Accounts Receivable:		
Grants	(657,829)	-
Promises to Give (net of discounts)	1,283,334	-
Other	78,690	-
Prepaid Expenses	276,798	-
Deposits	(50)	-
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	194,137	(1,141)
Accrued and Capitalized Interest	633,318	-
Payroll Deductions and Withholdings	(232,746)	-
Wages Payable	43,286	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 1,362,186</u>	<u>\$ 178,208</u>

<u>Eliminations</u>	<u>Combined Totals</u>	
	<u>2018</u>	<u>2017</u>
\$ -	\$ (1,932,391)	\$ (2,828,122)
-	1,841,387	1,663,842
-	13,601	-
-	(657,829)	(928,556)
-	1,283,334	2,074,570
-	78,690	(67,327)
-	276,798	(298,039)
-	(50)	-
-	192,996	(548,123)
-	633,318	1,879,658
-	(232,746)	(56,059)
-	43,286	118,292
<u>\$ -</u>	<u>\$ 1,540,394</u>	<u>\$ 1,010,136</u>

KIPP SA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Reporting Entity*

All significant intercompany accounts and transactions have been eliminated in combination. The combined financial statements include the accounts of the following entities (collectively known as “KIPP SA”):

***KIPP San Antonio, Inc.*** (“Charter”) is a nonprofit corporation that operates open-enrollment charter schools. The Charter’s mission is to enable children who have been educationally underserved to develop the knowledge, skills, and character necessary to succeed in top-quality high schools, colleges, and the competitive world beyond. The Charter operates free college preparatory public schools, consisting of two elementary schools, three middle schools and one high school. Students from downtown San Antonio may apply for open enrollment on a space-available basis, selected by a numerical lottery.

Originally KIPP: Aspire Academy, Inc., KIPP San Antonio, Inc. began in 2003 under a charter held by the national KIPP Foundation. In 2008, the State Board of Education of the State of Texas approved the transfer of the open-enrollment charter, pursuant to Chapter 12 of the Texas Education Code (“TEC”), to the Charter, retroactive to July 1, 2007. The terms of the current applicable contract for the charter extend to July 31, 2018.

The Charter is governed by a Board of Directors comprised of nine members. The Board of Directors is selected pursuant to the bylaws of the Charter and has the authority to make decisions, appoint the chief executive officer of the Charter, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Charter.

The Charter receives the majority of its funding from the Texas Education Agency based on average daily attendance in the schools it operates. Since the Charter receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

KIPP San Antonio, Inc. ceased to exist as of July 1, 2018 and was merged into KIPP Texas. See Note 17.

***KIPP Cevallos, Inc.*** (“Cevallos”) is a Texas nonprofit corporation organized in 2012 to purchase and redevelop land for educational purposes. Cevallos is governed by a five member Board of Directors, consisting of Board members of the Charter. However the Charter has no authority to appoint or force those Board members and officers to serve. In 2012, Cevallos purchased land on which the Charter has constructed a school facility.

KIPP Cevallos will be terminated in 2018. All assets were transferred to KIPP San Antonio, Inc. June 30, 2018. See Note 17.

Because these two entities share common management and have significant transactions between them, the financial statements have been combined to give a more complete picture of the financial position of the group. However, the combined group does not represent a separate legal entity.

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

*Basis of Accounting and Presentation*

The general-purpose financial statements of KIPP SA were prepared in conformity with accounting principles generally accepted in the United States. The *Financial Accounting Standards Board* is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when they are incurred.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – net assets that are not subject to grantor or donor-imposed stipulations.

*Temporarily Restricted Net Assets* – net assets subject to grantor or donor-imposed stipulations that may or will be met either by actions of KIPP SA and/or passage of time.

*Permanently Restricted Net Assets* – net assets required to be maintained in perpetuity with only the income to be used for the charter school’s activities due to grantor or donor-imposed restrictions.

*Contributions*

KIPP SA accounts for contributions as unrestricted, temporarily restricted, or permanently restricted contributions, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recorded when the promise is made in writing. Conditional promises to give are not recorded until conditions are met.

*Cash and Cash Equivalents*

For financial statement purposes, KIPP SA considers all highly liquid investment instruments with an original maturity of three months or less to be cash.

*Capital Assets*

Capital assets, which include furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by KIPP SA as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost (or fair value if donated) and are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Useful lives are generally estimated to be 3-to-10 years for furniture, equipment and vehicles and 10-to-30 years for buildings and improvements.

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

*Compensated Absences*

Employees earn compensated absences at the beginning of each fiscal year. The time is not paid at termination, but a portion may be transferred to other schools in Texas. In accordance with industry practice no liability has been accrued for compensated absences in these financial statements.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Income Taxes*

KIPP San Antonio, Inc. is a not-for-profit organization exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code, except to the extent that it has unrelated business income. KIPP Cevallos, Inc. is in the process of filing for tax exempt status. As such, no provision for income taxes has been made in the financial statements. In the meantime, it is a taxable entity. The organizations generally are no longer subject to income tax examination by Federal authorities for years prior to June 30, 2015.

*Reclassifications*

Certain amounts for the year ended June 30, 2017, have been reclassified for comparative purposes to conform to the presentation used in the June 30, 2018 financial statements. The reclassifications have no effect on total net assets for the year ended June 30, 2017.

*Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class or entity. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the KIPP SA's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

*Subsequent Events*

Subsequent events were considered through October 5, 2018, which is the date the financial statements were available to be issued.

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 2 -- CASH AND CASH EQUIVALENTS

KIPP SA maintains deposits at one institution. Through a depository agreement, the institution has pledged collateral to cover public funds distributed by the Texas Education Agency. Local funds are distributed to multiple institutions to maximize FDIC coverage; however, as of June 30, 2018, deposits of \$1,767,186 were uncollateralized.

Restricted cash represents deposits from federal and private grantors restricted for purposes narrower than the charter school as a whole. Loan collateral cash represents funds pledged under a security agreement executed by KIPP SA in December, 2017, as collateral for a note payable signed at that time; see Note 6. Loan collateral cash must remain on deposit in full until the note payable is repaid in full.

As of June 30, 2018, \$8,522,724 in cash from the State of Texas Foundation School Program (which is generally available for any lawful school purpose) is reported as unrestricted cash as KIPP San Antonio does not intend to engage in any activities outside of this purpose.

NOTE 3 -- GRANTS RECEIVABLE

Grants receivable at June 30, 2018 and 2017 were made up of the following:

	2018	2017
<i>Passed Through Texas Education Agency:</i>		
Foundation School Program	\$ 4,967,324	\$ 4,308,428
Federal Funding	326,202	197,609
Other Funding	-	108,686
<i>Passed Through KIPP Foundation:</i>		
Federal Funding	109,413	130,387
Total Grants Receivable	\$ 5,402,939	\$ 4,745,110

NOTE 4 -- PROMISES TO GIVE

Unconditional promises to give due in more than one year are reflected at net present value of estimated future cash flows using a discount rate of 5.2% per annum. Unconditional promises to give are expected to be collected as follows:

Year Ending June 30,	
2019	\$ 1,875,001
2020	875,000
2021	275,000
2022	250,000
Gross Promises to Give	3,275,001
Less: Discount for Multi-year Promises to Give	(102,007)
Present Value of Promises to Give	\$ 3,172,994

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 5 -- CAPITAL ASSETS

Capital assets at June 30, 2018 and 2017 were as follows:

	KIPP San Antonio		KIPP Cevallos	
	2018	2017	2018	2017
Land	\$ 4,271,234	\$ 646,671	\$ -	\$ 3,624,563
Buildings and Improvements	45,784,969	46,392,774	-	-
Furniture and Fixtures	1,702,282	1,651,552	-	-
Vehicles	19,201	19,201	-	-
Total Property and Equipment	51,777,686	48,710,198	-	3,624,563
Less: Accumulated Depreciation	(6,030,600)	(4,189,212)	-	-
Property and Equipment - Net	\$ 45,747,086	\$ 44,520,986	\$ -	\$ 3,624,563

Land and construction in progress are not depreciated. Capital assets acquired with public funds received by the Charter for the operation of KIPP San Antonio, Inc. constitute public property pursuant to Charter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets. Depreciation expense was \$1,841,387 and \$1,663,842 for the years ended June 30, 2018 and 2017, respectively.

NOTE 6 -- NOTES PAYABLE

In November 2012, the Charter entered into a loan agreement with a charitable foundation for \$200,000. The agreement requires annual interest only payments at a rate of 1% through September 2016, at which time annual principal payments of \$66,667 will also be due until maturity on September 30, 2018. The loan is unsecured and has several reporting and negative covenants to which the Charter has complied.

In August 2013, the Charter entered into a loan agreement with a bank for \$3,445,000. The agreement required monthly interest only payments at a rate of prime plus 0.75% (5.0% as of June 30, 2018) through August 2016. In September 2016, the loan was modified to monthly payments of \$26,023 through August 2019 at which time the remaining balance will be due. The loan is secured by a pledge of present and future donations, gifts and grants of the Charter and a security interest in land.

In August 2013, the Charter entered into a loan agreement with a school financing institution for \$3,306,583 to purchase a school site. The note requires interest only payments of 5% starting in September 2014. A balloon payment of the total principal balance is due June 30, 2043. The financing institution renovated the site to the Charter's specifications and delivered a finished school in August 2014. The renovations are leased to KIPP SA. The note is secured by the property purchased.

In October 2014, the Charter entered into a loan agreement with a charitable foundation for \$300,000. The agreement requires annual interest only payments at a rate of 1% through June 2018, at which time annual principal payments of \$100,000 will also be due until maturity on June 30, 2020. The loan is unsecured and has several reporting and negative covenants to which the Charter has complied.

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 6 -- NOTES PAYABLE (CONT.)

In December, 2017, the Charter entered into a loan agreement with a bank for \$15,800,000. This loan refinanced a capital lease initiated in September, 2014; see Note 8 for further discussion of this matter. The agreement requires monthly interest only payments at the Wall Street Journal Interbank Offered Rate plus 2.2% (4.2% as of June 30, 2018). This rate will prevail through December 2020, at which time all principal and unpaid accrued interest shall be due and payable. The loan is collateralized by an escrowed cash account with a balance of \$2,488,235 as of June 30, 2018 and is secured by the real property of the Commerce campus.

A summary of outstanding note balances follows:

Notes Payable	June 30,	
	2018	2017
Foundation Loan Unsecured	\$ 66,667	\$ 66,667
Foundation Loan Unsecured	200,000	300,000
Bank Loan Secured by Real Property	3,187,239	3,313,505
Charter Financing Entity Note Secured by Real Property	15,800,000	3,306,583
	<u>19,253,906</u>	<u>6,986,755</u>
Unamortized Loan Costs	(68,006)	-
	<u>\$ 19,185,900</u>	<u>\$ 6,986,755</u>

Future maturities of these notes payable at June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 299,136	\$ 846,078	\$ 1,145,214
2020	3,154,770	693,820	3,848,590
2021	15,800,000	387,100	16,187,100
	<u>\$ 19,253,906</u>	<u>\$ 1,926,998</u>	<u>\$ 21,180,904</u>

NOTE 7 -- LINE OF CREDIT

The Charter has a line of credit from a bank for \$1,200,000. The line of credit had a balance of zero as of June 30, 2018, matures on January 2, 2019, and bears interest at prime plus 1.25% (5.75% as of June 30, 2018).

NOTE 8 -- CAPITAL LEASE OBLIGATIONS

In 2014 and 2015, the Charter leased a security system and information technology infrastructure under three capital leases for total principal amounts of \$859,738. Lease payments consist of \$921 through August 1, 2019, annual payments of \$90,378 through June 28, 2019, and annual payments of \$84,897 through August 1, 2019. The capital assets recognized in relation to these obligations amount to a cost of \$859,151 with accumulated amortization of \$670,203 as of June 30, 2018. Amortization of these assets is included with depreciation expense.

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 8 -- CAPITAL LEASE OBLIGATIONS (CONT.)

Commencing in September 2014, the Charter leased its Commerce facility improvements from an unrelated nonprofit financing entity through August 2043. This lease was extinguished in the current fiscal year; see Note 7 for further discussion of this matter.

Similarly in September 2016, the Charter leased its Cevallos facility improvements from an unrelated nonprofit financing entity through August 2045. The improvements were constructed on land owned by KIPP Cevallos. The lease requires monthly rent payments increasing from \$129,167 to \$396,779 and includes purchase options between February 1, 2019 and September 1, 2019. The capital asset recognized in relation to this obligation has a cost of \$31,476,340 with accumulated amortization of \$1,993,594 as of June 30, 2018. Amortization of these assets is included with depreciation expense.

Future lease payments on these capital leases are as follows:

<u>Year Ending June 30,</u>	Future Minimum Lease Payments		
	Cevallos Facility	Other Capital Leases	Total
2019	\$ 1,866,667	\$ 95,848	\$ 1,962,515
2020	2,574,437	86,722	2,661,159
2021	2,681,128	-	2,681,128
2022	2,824,357	-	2,824,357
2023	2,907,645	-	2,907,645
2024-2028	15,549,497	-	15,549,497
2029-2033	17,379,326	-	17,379,326
2034-2038	19,424,484	-	19,424,484
2039-2043	21,710,312	-	21,710,312
2044-2046	10,176,939	-	10,176,939
	97,094,792	182,570	97,277,362
Less: Amount representing interest	(62,267,648)	(19,253)	(62,286,901)
Capital Lease Obligation	\$ 34,827,144	\$ 163,317	\$ 34,990,461

NOTE 9 -- PENSION BENEFIT OBLIGATION

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the charter school, but are the liability of the State of Texas. Charters are legally separate entities from the State and there is no withdrawal penalty for leaving TRS. Assets contributed by one entity may be used to pay the benefits of another and unfunded obligations are passed on to other entities. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees.

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 9 -- PENSION BENEFIT OBLIGATION (CONT.)

TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications Heading. The plan financial statements for the year ending August 31, 2017 reported the following information:

Total Plan Assets	\$ 165,379,341,964
Plan Net Position	\$ 147,361,922,120
Accumulated Benefit Obligations	\$ 179,336,535,000
Funded Percentage	82.00%

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. The following tables present contribution rates and amounts:

<u>Year Ending June 30,</u>	<u>Member</u>	<u>State</u>	<u>Charter</u>
2018	\$ 1,666,978	\$ 1,273,365	\$ 523,507
2017	1,377,276	1,049,856	434,740
2016	976,511	788,966	336,734
<u>Year Ending August 31,</u>	<u>Member</u>	<u>State</u>	<u>Charter</u>
2018	7.7%	6.8%	1.5%
2017	7.7%	6.8%	1.5%
2016	7.2%	6.8%	1.5%

The employer is also required to contribute in certain circumstances such as salaries funded through certain private and federal grants, new members, and 1.5% of all covered salaries to TRS if the Charter does not participate in social security. The Charter's contributions did not exceed 5% of all contributions to TRS for the plan year.

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 10 -- RETIREE HEALTH PLAN

TRS also offers retiree health insurance, called TRS-Care, a cost-sharing multiple-employer defined benefit postemployment health care plan. Qualified retirees (and their dependents) receive health insurance paid for by the plan. The statutory authority for the program is Texas Insurance Code, Chapter 1575. The State, employees and employers contribute a portion of covered payroll.

Contribution requirements are not actuarially determined but are established each biennium by the Texas Legislature. Contribution rates and amounts were as follows:

<u>Year Ending June 30,</u>	<u>Member</u>	<u>State</u>	<u>Charter</u>
2018	\$ 158,938	\$ 267,911	\$ 159,999
2017	117,767	169,927	110,902
2016	89,075	137,038	85,394
<u>Year Ending August 31,</u>	<u>Member</u>	<u>State</u>	<u>Charter</u>
2018	0.65%	1.00%	0.75%
2017	0.65%	1.00%	0.55%
2016	0.65%	1.00%	0.55%

NOTE 11 -- HEALTH CARE COVERAGE

During the year ended June 30, 2018, employees of KIPP San Antonio, Inc. were covered by a Health Insurance Plan (the Plan). The Charter contributed amounts between \$343 and \$524 per month per employee, depending on plan options and the number of dependents. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

NOTE 12 -- TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Kipp Through College	\$ 1,352,622	\$ 1,928,130
Time Restriction	1,075,000	758,334
Expansion of Schools	961,616	1,981,854
Other Purpose Restrictions	118,025	32,543
Total Temporarily Restricted Net Assets	<u>\$ 3,507,263</u>	<u>\$ 4,700,861</u>

NOTE 13 -- KIPP CEVALLOS - DISSOLUTION

KIPP Cevallos will be dissolved in 2018. All of KIPP Cevallos' assets, primarily land and improvements, were transferred to KIPP SA as of June 30, 2018. Over time, KIPP Cevallos has accumulated a deficit due to operating costs associated with the land and improvements. This deficit was reimbursed to KIPP Cevallos by KIPP SA using local philanthropic funding.

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 14 -- OPERATING LEASES

The Charter has operating leases for copiers, computers and facilities. Rental expense for the year ending June 30, 2018 was \$420,501. Future minimum lease payments as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Future Minimum Lease Payments</u>
2019	\$ 343,596
2020	379,741
2021	322,230
2022	274,217
2023	115,470
2024-2025	238,800
	<u>\$ 1,674,054</u>

NOTE 15 -- COMMITMENTS AND CONTINGENCIES

The Charter receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

NOTE 16 -- KIPP FOUNDATION AGREEMENT

KIPP Foundation, a nonprofit organization, was formed in 2000 to support the formation of new KIPP schools and the recruiting and training of KIPP teachers. The Charter licenses the KIPP trademark from KIPP Foundation. Under this agreement, KIPP Foundation is entitled to an annual license fee of up to 1% of state and local per pupil funding. It is the intention of both parties that the annual license fee will not exceed \$30,000 per school. License payments to KIPP Foundation totaled approximately \$171,000 and \$120,000 during the years ended June 30, 2018 and 2017, respectively. If the Charter voluntarily relinquishes its license rights, it must pay KIPP Foundation a termination fee not to exceed \$200,000, which is intended to reimburse KIPP Foundation for a portion of start-up and training costs.

NOTE 17 -- SUBSEQUENT EVENTS

On July 1, 2018, KIPP SA was merged into KIPP Texas Public Schools, a Texas nonprofit corporation comprising campuses in Austin, Houston, San Antonio, and Dallas. Management feels the merger will result in a significant reduction of overhead costs and will also allow KIPP Texas to take advantage of economies of scale associated with a better alignment of curriculum and professional development. The merger will also give KIPP Texas the streamlined infrastructure and capital access necessary to enter new markets. All creditors and grantors have approved of the merger and all assets and liabilities were transferred to KIPP Texas on July 1, 2018.

KIPP SA  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2018

NOTE 18 -- LITIGATION

Management is unaware of any pending or threatened litigation that would result in any significant financial impact.

**SUPPLEMENTARY INFORMATION**



KIPP SAN ANTONIO, INC.  
SCHEDULE OF EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

<b>EXPENSES</b>	2018	2017
6100 Payroll	\$ 23,791,983	\$ 20,679,941
6200 Professional and Contracted Services	3,612,432	2,958,544
6300 Supplies and Materials	3,649,940	4,262,119
6400 Other Operating Costs	4,613,990	4,142,281
6500 Debt Service	5,097,400	4,315,431
Total Expenses	<u>\$ 40,765,745</u>	<u>\$ 36,358,316</u>

*Note: Figures above do not include KIPP Cevallos, Inc.*

*See Independent Auditor's Report*

KIPP SAN ANTONIO, INC.  
SCHEDULE OF CAPITAL ASSETS  
JUNE 30, 2018 AND 2017

	2018		
	Local	State	Federal
1510 Land and Improvements	\$ 4,271,234	\$ -	\$ -
1520 Buildings and Improvements	44,688,499	1,096,470	-
1531 Vehicles	-	19,201	-
1539 Furniture and Equipment	83,623	1,618,659	-
1560 Library Books and Media	-	-	-
1580 Construction in Progress	-	-	-
Total Property and Equipment	<u>\$ 49,043,356</u>	<u>\$ 2,734,330</u>	<u>\$ -</u>
	2017		
	Local	State	Federal
1510 Land and Improvements	\$ 646,671	\$ -	\$ -
1520 Buildings and Improvements	45,362,608	1,030,166	-
1531 Vehicles	-	19,201	-
1539 Furniture and Equipment	67,623	1,583,929	-
1560 Library Books and Media	-	-	-
1580 Construction in Progress	-	-	-
Total Property and Equipment	<u>\$ 46,076,902</u>	<u>\$ 2,633,296</u>	<u>\$ -</u>

*Note: Figures above do not include KIPP Cevallos, Inc.*

*See Independent Auditor's Report*

KIPP SAN ANTONIO, INC.  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUE</b>				
5700 Local Support	\$ 4,833,785	\$ 3,832,539	\$ 4,137,000	\$ 304,461
5800 State Funding	29,208,095	29,782,391	29,998,912	216,521
5900 Federal Funding	3,568,770	4,566,725	4,518,093	(48,632)
<b>TOTAL REVENUE</b>	<u>37,610,650</u>	<u>38,181,655</u>	<u>38,654,005</u>	<u>472,350</u>
<b>EXPENSES</b>				
11 Instruction	15,812,625	15,849,602	16,057,155	(207,553)
12 Instructional Resources and Media Services	225,619	227,134	218,856	8,278
13 Curriculum Development and Instructional Student Development	118,000	417,600	418,232	(632)
21 Instructional Leadership	944,275	809,217	780,921	28,296
23 School Leadership	3,242,617	3,251,021	3,181,826	69,195
31 Guidance, Counseling and Evaluation Services	1,305,849	1,436,567	1,423,870	12,697
32 Social Work Services	333,683	366,556	356,384	10,172
33 Health Services	148,698	159,085	153,691	5,394
34 Student Transportation	1,519,081	1,379,281	1,347,143	32,138
35 Food Services	1,973,854	2,218,333	2,047,055	171,278
36 Extracurricular Activities	316,998	330,579	326,222	4,357
41 General Administration	4,571,760	3,801,347	3,955,119	(153,772)
51 Plant Maintenance	4,691,755	4,645,631	4,493,481	152,150
52 Security and Monitoring Services	12,605	1,000	720	280
53 Data Processing Services	667,905	321,106	301,359	19,747
61 Community Service	488,160	540,237	505,383	34,854
71 Debt Service	4,581,702	4,196,607	5,097,400	(900,793)
81 Fundraising	201,894	116,294	100,928	15,366
<b>TOTAL EXPENSES</b>	<u>41,157,080</u>	<u>40,067,197</u>	<u>40,765,745</u>	<u>(698,548)</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (3,546,430)</u>	<u>\$ (1,885,542)</u>	<u>\$ (2,111,740)</u>	<u>\$ (226,198)</u>

*Note: Figures above do not include KIPP Cevallos, Inc.*

*See Independent Auditor's Report*

KIPP SAN ANTONIO, INC.  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2018

The following functions exceeded the final budget by more than 10% and \$10,000:

71 Debt Service

Payments on the Cevallos facility capital lease grow over time and are not currently sufficient to amortize the debt. This results in interest being capitalized into the principal balance in the early years. The budget underestimated the amount of interest capitalized.

*See Independent Auditor's Report*

**COMPLIANCE AND  
INTERNAL CONTROL**



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

Deborah F. Fraser

Phil S. Vaughan

Nancy L. Vaughan

Kimberly J. Roach

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 AUDITOR'S REPORT

To the Board of Directors  
KIPP SA  
San Antonio, Texas

We have audited 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, the combined financial statements of KIPP SA, which comprise the combined statement of financial position as of June 30, 2018, and the related combined 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 October 5, 2018.

***Internal Control over Financial Reporting***

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

## **Purpose of This Report**

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



Armstrong, Vaughan & Associates, P.C.

October 5, 2018



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
KIPP San Antonio, Inc.  
San Antonio, Texas

**Report on Compliance for Each Major Federal Program**

We have audited KIPP San Antonio, Inc.'s compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. KIPP San Antonio, 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 San Antonio, 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KIPP San Antonio, 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 San Antonio, Inc.'s compliance.

***Opinion on Each Major Federal Program***

In our opinion, KIPP San Antonio, 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, 2018.

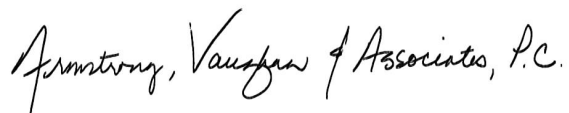
## Report on Internal Control over Compliance

Management of KIPP San Antonio, 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 San Antonio, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KIPP San Antonio, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Armstrong, Vaughan & Associates, P.C.

October 5, 2018

KIPP SAN ANTONIO, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2018

A. Summary of Auditor's Results

*Financial Statements*

- |  |            |
|--|------------|
| 1. Type of auditor's report issued on the financial statements of the auditee: | Unmodified |
| 2. Internal Control over Financial Reporting:                                  |            |
| a. Are any material weaknesses identified?                                     | No         |
| b. Are any significant deficiencies identified?                                | No         |
| c. Is any noncompliance material to financial statements noted?                | No         |

*Federal Awards*

- |   |              |
|---|--------------|
| 1. Type of auditor's report issued on the compliance for major programs:                              | Unmodified   |
| 2. Internal Control over Major Programs:  |              |
| a. Are any material weaknesses identified?  | No           |
| b. Are any significant deficiencies identified?   | No           |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No           |
| 4. Identification of major programs:  |              |
| Title I   | CFDA 84.010A |
| 5. Dollar threshold used to distinguish between Type A and Type B programs                            | \$750,000    |
| 6. Auditee qualified as a low-risk auditee?   | Yes          |

B. Schedule of Findings and Questioned Costs

None

C. Schedule of Prior Year Findings

No prior year findings related to federal awards.

KIPP SAN ANTONIO, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Clusters	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Texas Education Agency</i>				
Title I, Part A Improving Basic	84.010A	18610101015826		\$ 1,399,901
Title II, Part A Teacher Principal Training	84.367A	18694501015826		129,996
Title IV, Part A, Every Student Succeeds Act (ESSA)	84.424A	18680101015826		19,552
English Language Acquisition - Title III, Part A	84.365	18671001015826		86,860
Summer School LEP	84.369A	69551802		3,561
IDEA-B Formula	84.027A	186600010158266000		460,686
<i>Passed Through KIPP Foundation</i>				
Supporting Effective Educator Development (SEED)	84.367D	130421899		175,000
<i>Passed Through ESC Region 20</i>				
Migrant Education Program - Title I, Part C - SSA	84.011	18615001015950		3,785
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>				<u>2,279,341</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<i>Passed Through Texas Department of Health and Human Services</i>				
Medicaid Administrative Claims	93.778	529-16-0072-00041		142,637
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				<u>142,637</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed Through Texas Education Agency</i>				
School Breakfast Program*	10.553	71401701	77,075	
School Breakfast Program*	10.553	71401801	303,034	380,109
National School Lunch Program*	10.555	71301701	235,382	
National School Lunch Program*	10.555	71301801	999,355	
<i>Passed Through Texas Department of Agriculture</i>				
USDA Commodities*##	10.555	71301801	105,598	1,340,335
<i>Child Nutrition Cluster Total</i>				<u>1,720,444</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>				<u>1,720,444</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>\$ 4,142,422</u>

\*Indicates cluster program under Compliance Supplement.

#Indicates non-cash assistance

KIPP SAN ANTONIO, INC.  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 -- STANDARD FINANCIAL ACCOUNTING SYSTEM

For all federal programs, the Charter Holder used the net assets classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

NOTE 2 -- BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Charter Holder, and is presented on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

The Charter Holder does not charge indirect costs to federal programs.

The following schedule reconciles the schedule of expenditures of federal awards with the federal revenues reported on the statement of activities:

Total Expenditures of Federal Awards	\$ 4,142,422
E-Rate Revenue	128,495
Charter School Program Expenditures*	247,176
Total Federal Revenue	<u>\$ 4,518,093</u>

\*KIPP San Antonio is considered a vendor.