

KIPP FOUNDATION

JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

# **KIPP Foundation**

## **Independent Auditors' Report and Consolidated Financial Statements**

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## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
KIPP FOUNDATION  
San Francisco, California

### **Report on the Consolidated 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 consolidated financial statements.

### **Management's Responsibility for the Consolidated 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditor's 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 Foundation'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 Foundation'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 KIPP 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.

*Hood & Strong LLP*

San Francisco, California  
January 23, 2017

# KIPP Foundation

## Consolidated Statement of Financial Position

<i>June 30,</i>	2016	2015
<b>Assets</b>		
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
<b>Total assets</b>	<b>\$ 82,387,227</b>	<b>\$ 65,449,107</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
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
<b>Total liabilities</b>	<b>22,371,755</b>	<b>20,652,198</b>
<b>Net Assets:</b>		
Unrestricted net assets:		
Board designated net assets	3,680,589	3,680,589
Operating assets	27,485,445	26,656,919
<b>Total unrestricted net assets</b>	<b>31,166,034</b>	<b>30,337,508</b>
Temporarily restricted net assets (Note 13)	28,849,438	14,459,401
<b>Total net assets</b>	<b>60,015,472</b>	<b>44,796,909</b>
<b>Total liabilities and net assets</b>	<b>\$ 82,387,227</b>	<b>\$ 65,449,107</b>

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
<b>Revenues, Gains and Support:</b>			
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
<b>Total revenue, gains and support</b>	<b>37,519,950</b>	<b>41,414,737</b>	<b>78,934,687</b>
<b>Net Assets Released from Restrictions (Note 14)</b>	<b>27,024,700</b>	<b>(27,024,700)</b>	<b>-</b>
<b>Expenses:</b>			
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
<b>Total program services</b>	<b>35,687,948</b>	<b>-</b>	<b>35,687,948</b>
Support services:			
Administration	7,725,805	-	7,725,805
Fundraising	2,406,138	-	2,406,138
<b>Total support services</b>	<b>10,131,943</b>	<b>-</b>	<b>10,131,943</b>
Grants to schools	17,896,233	-	17,896,233
<b>Total expenses</b>	<b>63,716,124</b>	<b>-</b>	<b>63,716,124</b>
<b>Change in Net Assets</b>	<b>828,526</b>	<b>14,390,037</b>	<b>15,218,563</b>
<b>Net Assets, beginning of year</b>	<b>30,337,508</b>	<b>14,459,401</b>	<b>44,796,909</b>
<b>Net Assets, end of year</b>	<b>\$ 31,166,034</b>	<b>\$ 28,849,438</b>	<b>\$ 60,015,472</b>

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
<b>Revenues, Gains and Support:</b>			
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
<b>Total revenue, gains and support</b>	<b>45,438,807</b>	<b>23,365,372</b>	<b>68,804,179</b>
<b>Net Assets Released from Restrictions (Note 14)</b>	<b>31,056,406</b>	<b>(31,056,406)</b>	<b>-</b>
<b>Expenses:</b>			
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
<b>Total program services</b>	<b>39,157,949</b>	<b>-</b>	<b>39,157,949</b>
Support services:			
Administration	7,574,172	-	7,574,172
Fundraising	2,085,120	-	2,085,120
<b>Total support services</b>	<b>9,659,292</b>	<b>-</b>	<b>9,659,292</b>
Grants to schools	23,479,474	-	23,479,474
<b>Total expenses</b>	<b>72,296,715</b>	<b>-</b>	<b>72,296,715</b>
<b>Change in Net Assets</b>	<b>4,198,498</b>	<b>(7,691,034)</b>	<b>(3,492,536)</b>
<b>Net Assets, beginning of year</b>	<b>26,139,010</b>	<b>22,150,435</b>	<b>48,289,445</b>
<b>Net Assets, end of year</b>	<b>\$ 30,337,508</b>	<b>\$ 14,459,401</b>	<b>\$ 44,796,909</b>

See accompanying notes to financial statements.

# KIPP Foundation

## Consolidated Statement of Cash Flows

<i>For the Years Ended June 30,</i>	2016	2015
<b>Cash Flows from Operating Activities:</b>		
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
<b>Net cash provided by operating activities</b>	<b>3,589,205</b>	<b>4,293,750</b>
<b>Cash Flows from Investing Activities:</b>		
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
<b>Net cash used investing activities</b>	<b>(1,345,572)</b>	<b>1,065,178</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>2,243,633</b>	<b>5,358,928</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>23,167,563</b>	<b>17,808,635</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 25,411,196</b>	<b>\$ 23,167,563</b>

See accompanying notes to financial statements.



# KIPP Foundation

## Notes to Consolidated Financial Statements

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### 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

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### *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

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### 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

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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

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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

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

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

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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

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### 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
<hr/>		
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

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### 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

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### 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

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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
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Total	\$ 4,090,515

# KIPP Foundation

## Notes to Consolidated Financial Statements

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### 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