

KIPP FOUNDATION

JUNE 30, 2015



SINGLE AUDIT REPORT

KIPP Foundation

Single Audit Report

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Independent Auditors' Report

THE BOARD OF DIRECTORS
KIPP FOUNDATION
San Francisco, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **KIPP FOUNDATION (the Foundation)** which comprise the consolidated statement of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

Consultants and

Business Advisors

100 First Street

14th Floor

San Francisco

CA 94105

415.781.0793

fax 415.421.2976

60 S. Market Street

Suite 200

San Jose

CA 95113

408.998.8400

fax 408.998.8485



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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2015 and 2014, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated 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 is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 December 22, 2015 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Hood & Strong LLP

San Francisco, CA
December 22, 2015

KIPP Foundation

Consolidated Statement of Financial Position

<i>June 30,</i>	2015	2014
Assets		
Cash and cash equivalents	\$ 17,657,602	\$ 15,898,544
Receivables, net of allowance of \$361,153 in 2015 and \$277,678 in 2014	2,917,360	3,247,668
E-Rate receivable (Note 8)	-	151,425
Government grants receivable	9,678,338	7,478,696
Contributions receivable, net (Note 4)	6,249,096	12,366,362
Investment contracts (Note 5)	576,157	1,921,242
Investments (Note 3)	22,049,963	19,552,266
Notes receivable (Note 6)	2,300,000	1,700,000
Furniture and equipment, net (Note 7)	2,135,908	2,188,969
Deposits, prepaids, and other assets	1,884,683	2,698,033
Total assets	\$ 65,449,107	\$ 67,203,205
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,598,884	\$ 3,156,532
Accrued expenses	3,593,408	3,247,674
Government grants accrued expenses	6,626,318	4,943,685
E-Rate liability (Note 8)	-	181,204
Guarantees and other liabilities (Note 11)	15,905	29,786
Unearned leadership development income	596,322	175,625
Government advance - KCEP (Note 10)	7,221,361	7,179,254
Total liabilities	20,652,198	18,913,760
Net Assets:		
Unrestricted net assets:		
Board designated net assets	3,680,589	3,680,589
Operating assets	26,656,919	22,458,421
Total unrestricted net assets	30,337,508	26,139,010
Temporarily restricted net assets (Note 14)	14,459,401	22,150,435
Total net assets	44,796,909	48,289,445
Total liabilities and net assets	\$ 65,449,107	\$ 67,203,205

See accompanying notes to financial statements.

KIPP Foundation

Consolidated Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Support:			
Contributions	\$ 14,181,168	\$ 23,363,132	\$ 37,544,300
Government grants (Note 10)	8,349,075	-	8,349,075
Government grants - school designated grants (Note 10)	15,716,373	-	15,716,373
Contributed services	1,931,364	-	1,931,364
Leadership development income	1,762,033	-	1,762,033
License fees	3,468,022	-	3,468,022
Investment income	30,772	2,240	33,012
Total revenue, gains and support	45,438,807	23,365,372	68,804,179
Net Assets Released from Restrictions (Note 15)	31,056,406	(31,056,406)	-
Expenses:			
Program services:			
Leadership Development	12,793,679	-	12,793,679
Research, Design & Innovation	9,985,776	-	9,985,776
Network Growth & Sustainability	9,209,283	-	9,209,283
Teaching & Learning Labs	5,481,890	-	5,481,890
KIPP Through College	1,687,321	-	1,687,321
Total program services	39,157,949	-	39,157,949
Support services:			
Administration	7,574,172	-	7,574,172
Fundraising	2,085,120	-	2,085,120
Total support services	9,659,292	-	9,659,292
Grants to schools	23,479,474	-	23,479,474
Total expenses	72,296,715	-	72,296,715
Changes in Net Assets	4,198,498	(7,691,034)	(3,492,536)
Net Assets, beginning of year	26,139,010	22,150,435	48,289,445
Net Assets, end of year	\$ 30,337,508	\$ 14,459,401	\$ 44,796,909

See accompanying notes to financial statements.

KIPP Foundation

Consolidated Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Support:			
Contributions	\$ 12,493,360	\$ 25,481,046	\$ 37,974,406
Government grants (Note 10)	7,128,861	-	7,128,861
Government grants - school designated grants (Note 10)	14,482,333	-	14,482,333
Contributed services	2,547,385	-	2,547,385
Leadership development income	1,543,942	-	1,543,942
License fees	2,869,317	-	2,869,317
Investment income	37,928	2,344	40,272
Total revenue, gains and support	41,103,126	25,483,390	66,586,516
Net Assets Released from Restrictions (Note 15)	26,313,423	(26,313,423)	-
Expenses:			
Program services:			
Leadership Development	14,163,200	-	14,163,200
Network Growth & Sustainability	9,531,901	-	9,531,901
Research, Design & Innovation	8,423,213	-	8,423,213
Teaching & Learning Labs	2,896,400	-	2,896,400
KIPP Through College	1,784,259	-	1,784,259
Total program services	36,798,973	-	36,798,973
Support services:			
Administration	5,816,432	-	5,816,432
Fundraising	2,145,694	-	2,145,694
Total support services	7,962,126.00	-	7,962,126
Grants to schools	25,072,623	-	25,072,623
Total expenses	69,833,722	-	69,833,722
Changes in Net Assets	(2,417,173)	(830,033)	(3,247,206)
Net Assets, beginning of year	28,556,183	22,980,468	51,536,651
Net Assets, end of year	\$ 26,139,010	\$ 22,150,435	\$ 48,289,445

See accompanying notes to financial statements.

KIPP Foundation

Consolidated Statement of Cash Flows

<i>For the Years Ended June 30,</i>	2015	2014
Cash Flows from Operating Activities:		
Changes in net assets	\$ (3,492,536)	\$ (3,247,206)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation expense	877,248	807,516
Allowance and bad debt expense	92,904	110,000
Decrease (increase) in operating assets:		
Receivables	237,404	(565,240)
E-Rate receivable	151,425	(61,634)
Government grants receivable	(2,199,642)	(2,753,788)
Contribution receivable	6,117,266	2,620,287
Investment contracts	1,345,085	1,025,487
Deposits, prepaids and other assets	813,350	(1,915,649)
(Decrease) increase in operating liabilities:		
Accounts payable	(557,648)	1,694,771
Accrued expenses	345,734	330,772
Government grants accrued expenses	1,682,633	1,725,330
E-Rate liability	(181,204)	61,633
Guarantees and other liabilities	(13,881)	(12,360)
Unearned leadership development income	420,697	79,375
Net cash provided (used) by operating activities	5,638,835	(100,706)
Cash Flows from Investing Activities:		
Purchase of investments	(24,259,000)	(21,445,731)
Proceeds from the sale of investments	21,761,303	19,205,038
Advances on notes receivables	(600,000)	(200,000)
Purchases of fixed assets	(824,187)	(1,173,508)
Interest earned on KCEP investment	42,107	41,274
Net cash used by investing activities	(3,879,777)	(3,572,927)
Net Change in Cash and Cash Equivalents	1,759,058	(3,673,633)
Cash and Cash Equivalents, beginning of year	15,898,544	19,572,177
Cash and Cash Equivalents, end of year	\$ 17,657,602	\$ 15,898,544

See accompanying notes to financial statements.

KIPP Foundation

Notes to Consolidated Financial Statements

Note 1 - Nature of the Organization:

KIPP Foundation (the Foundation) is a nonprofit corporation, organized under the laws of the State of California in April 2000. The purpose of the Foundation is to create a respected, influential, and national network of free, open enrollment, college preparatory public schools (KIPP Schools & Regions) that are successful in helping students from educationally underserved communities develop the knowledge, skills, character and habits needed to succeed in college and the competitive world beyond.

To fulfill its mission, the Foundation focuses on five programmatic areas:

Leadership Development: The Foundation trains teachers to be leaders and to establish new KIPP Schools through its year long KIPP School Leadership Program (KSLP). KSLP has five cohorts: The Fisher Fellowship, Successor Preparation, Leadership Team, Teacher Leader, and the Miles Family Fellowship.

The Fisher Fellowship is a year-long training focused on opening and leading a new KIPP school.

Successor Preparation is an 18-month long training focused on taking leadership of an existing KIPP school.

The Leadership Team, Teacher Leader, and Miles Family Fellowship programs are year-long trainings, focusing on developing staff to take over leadership roles (Assistant Principal, Dean, Grade Level or Department Chair) within their current KIPP School.

Network Growth & Sustainability: The Foundation provides on-going assistance to existing KIPP Schools & Regions in the area of professional development, curriculum, instructional support, school operations, sustainable growth, fundraising, and marketing.

Research, Design & Innovation: Through its Research, Design and Innovation work, the Foundation focuses on supporting continuous learning and improvement among KIPP Schools and Regions by:

- Creating ongoing visibility into network-wide, regional, and school health and performance trends; generating actionable insights; and ensuring high quality data and research support network leaders in making data-driven decisions;
- Promoting the codifying and dissemination of promising practices and ideas as well as tools and resources which support the implementation of these practices and ideas;
- Hosting an annual gathering of KIPP's teachers, leaders, and staff focused on learning, professional development, and sharing;
- Providing the technology infrastructure and application development support for KIPP Foundation teams.

KIPP Foundation

Notes to Consolidated Financial Statements

Teaching & Learning Labs: The Foundation focuses on equipping teachers, schools and regions with training and resources to maximize their instructional effectiveness and outcomes.

KIPP Through College: The Foundation has created a set of national initiatives and programs designed to support and provide resources to local KIPP Through College programs across the country. These programs include building college partnerships, building support for college students, supporting sites and professional development through training and website collaboration tools.

Note 2 - Significant Accounting Policies:

a. Basis of Accounting

These consolidated financial statements are prepared on the accrual basis of accounting. The accounts of the Foundation are maintained in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) relevant to not-for-profit organizations.

b. Principles of Consolidation

These consolidated financial statements include the accounts of the Foundation and KCEP Mortgage. There has been no activity in KCEP Mortgage and it was dissolved during December 2014. KIPP Schools & Regions are separate entities operating independently of the Foundation and therefore are not consolidated with these financial statements of the Foundation.

c. Description of Net Assets

Unrestricted Net Assets - The portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. Unrestricted net assets include Board Designated net assets, which are funds reserved by the board of directors for guarantees made by the Foundation to a third party for the performance of certain schools and for loans made directly to schools.

Temporarily Restricted Net Assets - The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation.

Permanently Restricted Net Assets - The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Foundation. The Foundation has no permanently restricted net assets.

KIPP Foundation

Notes to Consolidated Financial Statements

d. Cash and Cash Equivalents

Cash and cash equivalents, for the purposes of the consolidated statements of financial position and cash flows, consist of cash and highly liquid money market funds held with banks, except those held for investment purposes. Cash and cash equivalents that are donor-restricted are included in investments. Based on the Foundation's investment policy, cash is to be employed productively at all times by investment in short-term cash equivalents to provide safety, liquidity, and return.

e. Investments

Investments are comprised of certificates of deposit and cash. Investments are recorded at fair value based on quoted market prices. Investment income is accrued when earned. Unrealized gains and losses are included in the statement of activities and change in net assets.

U.S. Department of Education funds held for KCEP must be held in cash and investments which protect the principal from undue market risk while allowing the funds to be liquidated and applied toward the four statutory purposes allowed under the program guidelines (see Note 10).

f. Receivables

Receivables represent uncollateralized obligations due from KIPP Schools & Regions for leadership development income, license fees, and reimbursement of expenses.

The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of the probability of collecting those amounts. Management estimates that an allowance for doubtful accounts of \$361,153 and \$277,678 is required at June 30, 2015 and 2014, respectively.

g. Contributions Receivable

Unconditional promises to give are recognized as contributions when such promises are made by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the rates applicable in the years in which those promises are received. The rates related to balances outstanding at June 30, 2015 were 0.11% to 1.87%. Amortization of the discount is included in contribution revenue.

The Foundation uses the allowance method to record uncollectible unconditional promises. The allowance is based on prior years' experience and management's analysis of specific promises made. There is no allowance for uncollectible unconditional promises to give at June 30, 2015 and 2014.

KIPP Foundation

Notes to Consolidated Financial Statements

h. Notes Receivable

Notes receivable represent loans to KIPP Schools & Regions used primarily to finance facilities-related projects. Also included are notes representing extended payment terms for some schools for program loans drawn to finance a portion of school start-up costs. These notes receivable are uncollateralized and are stated at principal amount. Payments of notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance. The carrying amount of notes receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management deemed the balance fully collectible at year at June 30, 2015 and 2014.

i. Furniture and Equipment

Furniture and equipment are carried at cost less accumulated depreciation and amortization and are depreciated on a straight line basis over estimated useful lives of 3 – 7 years. Leasehold improvements are amortized on the straight-line basis over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

The Foundation regularly evaluates its long-lived assets for indicators of possible impairment. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset's fair value or discounted estimates of future cash flows. The Foundation has not identified any such impairment losses to date.

j. Fair Value Measurements

The carrying value of financial instruments not otherwise disclosed herein is comparable to the fair value due to the short term nature of these financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Foundation classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy within three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Foundation's determination of assumptions that market participants might reasonably use in valuing the securities.

KIPP Foundation

Notes to Consolidated Financial Statements

k. Revenue Recognition

Contributions - Contributions received are recorded at fair value as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a 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 and change in net assets as net assets released from restrictions.

Government Grants - The Foundation has received various grants from one federal agency. These monies are considered earned when expenditures have been incurred in accordance with the contract specification.

Government Grants - School Designated Grants - The Foundation has received various grants from one federal agency to be awarded to various KIPP Schools and Regions. These monies are considered earned when expenditures have been incurred in accordance with the contract specification.

Leadership Development Income - Leadership development income represents fees received from KIPP Schools and Regions and unrelated parties for conferences or for KSLP for participation in the program. The Foundation recognizes the income over the period the event or programs occur. Amounts received in advance are recorded as unearned leadership development income in the statement of financial position.

License Fees - License fees represent annual fees received from KIPP Schools and Regions for use of the KIPP brand and network and are recorded at the end of the fiscal year based on either a flat rate or an agreed-upon percentage of funding received by the KIPP Schools and Regions from state and local governments during the year.

KIPP Foundation

Notes to Consolidated Financial Statements

1. Contributed Services

The Foundation receives donations of professional services, which it records at the estimated fair value of the services at the time of contribution as contributed services. The nature of the donated service determines the classification of the related expense. Contributed services are included on the consolidated statement of activities and change in net assets and were comprised of the following:

	2015	2014
Program services		
Consulting	\$ 1,542,000	\$ 2,400,000
Administrative expenses		
Legal	161,013	94,785
Other	228,351	52,600
<u>Total contributed services</u>	<u>\$ 1,931,634</u>	<u>\$ 2,547,385</u>

m. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the consolidated statement of activities and change in net assets. Certain costs have been allocated among the programs and supporting services by the management of the Foundation based upon estimates of time or headcount.

n. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments. The Foundation places its cash and investments with high credit quality financial institutions. At times, the account balances may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. To address the market risk of investments, the Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines, and requires review of the investment managers' performance.

o. Use of Estimates

The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements. Actual results could differ from those estimates.

KIPP Foundation

Notes to Consolidated Financial Statements

p. Tax Exempt Status

The Foundation has received rulings from the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code and from the State of California Franchise Tax Board granting exemption from taxation on related income. The Foundation may be subject to tax on unrelated business income, if any, generated by its investments.

Management has evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to these consolidated financial statements. Therefore, no provision or liability for income taxes has been included in these consolidated financial statements.

q. Reclassifications

Certain reclassifications have been made to the 2014 consolidated financial statements in order to conform to the 2015 presentation. These reclassifications had no impact on net assets or the change in net assets.

r. Subsequent Events

The Foundation evaluated subsequent events from June 30, 2015 through December 22, 2015, the date these consolidated financial statements were available to be issued. In August 2015 and September 2015, the Foundation was awarded multi-year grants from private donors and the Department of Education totaling approximately \$38 million. There were no other material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

Note 3 - Investments and Fair Value Measurements:

Investments are comprised of the following at June 30:

	2015	2014
Cash and money market fund	\$ 9,758,627	\$ 10,391,831
Certificates of deposit	12,291,336	9,160,435
	<hr/>	<hr/>
	\$ 22,049,963	\$ 19,552,266

The fair value of the Foundation's investments in certificates of deposit are measured on a recurring basis using Level 2 inputs and cash is measured as Level 1 as discussed in Note 2.

KIPP Foundation

Notes to Consolidated Financial Statements

Note 4 - Contributions Receivable:

As of June 30, contributions receivable are expected to be collected as follows:

	2015	2014
Within one year	\$ 3,000,000	\$ 6,973,935
In one to five years	3,300,000	5,500,000
Total	6,300,000	12,473,935
Less: Discount	(50,904)	(107,573)
Contributions receivable, net	\$ 6,249,096	\$ 12,366,362

The Foundation has approximately \$12 million and \$20 million in conditional contributions receivable at June 30, 2015 and 2014, respectively. The grants are conditioned upon certain program achievements and other criteria and therefore have not been recorded at year end. Of the total conditional receivables at June 30, 2015, approximately 44% was from one foundation. This foundation contributed approximately 25% of total contribution revenue for the year ended June 30, 2015.

Note 5 - Investment Contracts:

On December 29, 2011, the Foundation entered into a \$2 million investment contract to enable a KIPP school to facilitate financing for the refurbishment of a facility utilizing \$1.8 million in KCEP funds (see Note 9) and \$0.2 million in Foundation funds. The contract is a four year contract in which interest is payable on a quarterly basis using the six month treasury rate. Principal payments are to be made every six months through the first two years and the final payment is to be paid at the end of the contract. Principal payment due for the years ending 2016 was received in the year ended June 30, 2015. There was no principal balance on this contract at June 30, 2015 and there was a \$500,000 principal balance at June 30, 2014.

KIPP Foundation

Notes to Consolidated Financial Statements

On February 1, 2011, the Foundation entered into a \$2 million investment contract to enable a KIPP school to facilitate financing for the acquisition, development and construction of facilities utilizing \$1.8 million in KCEP funds and \$0.2 million in Foundation funds. The contract is a seven year contract in which interest is payable on a quarterly basis using the six month treasury rate and principal payments are to be paid annually. Principal payments due for the years ending 2016 and 2017 were received in the year ended June 30, 2015. The principal balance on this contract was \$576,157 and \$1,421,242 at June 30, 2015 and June 30, 2014, respectively.

Future principal payments are due as follows:

Years Ending June 30,	
2018	\$ 286,358
2019	289,799
<hr/>	
Total	\$ 576,157

Note 6 - Notes Receivable:

At June 30, the Foundation has unsecured notes receivable from KIPP Schools & Regions totaling \$2.3 million and \$1.7 million as of June 30, 2015 and 2014, respectively. The notes bear interest at 1% per annum and have annual principal payments due beginning in the year ended June 30, 2017.

Future principal payments are due as follows:

Years Ending June 30,	
2017	\$ 433,333
2018	700,000
2019	700,000
2020	266,667
Thereafter	200,000
<hr/>	
Total	\$ 2,300,000

KIPP Foundation

Notes to Consolidated Financial Statements

Note 7 - Furniture and Equipment:

Furniture and equipment are comprised of the following at June 30:

	2015	2014
Computer equipment	\$ 1,048,712	\$ 1,595,879
Computer software	1,749,762	2,569,338
Office furniture	1,226,399	1,223,475
Leasehold improvements	1,065,639	627,491
Infrastructure software and equipment	321,470	321,470
Total	5,411,982	6,337,653
Accumulated depreciation	(3,276,074)	(4,148,684)
<u>Furniture and equipment, net</u>	<u>\$ 2,135,908</u>	<u>\$ 2,188,969</u>

Depreciation expense was \$877,248 and \$807,516 for the years ended June 30, 2015 and 2014, respectively.

Note 8 - E-Rate Universal Service Fund Schools and Libraries Program (E-Rate):

The Schools and Libraries Program of the Universal Service Fund, commonly known as "E-Rate," is administered by the Universal Service Administrative Company (USAC) under the direction of the Federal Communications Commission (FCC), and provides discounts to assist schools and libraries in the United States to obtain affordable telecommunications and internet access. It is one of four support programs funded through a Universal Service fee charged to companies that provide interstate and/or international telecommunications services.

The Schools and Libraries Program supports connectivity - the conduit or pipeline for communications using telecommunications services and/or the internet. Funding is requested under four categories of service: telecommunications services, internet access, internal connections, and basic maintenance of internal connections. Discounts for support depend on the level of poverty and the urban/rural status of the population served and range from 20% to 90% of the costs of eligible services. Eligible schools, school districts and libraries may apply individually or as part of a consortium.

KIPP Foundation

Notes to Consolidated Financial Statements

The Foundation applied for E-rate funding as a consortium representing both the Foundation and various KIPP Schools & Regions in four separate applications. Based on eligibility requirements, the consortium is eligible for a 90% discount on approved expenditures. The Foundation records the gross expenditures at the value of services provided. The Foundation also records the 90% discount on expenditures within the E-rate receivable to recognize the expected value of reimbursement for funds that have not yet been awarded and records the liability for funds owed to vendors should the consortium not receive funding. Finally, the Foundation records a receivable from various KIPP Schools & Regions in the event that the consortium does not receive funding. The Foundation's participation in the Schools and Libraries Program concluded at June 30, 2014.

Note 9 - KCEP Programs:

On August 31, 2009, the Foundation entered into a Loan Program Agreement with a single lender to create the KCEP Leasehold Improvement and Construction Loan Program. Through this program, the lender will offer loans up to \$10 million in aggregate principal amount outstanding at any one time. The KCEP Leasehold Improvement and Construction Loan Program is subject to the terms of the Performance Agreement between the Foundation and the U.S. Department of Education (see Note 10). The loans offered through the program are for the purpose of securing timely construction loans or refinancing construction loans with leasehold improvement mini-perm or permanent loans for schools. All loans are subject to a 1% origination fee, of which the Foundation receives 25% for support and services rendered during the application process. As of June 30, 2015 and 2014, two Leasehold Improvement and Construction Loans were outstanding for \$2,134,665 and \$2,245,057, respectively, between the lender and a school. The Foundation guarantees a portion of the loan (see Note 11).

Note 10 - Government Grants and Advance - KCEP:

The Foundation is the recipient of various government grants from one federal agency.

In 2015, the Foundation was awarded a four year \$13.8 million federal grant from the US Department of Education under the Charter School Program: Grants for Replication and Expansion of High – Quality Charter Schools. Current year's expenditures equal \$1,607,131 of which funds identified for certain KIPP schools as pass-through grants and awarded to the schools in fiscal year 2015 totaled \$1,375,744.

In 2013, the Foundation was awarded a three year \$10.3 million federal grant from the U.S. Department of Education under the Charter School Program: Grants for Replication and Expansion of High – Quality Charter Schools. Expenditures in 2015 and 2014 equaled \$7,719,855 and \$4,586,160, respectively, of which funds identified for certain KIPP schools as pass-through grants and awarded to the schools in fiscal years 2015 and 2014 totaled \$6,671,347 and \$4,199,043, respectively.

KIPP Foundation

Notes to Consolidated Financial Statements

In 2012, the Foundation was awarded a two year \$9.5 million federal grant from the U.S. Department of Education under the Charter School Program: Grants for Replication and Expansion of High-Quality Charter Schools. Expenditures in 2015 and 2014 equaled \$3,071,000 and \$4,419,460, respectively, of which funds identified for certain KIPP schools and awarded to the schools as pass-through grants in fiscal year 2015 and 2014 totaled \$2,237,650 and \$4,018,147, respectively.

In 2011, the Foundation was awarded a three year \$14.5 million federal grant from the U.S. Department of Education under the Charter School Program: Grants for Replication and Expansion of High-Quality Charter Schools. Expenditures in 2014 equaled \$313,406, of which funds identified for certain KIPP schools and awarded to the schools as pass-through grants in 2014 totaled \$224,058. The performance period for this grant ended on September 30, 2014. The final performance report for this grant was filed on December 23, 2014.

In 2011, the Foundation was awarded a five year \$50 million federal grant from the U.S. Department of Education under the Investing in Innovation Fund: Scale Up Grants. Expenditures in 2015 and 2014 equaled \$11,667,363 and \$12,292,167, respectively, of which grants identified with certain KIPP schools and awarded to the schools as pass through grants in fiscal years 2015 and 2014 totaled \$5,431,631 and \$6,041,085, respectively.

In fiscal year 2007, the Foundation started KIPP Credit Enhancement Program (KCEP) to sustain as well as increase the number of KIPP and KIPP-affiliate charter schools by promoting affordable financing of the acquisition and renovation of school facilities. In the same fiscal year, the Foundation was awarded a federal grant in the amount of \$6,805,891 from the U.S. Department of Education under the Credit Enhancement of Charter School Facilities Program to support KCEP. This grant covers the time period from June 2007 until the Federal Funds and earnings on those funds have been expended for the grant purposes or until financing facilitated by the grant has been retired, whichever is later. The purpose of the funds is to help charter schools gain access to capital from the private sector and other non-Federal sources in order to address their facilities renovation, construction, and acquisition needs. The funds are to be used to leverage the \$6.8 million to secure \$39.6 million in construction loans, permanent loans, leasehold guarantees, letters of credit, and tax exempt bonds. No direct loans will be made using the federal funds. The funds for this grant were drawn down in November 2007 and are included in the consolidated statement of financial position as Government advances - KCEP until the funds are expended to fulfill guarantee obligations (see Note 11) or are returned to the U.S. Department of Education. The Foundation is required to match the \$6.8 million grant by 10%. The grant agreement also restricts the type of investments the funds are to be held in. Interest income earned is reinvested and increases the government advances balance as earned.

KIPP Foundation

Notes to Consolidated Financial Statements

Note 11 - Commitments and Contingencies:

Operating Leases

The Foundation leases its office facilities and certain office equipment in San Francisco, Chicago, New York, and Washington DC under various operating leases expiring at various times through February 2021. The operating leases require minimum monthly rental payments ranging from \$55 to \$50,656. Rent expense totaled approximately \$1 million for the years ended June 30, 2015 and 2014.

Future minimum lease payments under non-cancelable facilities and equipment operating leases as of June 30 are as follows:

Years Ending,	
2016	\$ 1,154,468
2017	1,170,340
2018	1,067,543
2019	709,928
2020	719,792
Thereafter	422,912
<hr/>	
Total	\$ 5,244,983

Other Commitments and Contingencies

Guarantees are contingent commitments issued by the Foundation generally to guarantee the performance of certain schools to a third party in borrowing arrangements, such as loans and lines of credit. The terms of these guarantees range from the performance of specific transactions to the term of the related debt. The maximum potential amount of future payments the Foundation could be required to make under these guarantees at June 30, 2015 is \$1,590,516 of which \$159,052 are from unrestricted funds, and \$1,431,464 from KIPP Credit Enhancement Program funds. Management determines the carrying value of the Foundation's guarantees based on an estimated payout rate. The estimated carrying amount is included in liabilities in the consolidated statement of financial position, and was \$15,905 and \$29,786 as of June 30, 2015 and 2014, respectively.

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation, which is likely to have a material adverse effect on the consolidated statement of financial position of the Foundation.

KIPP Foundation

Notes to Consolidated Financial Statements

Federal grants administered by the Foundation are subject to audit and final acceptance by the granting agency. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the Foundation management expects such amounts, if any, will not have a significant impact on these consolidated financial statements.

The Foundation has entered into certain agreements totaling approximately \$5.6 million for leadership and training conferences which are to be held during the following two fiscal years.

Note 12 - Employee Benefit Plan:

Employees of the Foundation may participate in a 401(k) defined contribution retirement plan available upon completion of one month of service. The Foundation matches employees' contributions up to 4% of base salary. Matching contributions totaled \$540,512 and \$564,528 for the years ended June 30, 2015 and 2014, respectively.

The Foundation implemented a 457(b) non-qualified deferred compensation plan on October 1, 2014 that covers certain employees.

Note 13 - Related Party Transactions:

The Foundation has received contributions totaling \$8,572,500 and \$7,687,500 from a board member's family and foundations, for the years ended June 30, 2015 and 2014, respectively. There were no contributions receivable from these parties at June 30, 2015 and 2014. In addition, the Foundation incurred amounts of \$264,494 and \$294,786 for services provided by these related parties for the years ended June 30, 2015 and 2014. There were amounts payable to related parties of \$1,528 and \$23,173 at June 30, 2015 and 2014, respectively.

The Foundation has received contributions totaling \$4,032,313 and \$9,690,144 from other board members' families, foundations, and companies at which they sit on the board for the years ended June 30, 2015 and 2014, respectively. Contributions receivable from these parties were \$3,800,000 and \$4,250,000 at June 30, 2015 and 2014, respectively. The Foundation incurred \$117,355 and \$45,011 for services provided by these board members for the years ended June 30, 2015 and June 30, 2014. There were amounts payable to related parties of \$33,022 at June 30, 2015.

KIPP Foundation

Notes to Consolidated Financial Statements

Note 14 - Temporarily Restricted Assets:

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

	2015	2014
School Start up	\$ 4,281,032	\$ 4,496,188
Elementary School Development	2,999,218	1,465,045
KIPP Through College Program	566,615	1,630,989
Student Programs	257,675	965,352
Leadership Development	110,731	3,637,735
Research, Design & Innovation	20,002	1,849,342
KIPP School Summit Sponsorship	-	100,000
Other Programs	529,456	695,809
Time Restrictions	5,694,672	7,309,975
	<hr/>	<hr/>
	\$ 14,459,401	\$ 22,150,435

Note 15 - Net Assets Released From Restrictions:

At June 30, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrences of other events specified by donors as follows:

	2015	2014
Elementary School Development	\$ 5,169,460	\$ 5,380,881
Leadership Development	3,332,853	3,786,600
KIPP School Summit Sponsorship	2,922,500	30,000
Research, Design & Innovation	1,829,341	3,600,877
School Start-Up	1,715,156	2,118,192
KIPP Through College Program	1,642,431	1,475,891
Student Programs	840,678	471,788
Other Programs	2,049,986	686,409
Time Restrictions	11,554,001	8,762,785
	<hr/>	<hr/>
	\$ 31,056,406	\$ 26,313,423

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

THE BOARD OF DIRECTORS
KIPP FOUNDATION
San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of **KIPP FOUNDATION (the Foundation)**, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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.

*Consultants and
Business Advisors*

100 First Street

14th Floor

San Francisco

CA 94105

415.781.0793

fax 415.421.2976

60 S. Market Street

Suite 200

San Jose

CA 95113

408.998.8400

fax 408.998.8485



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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Foundation's consolidated 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.

Hood & Strong LLP

San Francisco, California
December 22, 2015



**Independent Auditors' Report
on Compliance with Requirements That Could Have a Direct and
Material Effect on Each Major Program and Internal Control over
Compliance in Accordance with OMB Circular A-133**

THE BOARD OF DIRECTORS
KIPP FOUNDATION
San Francisco, California

Report on Compliance for Each Major Federal Program

We have audited **KIPP FOUNDATION'S (the Foundation)** compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Foundation's major federal programs for the year ended June 30, 2015. The Foundation'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.

Auditors' Responsibility

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

Consultants and

Business Advisors

100 First Street

14th Floor

San Francisco

CA 94105

415.781.0793

fax 415.421.2976

60 S. Market Street

Suite 200

San Jose

CA 95113

408.998.8400

fax 408.998.8485



Opinion on Each Major Federal Program

In our opinion, the Foundation 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 Foundation 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 Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



San Francisco, California
February 29, 2016

KIPP Foundation

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Federal Grantor Program Title	Federal Catalog Number	Award Period (Extended)	Federal Expenditures
U.S. Department of Education:			
Charter School Program: Grants for Replication and Expansion of High-Quality Charter Schools	84.282M	10/1/2011 - 9/30/2015	\$ 3,071,000
Charter School Program: Grants for Replication and Expansion of High-Quality Charter Schools	84.282M	10/1/2012 - 9/30/2016	7,719,885
Charter School Program: Grants for Replication and Expansion of High-Quality Charter Schools	84.282M	10/1/2014 - 9/30/2018	1,607,132
Sub-total			12,398,017
Investing in Innovation Fund: Scale Up Grant (ARRA)	84.396A	10/1/2010 - 9/30/2015	11,667,430
Credit Enhancement for Charter School Facilities Program	84.354A	6/14/2006 - 6/14/2031	7,221,361
			\$ 31,286,808

See accompanying notes to schedule.

KIPP Foundation

Notes to Schedule of Expenditure of Federal Awards For the Year Ended June 30, 2015

Note 1 - Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards includes federal grant activity of the Foundation 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 the preparation of the basic financial statements.

Note 2 - Credit Enhancement for Charter School Facilities Program:

Funds shown as federal expenditures under the program are the original federal funds drawn. \$6,705,820 of the funds are being held in accounts with financial institutions in accordance with the program requirements and the remaining amount of \$518,541 has been loaned and is outstanding as of June 30, 2015. No funds were expended for obligations secured or collateralized in accordance with the program in the fiscal year ended June 30, 2015. Interest earned on the funds through June 30, 2015 totaled \$415,470.

Note 3 - Subrecipients:

Of the federal expenditures presented in the schedule, the Foundation provided federal awards to subrecipients under the following programs:

Investing in Innovation Fund: Scale Up Grant (ARRA) 84.396A	\$ 5,431,631
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KIPP FOUNDATION

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015**

A. Summary of Auditors' Results:

Consolidated Financial Statements

Type of auditors' report issued: *Unmodified*

	Yes	No
Internal control over financial reporting:		
Material weakness(es) identified?		X
Significant deficiency(ies) identified? <i>None reported</i>		
Noncompliance material to consolidated financial statements noted?		X

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	X
Significant deficiency identified? <i>None reported</i>	

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	X
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Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.282M	Charter School Program
84.396A	Investing in Innovation Fund

Dollar threshold used to distinguish between type A and type B programs: *\$938,604*

Auditee qualified as low-risk auditee?	X
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KIPP FOUNDATION

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015**

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Federal Award Audit

None

KIPP FOUNDATION

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2015

Year Ended June 30, 2014

2014-001 Financial Reporting

Observation

During our audit we noted certain errors that resulted in adjustments to the financial statements. These errors were primarily related to proper classification of grants and contribution revenues. Furthermore, in the contribution detailed general ledger account, we noted numerous corrections, adjustments and reclassifications of revenues that occurred during the year and during the year end closing process.

Others items noted were 1) detailed schedules supporting general ledger accounts were not provided timely, did not always agree with the general ledger balances, 2) items which were standard requests were delayed and it appeared difficult for the staff to respond to our inquiries without significant effort or delay 3) at times it was unclear who had taken responsibility for some of the actionable items related to the audit, and 4) GAAP financial statements were not prepared at the start of fieldwork; therefore, supporting schedules, documents, and other files provided did not agree to the financial statements or to the trial balance.

Recommendation

While we understand certain reclassifications, etc. are beyond the Foundations control and dependent upon the appropriate documentation from the granting agency, we suggest the Foundation review the grants and contributions revenue process for improved efficiency and accuracy.

The financial statements should be well supported by the corresponding detailed supporting information. This reconciliation is a necessary component of strong internal control over the financial reporting process. We stress the importance of preparing in advance with accurate information for the audit since preparing and gathering the requested information once the audit has begun along with responding to audit requests and performing normal departmental duties can be an onerous combination which may lead to significant inefficiencies for both the Foundation and audit staff. Most of the information requested as part of the audit should be performed by the Foundation throughout the year (monthly, quarterly, semi-annually) to improve the accuracy and timeliness of the information.

Appropriate levels of personnel should be assigned responsibility for preparing/compiling the requested audit items, for reviewing the audit schedules, and for coordinating the audit requests while the audit fieldwork is in process.

KIPP FOUNDATION

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2015

Corrective Action Taken

Management agrees with the recommendations outlined above.

A large increase in grant reporting, four new process improvement projects, and a staff leave caused delays to the fiscal year end close and preparation and review of schedules for the audit and the audited financial statements. From fiscal year 2013 to fiscal year 2014, there was a 47% and 24% increase in philanthropic grant releases and federal network grants, respectively. In anticipation of the grant volume increase, we promoted the Grants Manager to a newly created Grants Controller and Business Services position in October 2013 and backfilled the Grants Manager position. The Grant Controller was on maternity leave from May through September.

The four new process improvement projects were: 1) implementing a cloud-based accounts payable system, Anybill, from January to April 2014, 2) recording all philanthropic grant releases in the general ledger rather than Excel effective back to July 1, 2006, 3) engaging a consultant to recommend federal grant best practices for the Foundation and 4) initiating an internal philanthropic grants management improvement process in August 2014 to address the fundamental causes of large grant reclassifications. Accounts payable processing in August and September 2014 were at the highest volumes ever due to the 2014 KIPP School Summit and 20th Anniversary Celebration.

Management approved hiring an additional Philanthropic Grants Senior Accountant and a Compliance and Projects Manager, both of which were hired by March 31, 2015. Significant progress has been made to adopt federal grant best practices and improve philanthropic grant management.

Auditor Comments

With the addition of a Philanthropic Grants Senior Accountant and a Compliance and Projects Manager, errors in documentation provided for the audit were not noted and documentation provided was timely and complete.

Responsible Official

Garfield Byrd, CFO
415-513-4119

2014-002 Equipment Management – Charter School Program, CFDA 84.282M

Criteria

According to 2 CFR 215.34 recipients expending Federal funds for the purchase of equipment must follow certain requirements including performing an inventory count at least every two years and other controls that provide for an appropriate safeguarding and management of the equipment.

KIPP FOUNDATION

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2015

Condition and Context

In accordance with the terms of the grant, the Foundation has expended Federal funds with various vendors which allow for the vendors to make equipment purchases. The Foundation has not required the vendors to perform inventory counts or other control requirements in accordance with 2 CFR 215.34 or confirmed that the vendors have the necessary procedures or controls in place. For the year ending June 30, 2014 various vendors of the Foundation made equipment purchases in the amount of approximately \$2,300,000; however, these purchases may not have all been subject to equipment management requirements under 2 CFR 215.34.

Questioned Costs

None noted.

Cause

Management of the Foundation did not believe that the equipment requirements applied to the Foundation because of the vendor relationship with the awardees.

Effect

The internal control safeguards as required by 2 CFR 215.34 may not be in place by the vendor awardees and as such the equipment purchased may be subject to loss.

Auditor Recommendation

We recommend the Foundation work with the vendors to ensure that the vendors all have an appropriate system of internal control to monitor and manage equipment purchases. As the primary recipient of the grant, the Foundation should develop procedures to ensure that the vendors are complying with 2 CFR 215.34. This may include additional language in the award contracts and performing other monitoring type procedures on a regular basis.

Corrective Action Taken

The Foundation has developed procedures to monitor that all CSP-funded schools have an appropriate system of internal control to monitor and manage equipment purchases. These procedures were communicated to CSP-funded schools via revised award contracts in May 2015.

The Foundation created a general ledger code to track purchases of capitalized equipment separately from supplies in May 2015. In December 2015, the Foundation completed an inventory of equipment purchased with grant funds in the grant years ended 2011 through 2015. As part of the monitoring process, the Foundation conducted site visits at three CSP-funded regions during which a physical inventory of equipment purchased with grant funds was performed. The Foundation plans to work with all schools to further strengthen their management of equipment purchased with Federal funds by issuing equipment management guidance, providing technical assistance, and conducting site visits.

KIPP FOUNDATION

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2015

Auditor Comments

Auditor noted revised Contract Award Letters included a policy and procedure for ensuring correct controls were in place related to purchase of capitalized equipment.

The Foundation's site visits to three regions and physical inventory counts by all schools was supported by our observation and test counts at one of the regions. The test counts and observation resulted in no exceptions.

A sample of capital equipment expenditures made in fiscal year 2015 were tested and were noted to be part of inventory listings to be monitored, as was appropriate.

Responsible Official

Garfield Byrd, CFO
415-513-4119

2014-003 Program Income and Reporting - Investing in Innovation, CFDA 84.396A

Criteria

According to 2 CFR 215.24 recipients of Federal funds have three acceptable methods of accounting for program income generated from projects financed in whole or in part with Federal funds. Additionally, program income should be reported on Standard Form 425.

Condition and Context

The Foundation earns tuition from attendees that participate in a training program which was financed in part with Federal funds but the Foundation did not identify this as program income. During the year ended June 30, 2014, the total tuition earned was approximately \$1,200,000. None of these funds were reported on the Standard Form 425.

Questioned Costs

None noted.

Cause

Former management of the Foundation did not feel that the tuition met the criteria for program income.

Effect

The Foundation has not properly reported its program income, as such the accounting for the grant as reported in the annual financial reporting and the annual Standard Form 425 is not accurate.

KIPP FOUNDATION

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2015

Auditor Recommendation

We recommend the Foundation contact the Department of Education to determine the best way to resolve this reporting issue. Additionally, we recommend that the Foundation select one of the acceptable methods of accounting for its program income and ensure that there is an appropriate system of internal controls and procedures in place to allow for reliable reporting. The Foundation should begin reporting its program income on the Standard Form 425.

Corrective Action Taken

On April 3, 2015, the Foundation reported on Program Income for Years 1-4 of the i3 grant on the Annual Performance Report for the Project Year ended September 30, 2014.

Per the advice of the Department of Education, the Foundation engaged the Foundation's external auditor to conduct a limited scope engagement covering the program income and related expenses for Years 1-3 of the i3 grant.

The Foundation submitted a revised Annual Performance Report for the Project Year ending September 30, 2014 to the Department of Education on June 24, 2015. Hood & Strong issued an opinion on the revised report on June 30, 2015.

The Foundation has developed a system to account for program income. Event Income from programs funded by federal funds are recorded using a Program Income grant code. Related expenses are allocated to the Program Income grant code.

The Foundation has determined that there is no program income related to the Charter School Program (CSP) grant.

KIPP was awarded the SEED grant on September 28, 2015. Event income from programs funded by SEED has been identified and is being recorded using a Program Income grant code. Related expenses have been allocated to the Program Income grant code.

Auditor Comments

On June 26, 2015, auditor issued a report stating Federal Forms SF-425 and ED 524B were consistent with actual and budgeted expenditures and program income for Project Years 1, 2, 3, and 4 through June 30, 2014.

A sample of fiscal year 2015 income earned and program income grant code entries were tested and resulted in no exceptions.

Based on testing performed during the audit we noted that there is no program income related to the Charter School Program (CSP) grant.

Responsible Official

Garfield Byrd, CFO
415-513-4119