

KIPP FOUNDATION

JUNE 30, 2016



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, 2016 and 2015, and the related consolidated statements of activities and change 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.

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 consolidated financial position of the Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedules of functional expense are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) PART 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 audits 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 consolidated financial statements, or to the consolidated 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 January 23, 2017 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.

Handwritten signature in cursive script that reads "Hood & Strong LLP".

San Francisco, CA
January 23, 2017

KIPP Foundation

Consolidated Statement of Financial Position

<i>June 30,</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 25,411,196	\$ 23,167,563
Receivables, net of allowance of \$117,608 in 2016 and \$361,153 in 2015	3,039,582	2,917,360
Government grants receivable	6,622,430	9,678,338
Contributions receivable, net (Note 3)	22,508,362	6,249,096
Investment contracts (Note 4)	576,157	576,157
Investments (Note 5)	16,542,919	16,540,002
Notes receivable (Note 6)	2,950,000	2,300,000
Furniture and equipment, net (Note 7)	1,781,097	2,135,908
Deposits, prepaids, and other assets	2,955,484	1,884,683
Total assets	\$ 82,387,227	\$ 65,449,107
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 5,397,527	\$ 3,316,588
Accrued expenses	3,543,348	2,875,704
Government grants accrued expenses	5,880,034	6,626,318
Guarantees and other liabilities (Note 10)	12,475	15,905
Unearned leadership development income	291,325	596,322
Government advance - KCEP (Note 9)	7,247,046	7,221,361
Total liabilities	22,371,755	20,652,198
Net Assets:		
Unrestricted net assets:		
Board designated net assets	3,680,589	3,680,589
Operating assets	27,485,445	26,656,919
Total unrestricted net assets	31,166,034	30,337,508
Temporarily restricted net assets (Note 13)	28,849,438	14,459,401
Total net assets	60,015,472	44,796,909
Total liabilities and net assets	\$ 82,387,227	\$ 65,449,107

See accompanying notes to financial statements.

KIPP Foundation

Consolidated Statement of Activities and Change in Net Assets

For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Support:			
Contributions	\$ 13,448,012	\$ 41,412,991	\$ 54,861,003
Government grants (Note 9)	5,202,828	-	5,202,828
Government grants - school designated grants (Note 9)	10,788,368	-	10,788,368
Contributed services	1,783,609	-	1,783,609
Leadership development income	2,241,796	-	2,241,796
License fees	4,008,249	-	4,008,249
Investment income	47,088	1,746	48,834
Total revenue, gains and support	37,519,950	41,414,737	78,934,687
Net Assets Released from Restrictions (Note 14)	27,024,700	(27,024,700)	-
Expenses:			
Program services:			
Leadership Development	10,806,235	-	10,806,235
Network Growth & Sustainability	9,833,408	-	9,833,408
Research, Design & Innovation	6,862,904	-	6,862,904
Teaching & Learning Labs	6,567,235	-	6,567,235
KIPP Through College	1,618,166	-	1,618,166
Total program services	35,687,948	-	35,687,948
Support services:			
Administration	7,725,805	-	7,725,805
Fundraising	2,406,138	-	2,406,138
Total support services	10,131,943	-	10,131,943
Grants to schools	17,896,233	-	17,896,233
Total expenses	63,716,124	-	63,716,124
Change in Net Assets	828,526	14,390,037	15,218,563
Net Assets, beginning of year	30,337,508	14,459,401	44,796,909
Net Assets, end of year	\$ 31,166,034	\$ 28,849,438	\$ 60,015,472

See accompanying notes to financial statements.

KIPP Foundation

Consolidated Statement of Activities and Change 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 9)	8,349,075	-	8,349,075
Government grants - school designated grants (Note 9)	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 14)	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
Change 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 Cash Flows

<i>For the Years Ended June 30,</i>	2016	2015
Cash Flows from Operating Activities:		
Changes in net assets	\$ 15,218,563	\$ (3,492,536)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	839,007	877,248
Allowance and bad debt expense	(243,544)	92,904
Decrease (increase) in operating assets:		
Receivables	121,323	237,404
Government grants receivable	3,055,908	(2,199,642)
Contribution receivable	(16,259,266)	6,117,266
Deposits, prepaids and other assets	(836,658)	783,571
(Decrease) increase in operating liabilities:		
Accounts payable	2,080,939	(557,648)
Accrued expenses	667,644	345,734
Government grants accrued expenses	(746,284)	1,682,633
Guarantees and other liabilities	(3,430)	(13,881)
Unearned leadership development income	(304,997)	420,697
Net cash provided by operating activities	3,589,205	4,293,750
Cash Flows from Investing Activities:		
Purchase of investments	(24,390,000)	(24,259,000)
Proceeds from the sale of investments	24,387,083	25,361,173
Advances on notes receivables	(750,000)	(600,000)
Collections on notes receivable	100,000	-
Collections on investment contracts	-	1,345,085
Purchases of fixed assets	(718,340)	(824,187)
Interest earned on KCEP investment	25,685	42,107
Net cash used investing activities	(1,345,572)	1,065,178
Net Change in Cash and Cash Equivalents	2,243,633	5,358,928
Cash and Cash Equivalents, beginning of year	23,167,563	17,808,635
Cash and Cash Equivalents, end of year	\$ 25,411,196	\$ 23,167,563

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 both new and sitting teachers to be leaders, assistant principals, principals, and regional leaders through its KIPP School Leadership Program (KSLP) and Network Leader Development (NLD) programming. KSLP has six courses, including: The Fisher Fellowship, Successor Preparation, Leadership Team, Teacher Leader, Regional Leader Development, and the Miles Family Fellowship. NLD has two courses, including the School Leader Development and Regional Academic Leader course.

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

Successor Preparation is a year-long 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.

The Regional Leader Development course is a year-long training, focused on developing new regional leaders (senior-level employees at each region).

The School Leader Development and Regional Academic Leader course is a learning collaborative that focuses on developing regional academic teams to improve student academic results.

Network Growth & Sustainability:

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

KIPP Foundation

Notes to Consolidated Financial Statements

Research, Design & Innovation:

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

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.

KIPP Foundation

Notes to Consolidated Financial Statements

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.

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 9).

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 \$117,608 and \$361,153 is required at June 30, 2016 and 2015, respectively.

KIPP Foundation

Notes to Consolidated Financial Statements

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, 2016 were 0.14% 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, 2016 and 2015.

h. Notes Receivable

Notes receivable represent loans to KIPP Schools & Regions used primarily to finance facilities-related projects or school start-up costs, or to meet financial compliance targets. 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 June 30, 2016 and 2015.

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.

KIPP Foundation

Notes to Consolidated Financial Statements

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.

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 several grants from one federal agency to be awarded to various KIPP Schools & 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 & Regions and unrelated parties for conferences or for participation in a KSLP course. 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 & 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 & Regions from state and local governments during the year.

l. 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 for the years ending June 30:

KIPP Foundation

Notes to Consolidated Financial Statements

	2016	2015
Program services		
Consulting	\$ 1,700,000	\$ 1,542,000
Administrative expenses		
Legal	83,609	161,013
Other	-	228,351
<u>Total contributed services</u>	<u>\$ 1,783,609</u>	<u>\$ 1,931,634</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 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.

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.

KIPP Foundation

Notes to Consolidated Financial Statements

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 2015 consolidated financial statements in order to conform to the 2016 presentation. These reclassifications had no impact on net assets or the change in net assets.

r. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under the ASU, a lessee will be required to recognize right-to-use assets and liabilities on their statement of financial position for all leases with lease terms of more than twelve months. The ASU is effective for fiscal years beginning after December 15, 2019. Early application will be permitted for all organizations. The Foundation is currently assessing the impact the adoption of this ASU will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The amendments in this ASU are designed to improve the current net asset classification requirements and the information presented in the financial statements about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the ASU is permitted. The Foundation is currently evaluating the impact of this pronouncement on its financial statements.

s. Subsequent Events

The Foundation evaluated subsequent events from June 30, 2016 through January 23, 2017, the date these consolidated financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

KIPP Foundation

Notes to Consolidated Financial Statements

Note 3 - Contributions Receivable:

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

	2016	2015
Within one year	\$ 7,749,000	\$ 3,000,000
In one to five years	15,400,000	3,300,000
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Total	23,149,000	6,300,000
Less: Discount	(640,638)	(50,904)
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Contributions receivable, net	\$ 22,508,362	\$ 6,249,096

The Foundation has approximately \$35 million and \$12 million in conditional contributions at June 30, 2016 and 2015, respectively. The contributions are conditioned upon certain program achievements and other criteria and therefore have not been recorded at year end. Total conditional contributions at June 30, 2016 was from one foundation. This foundation contributed approximately 7% of total contribution revenue for the year ended June 30, 2016.

Note 4 - Investment Contracts:

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 at June 30, 2016 and 2015.

Future principal payments are due as follows:

Years Ending June 30,		
2018	\$	287,107
2019		289,050
<hr/>		
Total	\$	576,157

KIPP Foundation

Notes to Consolidated Financial Statements

Note 5 - Investments and Fair Value Measurements:

Investments are comprised of the following at June 30:

	2016	2015
Cash and money market fund	\$ 5,913,598	\$ 4,248,666
Certificates of deposit - up to 14 months duration	10,629,321	12,291,336
	<hr/>	<hr/>
	\$ 16,542,919	\$ 16,540,002

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.

Note 6 - Notes Receivable:

Eight unsecured notes receivable from KIPP Schools & Regions totaling \$2.3 million issued under a start-up loan pool program, bear interest at 1% per annum and have annual principal payments due beginning in the year ending June 30, 2017. The notes receivable balance relating to this loan pool was \$2.2 million and \$2.3 million as of June 30, 2016 and June 30, 2015, respectively.

One unsecured note receivable from a KIPP Region for \$750,000, was issued under an emergency loan program in order for the KIPP Region to meet financial covenants, and is held in federally-insured certificates of deposit. The interest on the certificates of deposit is payable to the KIPP Foundation in lieu of interest on the loan. After June 30, 2019, the loan bears interest at 5% per annum. The principal sum and accrued interest is due in a single payment on June 30, 2020.

The notes issued bear interest at rates lower than the market rate. Imputed interest is immaterial and has not been recorded.

Future principal payments are due as follows:

Years Ending June 30,	
2017	\$ 400,000
2018	766,667
2019	766,667
2020	1,016,666
	<hr/>
Total	\$ 2,950,000

KIPP Foundation

Notes to Consolidated Financial Statements

Note 7 - Furniture and Equipment:

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

	2016	2015
Computer equipment	\$ 1,306,086	\$ 1,370,182
Computer software	1,861,446	1,749,762
Office furniture	1,243,661	1,226,399
Leasehold improvements	1,114,793	1,065,639
Total	5,525,986	5,411,982
Accumulated depreciation	(3,744,889)	(3,276,074)
<u>Furniture and equipment, net</u>	<u>\$ 1,781,097</u>	<u>\$ 2,135,908</u>

Depreciation expense was \$839,007 and \$877,248 for the years ended June 30, 2016 and 2015, respectively.

Note 8 - KIPP Credit Enhancement Program (KCEP):

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 to schools 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 9). 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, 2016 and 2015, two Leasehold Improvement and Construction Loans were outstanding for \$2,017,453 and \$2,134,665, respectively, between the lender and a school. The Foundation guarantees a portion of the loan (see Note 10).

Note 9 - Government Grants and Government Advance - KCEP:

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

In Fall 2015, the Foundation was awarded a three year, \$17.9 million, federal grant from the U.S. Department of Education under the Supporting Effective Educator Development Grant Program. Total authorized funding as of June 30, 2016 is \$4.9 million. Expenditures in fiscal year 2016 equaled \$3,177,111, of which, funds identified and awarded as pass-through grants for certain KIPP schools totaled \$550,579.

KIPP Foundation

Notes to Consolidated Financial Statements

In Fall 2014, the Foundation was awarded a four year, \$30.5 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. Total authorized funding as of June 30, 2016 is \$13.8 million. Expenditures in fiscal years 2016 and 2015 equaled \$6,850,252 and \$1,607,131, respectively, of which, funds identified and awarded as pass-through grants for certain KIPP schools in fiscal year 2016 and 2015, totaled \$5,806,738 and \$1,375,744, respectively.

In Fall 2012, the Foundation was awarded a four year, \$22.7 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. The grant is authorized in full as of June 30, 2016 and is approved for an additional no cost extension through September 30, 2017. Expenditures in fiscal years 2016 and 2015 equaled \$5,963,833 and \$7,719,855, respectively, of which funds identified for certain KIPP schools as pass-through grants and awarded to the schools in fiscal years 2016 and 2015 totaled \$4,431,052 and \$6,671,347, respectively.

In Fall 2011, the Foundation was awarded a three year \$12.7 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. The grant was authorized in full as of June 30, 2016 and was approved for a no cost extension through September 30, 2015. There were no expenditures in fiscal year 2016 and expenditures in fiscal year 2015 equaled \$3,071,000, of which funds identified for certain KIPP schools and awarded to the schools as pass-through grants in fiscal year 2015 totaled \$2,237,650 and none in fiscal year 2016. The final performance report was filed on December 23, 2015.

In Fall 2010, 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. There were no expenditures in fiscal year 2016 and expenditures in 2015 equaled \$11,667,363, of which grants identified with certain KIPP schools and awarded to the schools as pass through grants in fiscal year 2015 totaled \$5,431,631 and none in fiscal year 2016. The performance period for the grant ended on September 30, 2015. The final performance report was filed on December 22, 2015.

KIPP Foundation

Notes to Consolidated Financial Statements

In fiscal year 2007, the Foundation started KIPP Credit Enhancement Program (KCEP) (see Note 8) 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 10) 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.

Note 10 - 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, 2016 and 2015.

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

Years Ending, June 30	
2017	\$ 1,170,340
2018	1,067,543
2019	709,928
2020	719,792
2021	422,912
<hr/>	
Total	\$ 4,090,515

KIPP Foundation

Notes to Consolidated Financial Statements

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, 2016 is \$1,247,516 of which \$124,752 are from unrestricted funds, and \$1,122,764 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 \$12,475 and \$15,905 as of June 30, 2016 and 2015, 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.

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 \$4.5 million for leadership and training conferences which are to be held during the following two fiscal years.

Note 11 - 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 \$0.7 million and \$0.5 million for the years ended June 30, 2016 and 2015, respectively.

The Foundation offers a 457(b) non-qualified deferred compensation plan that covers certain employees.

Note 12 - Related Party Transactions:

The Foundation has received contributions totaling \$8.2 million and \$8.6 million from a board member's family and foundations, for the years ended June 30, 2016 and 2015, respectively. There were no contributions receivable from these parties at June 30, 2016 and 2015. In addition, the Foundation incurred \$0.3 million for services provided by these related parties for the years ended June 30, 2016 and 2015. There were amounts payable to related parties of \$43,000 and \$1,500 at June 30, 2016 and 2015, respectively.

KIPP Foundation

Notes to Consolidated Financial Statements

The Foundation has received contributions totaling \$13.1 million and \$4.0 million from other board members' families, foundations, and companies at which they sit on the board for the years ended June 30, 2016 and 2015, respectively. Contributions receivable from these parties were \$11.9 million and \$3.8 million at June 30, 2016 and 2015, respectively. The Foundation incurred \$74,000 and \$0.1 million for services provided by these board members for the years ended June 30, 2016 and June 30, 2015. There were amounts payable to related parties of \$0.4 million at June 30, 2016.

Note 13 - Temporarily Restricted Assets:

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

	2016	2015
KIPP Through College Program	\$ 4,470,703	\$ 566,615
School Start-up	3,812,691	4,311,931
Elementary School Development	3,001,173	2,999,218
Curriculum Development	2,543,317	491,706
External Impact	2,335,165	-
Student Programs	613,824	257,675
Leadership Development	226,058	110,731
Research, Design & Innovation	20,001	20,002
Time Restrictions	11,826,506	5,701,523
	\$ 28,849,438	\$ 14,459,401

Note 14 - Net Assets Released From Restrictions:

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 for the years ending June 30:

	2016	2015
Elementary School Development	\$ 7,327,924	\$ 5,169,460
Curriculum Development	1,803,562	858,294
Leadership Development	1,767,173	3,332,853
KIPP Through College Program	1,333,553	1,642,431
Student Programs	760,351	840,678
School Start-Up	694,854	1,715,156
External Impact	227,303	-
KIPP School Summit Sponsorship	-	2,922,500
Research, Design & Innovation	-	1,829,341
Other Programs	-	1,191,692
Time Restrictions	13,109,980	11,554,001
	\$ 27,024,700	\$ 31,056,406



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 and for the year ended, June 30, 2016, and the related consolidated statements of activities and change 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 January 23, 2017.

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.

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
January 23, 2017



Independent Auditors' Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance Required by the Uniform Guidance

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

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, 2016.

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 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



San Francisco, California
January 23, 2017

KIPP Foundation

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ending June 30, 2016

Federal Grantor Program Title	CFDA Number	Award Period	Expenditures		Loans Outstanding
			Passed through to Subrecipients	From Direct Awards	
U.S. Department of Education:					
Charter School Program Grants for Replication and Expansion of High-Quality Charter Schools	84.282M	10/1/2012 - 9/30/2017		\$ 5,963,833	
Charter School Program Grants for Replication and Expansion of High-Quality Charter Schools	84.282M	10/1/2014 - 9/30/2018		6,850,252	
				12,814,085	
Supporting Effective Educator Development Grant Program	84.367D	10/1/2015 - 9/30/2018	\$ 550,579	3,177,111	
Credit Enhancement for Charter School Facilities Program - Funds Received	84.354A	6/14/2006 - 6/14/2031		7,247,046	
Credit Enhancement for Charter School Facilities Program - Loans Outstanding	84.354A	At 7/1/2015			\$ 518,541
Credit Enhancement for Charter School Facilities Program - New Loans	84.354A	7/1/2015 - 6/30/2016			
Total Federal Awards Expended			\$ 550,579	\$ 23,238,242	\$ 518,541

See accompanying notes to schedule.

KIPP Foundation

Notes to Schedule of Expenditure of Federal Awards For the Year Ended June 30, 2016

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Foundation under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foundation.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, Cost Principles for Non-Profit Organizations, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Foundation utilizes a 10-percent indirect cost rate approved by the U.S. Department of Education.

Note 3 - Credit Enhancement for Charter School Facilities Program:

Funds shown as federal expenditures under the program are the original federal funds drawn. \$6,728,505 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, 2016. No funds were expended for obligations secured or collateralized in accordance with the program in the fiscal year ended June 30, 2016. Interest earned on the funds through June 30, 2016 totaled \$441,155.

Note 4 - Subrecipients:

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

Supporting Effective Educator Development Grant Program 84.367D	\$ 550,579
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Note 5 - Indirect Cost:

The Foundation uses a pre-determined indirect cost rate of 10% of total direct salaries and wages.

KIPP FOUNDATION

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

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 2 CFR 200.516(a)?		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
84.367D	Supporting Effective Educator Development Grant Program

Dollar threshold used to distinguish between type A and type B programs: *\$750,000*

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, 2016**

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, 2016**

Year Ended June 30, 2015

None