

KIPP FOUNDATION

JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# **KIPP Foundation**

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

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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 financial statements of **KIPP FOUNDATION (the Foundation)** which comprise the statement of financial position as of June 30, 2017 and 2016, and the related 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP Foundation as of June 30, 2017 and 2016, and the change 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  
December 18, 2017

# KIPP Foundation

## Statement of Financial Position

<i>June 30,</i>	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 21,437,989	\$ 25,526,179
Receivables, net of allowance of \$79,095 in 2017 and \$117,608 in 2016	4,720,897	3,039,582
Government grants receivable	6,679,524	6,622,430
Contributions receivable, net (Note 3)	16,040,634	22,508,362
Investment contracts (Note 4)	288,704	576,157
Investments (Note 5)	17,654,985	16,427,936
Notes receivable (Note 6)	2,924,157	2,950,000
Furniture and equipment, net (Note 7)	2,068,878	1,781,097
Deposits, prepaids, and other assets	2,127,417	2,955,484
<b>Total assets</b>	<b>\$ 73,943,185</b>	<b>\$ 82,387,227</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 3,595,657	\$ 5,397,527
Accrued expenses	2,949,821	3,543,348
Government grants accrued expenses	5,594,929	5,880,034
Guarantees and other liabilities (Note 10)	29,170	12,475
Unearned leadership development income	-	291,325
Government advance - KCEP (Note 9)	7,285,066	7,247,046
<b>Total liabilities</b>	<b>19,454,643</b>	<b>22,371,755</b>
<b>Net Assets:</b>		
Unrestricted net assets:		
Board designated net assets	3,680,589	3,680,589
Operating assets	27,527,913	27,485,445
<b>Total unrestricted net assets</b>	<b>31,208,502</b>	<b>31,166,034</b>
Temporarily restricted net assets (Note 13)	23,280,040	28,849,438
<b>Total net assets</b>	<b>54,488,542</b>	<b>60,015,472</b>
<b>Total liabilities and net assets</b>	<b>\$ 73,943,185</b>	<b>\$ 82,387,227</b>

See accompanying notes to financial statements.

# KIPP Foundation

## Statement of Activities and Change in Net Assets

*For the Year Ended June 30, 2017*

	Unrestricted	Temporarily Restricted	Total
<b>Revenues, Gains and Support:</b>			
Contributions	\$ 19,650,484	\$ 12,242,168	\$ 31,892,652
Government grants (Note 9)	9,078,687	-	9,078,687
Government grants - school designated grants (Note 9)	11,576,156	-	11,576,156
Contributed services	941,564	-	941,564
Leadership development income	1,871,035	-	1,871,035
License fees	4,541,810	-	4,541,810
Investment income	155,591	466	156,057
<b>Total revenue, gains and support</b>	<b>47,815,327</b>	<b>12,242,634</b>	<b>60,057,961</b>
<b>Net Assets Released from Restrictions (Note 14)</b>	<b>17,812,032</b>	<b>(17,812,032)</b>	<b>-</b>
<b>Expenses:</b>			
Program services:			
Leadership Development	11,039,133	-	11,039,133
Network Growth & Sustainability	9,400,720	-	9,400,720
Research, Design & Innovation	7,186,561	-	7,186,561
Teaching & Learning Labs	5,876,115	-	5,876,115
KIPP Through College	1,969,768	-	1,969,768
External Impact	612,630	-	612,630
<b>Total program services</b>	<b>36,084,927</b>	<b>-</b>	<b>36,084,927</b>
Support services:			
Administration	9,304,344	-	9,304,344
Fundraising	1,731,615	-	1,731,615
<b>Total support services</b>	<b>11,035,959</b>	<b>-</b>	<b>11,035,959</b>
Grants to schools	18,464,005	-	18,464,005
<b>Total expenses</b>	<b>65,584,891</b>	<b>-</b>	<b>65,584,891</b>
<b>Change in Net Assets</b>	<b>42,468</b>	<b>(5,569,398)</b>	<b>(5,526,930)</b>
<b>Net Assets, beginning of year</b>	<b>31,166,034</b>	<b>28,849,438</b>	<b>60,015,472</b>
<b>Net Assets, end of year</b>	<b>\$ 31,208,502</b>	<b>\$ 23,280,040</b>	<b>\$ 54,488,542</b>

See accompanying notes to financial statements.

# KIPP Foundation

## 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

## Statement of Cash Flows

<i>For the Years Ended June 30,</i>	2017	2016
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (5,526,930)	\$ 15,218,563
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	792,235	839,007
Allowance and bad debt expense	(6,287)	(243,544)
Decrease (increase) in operating assets:		
Receivables	(1,682,518)	121,323
Government grants receivable	(57,094)	3,055,908
Contribution receivable	6,467,728	(16,259,266)
Deposits, prepaids and other assets	828,067	(836,658)
(Decrease) increase in operating liabilities:		
Accounts payable	(1,801,870)	2,080,939
Accrued expenses	(593,527)	667,644
Government grants accrued expenses	(285,105)	(746,284)
Guarantees and other liabilities	16,695	(3,430)
Unearned leadership development income	(291,325)	(304,997)
Net cash (used) provided by operating activities	(2,139,931)	3,589,205
<b>Cash Flows from Investing Activities:</b>		
Purchase of investments	(12,621,658)	(24,390,000)
Proceeds from the sale of investments	11,394,609	24,343,464
Advances on notes receivables	(300,000)	(750,000)
Collections on notes receivable	333,333	100,000
Collections on investment contracts	287,453	-
Purchases of fixed assets	(1,080,016)	(718,340)
Interest earned on KCEP investment	38,020	25,685
Net cash used investing activities	(1,948,259)	(1,389,191)
<b>Net Change in Cash and Cash Equivalents</b>	(4,088,190)	2,200,014
<b>Cash and Cash Equivalents, beginning of year</b>	25,526,179	23,326,165
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 21,437,989</b>	<b>\$ 25,526,179</b>

See accompanying notes to financial statements.

# KIPP Foundation

## Notes to 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. KIPP Schools & Regions are separate entities operating independently of the Foundation and, therefore, are not consolidated with these financial statements of the Foundation.

To fulfill its mission, the Foundation focuses on six 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 courses.

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

Successor Preparation is a year-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 courses are learning collaboratives that focus on developing regional academic teams to improve student academic results.

#### *Network Growth & Sustainability:*

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

# KIPP Foundation

## Notes to 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.

### *External Impact:*

The Foundation has created a set of national initiatives and programs designed to broaden its impact beyond KIPP Schools & Regions. These programs include efforts to share KIPP content and programs with outside educators, and to develop partnerships supporting career opportunities for KIPP alumni.

## **Note 2 - Significant Accounting Policies:**

### a. Basis of Accounting

These 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.

# KIPP Foundation

## Notes to Financial Statements

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b. 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.

c. Cash and Cash Equivalents

Cash and cash equivalents, for the purposes of the 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.

d. Investments

Investments are comprised of certificates of deposit, fixed income bonds 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 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 five statutory purposes allowed under the program guidelines (see Note 9).

e. 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 \$79,095 and \$117,608 is required at June 30, 2017 and 2016, respectively.

# KIPP Foundation

## Notes to Financial Statements

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f. 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. 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, 2017 and 2016.

g. 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, 2017 and 2016.

h. 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.

# KIPP Foundation

## Notes to Financial Statements

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i. Fair Value Measurements

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.

j. 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. The Foundation accepts contributions in the form of securities, which are sold as soon as practicable and may result in a gain or loss.

*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.

# KIPP Foundation

## Notes to Financial Statements

### k. 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 statement of activities and change in net assets and were comprised of the following for the years ending June 30:

	2017	2016
Program services - consulting	\$ 649,633	\$ 1,700,000
Program services - legal	291,931	83,609
<b>Total contributed services</b>	<b>\$ 941,564</b>	<b>\$ 1,783,609</b>

### l. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the 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.

### m. 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.

### n. Use of Estimates

The preparation of these 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 financial statements. Actual results could differ from those estimates.

# KIPP Foundation

## Notes to Financial Statements

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o. Tax Exempt Status

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

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

p. Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order to conform to the 2017 presentation. These reclassifications had no impact on net assets or the change in net assets.

q. Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Subtopic 205-40)*. This ASU requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern, which is currently performed by the external auditors. Management is required to perform this assessment for annual reporting periods and must make certain disclosures if it concludes that substantial doubt exists. The guidance is effective for annual periods ending after December 15, 2016, and for annual periods thereafter. The adoption of this standard by management on July 1, 2016 did not have any effect on the financial statements.

In February 2016, the FASB issued 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.

# KIPP Foundation

## Notes to Financial Statements

r. Subsequent Events

The Foundation evaluated subsequent events from June 30, 2017 through December 18, 2017, the date these financial statements were available to be issued, and has determined that other than as disclosed in Note 10, no other 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.

**Note 3 - Contributions Receivable:**

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

	2017	2016
Within one year	\$ 5,801,700	\$ 7,749,000
In one to five years	10,685,000	15,400,000
Total	16,486,700	23,149,000
Less: Discount	(446,066)	(640,638)
Contributions receivable, net	\$ 16,040,634	\$ 22,508,362

The Foundation has approximately \$28 million and \$35 million in conditional contributions at June 30, 2017 and 2016, 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, 2017 was from one foundation. This foundation contributed approximately 19% of total contribution revenue for the year ended June 30, 2017.

**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 Federal 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 and the principal payment due for the year ending 2018 was received in the year ended June 30, 2017. The principal balance on this contract was \$288,704, and 576,157 at June 30, 2017 and 2016, respectively. The remaining principal balance at June 30, 2017, is due in the year ending June 30, 2019.

# KIPP Foundation

## Notes to Financial Statements

### Note 5 - Investments and Fair Value Measurements:

The table below presents the Foundation's investments measured at fair value at June 30, 2017, on a recurring basis:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 7,025,232	-	-	\$ 7,025,232
Fixed Income:				
Corporate bonds	-	\$ 8,616,859	-	8,616,859
International bonds	-	2,012,894	-	2,012,894
	\$ 7,025,232	\$ 10,629,753	-	\$ 17,654,985

The table below presents the Foundation's investments measured at fair value at June 30, 2016, on a recurring basis:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 5,798,615	-	-	\$ 5,798,615
Certificates of deposit - up to 14 months duration	-	\$ 10,629,321	-	10,629,321
	\$ 5,798,615	\$ 10,629,321	-	\$ 16,427,936

### 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 ended June 30, 2017. The notes receivable balance relating to this loan pool was approximately \$1.9 million and \$2.2 million as of June 30, 2017 and June 30, 2016, respectively.

Two unsecured notes receivable from KIPP Regions issued under an emergency loan program in order for the KIPP Regions to meet financial covenants, are held in federally-insured certificates of deposit totaling \$1,050,000 and \$750,000 as of June 30, 2017 and June 30, 2016, respectively. The interest on the certificates of deposit are payable to the KIPP Foundation in lieu of interest on the loan. After June 30, 2019, one note receivable for \$750,000 bears interest at 5% per annum and the principal sum and accrued interest is due in a single payment on June 30, 2020. For the other note receivable, the principal sum of \$300,000 and accrued interest is due in a single payment on October 2, 2017.

# KIPP Foundation

## Notes to Financial Statements

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,	
2018	\$ 1,000,000
2019	700,000
2020	1,024,157
Thereafter	200,000
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Total	\$ 2,924,157

### Note 7 - Furniture and Equipment:

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

	2017	2016
Computer equipment	\$ 1,483,409	\$ 1,306,086
Computer software	2,424,376	1,861,446
Office furniture	852,897	1,243,661
Leasehold improvements	1,124,019	1,114,793
<hr/>		
Total	5,884,701	5,525,986
Accumulated depreciation	(3,815,823)	(3,744,889)
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Furniture and equipment, net	\$ 2,068,878	\$ 1,781,097

Depreciation expense was \$792,235 and \$839,007 for the years ended June 30, 2017 and 2016, respectively.

# KIPP Foundation

## Notes to Financial Statements

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### 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, 2017 and 2016, two Leasehold Improvement and Construction Loans were outstanding for \$1,892,823 and \$2,017,453, 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 2016, the Foundation was awarded a five year, \$48.8 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, 2017 is \$29.8 million. Expenditures in fiscal year 2017 equaled \$1,514,913, of which, funds identified and awarded as pass-through grants for certain KIPP schools totaled \$795,265.

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, 2017 is \$12.6 million. Expenditures in fiscal year 2017 and 2016 equaled \$5,789,933 and \$3,177,111, respectively, of which, funds identified and awarded as pass-through grants for certain KIPP schools in fiscal years 2017 and 2016 totaled \$1,266,799 and \$550,579, respectively.

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, 2017 is \$25.4 million. Expenditures in fiscal years 2017 and 2016 equaled \$10,386,322 and \$6,850,252, respectively, of which, funds identified and awarded as pass-through grants for certain KIPP schools in fiscal year 2017 and 2016, totaled \$7,891,737 and \$5,806,738, respectively.

# KIPP Foundation

## Notes to Financial Statements

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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, 2017 and is approved for an additional no cost extension through September 30, 2017. Expenditures in fiscal years 2017 and 2016 equaled \$2,963,674 and \$5,963,833, respectively, of which funds identified for certain KIPP schools as pass-through grants and awarded to the schools in fiscal years 2017 and 2016 totaled \$1,622,355 and \$4,431,052, respectively.

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 \$52.6 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 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 \$60 to \$50,656. Rent expense totaled approximately \$1 million for the years ended June 30, 2017 and 2016.

# KIPP Foundation

## Notes to Financial Statements

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

Years Ending, June 30	
2018	\$ 1,068,150
2019	711,140
2020	721,004
2021	424,124
2022	404
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Total	\$ 2,924,822

### Other Commitments and Contingencies

On September 25, 2017, an office lease expiring March 31, 2018 was amended to extend the lease for an additional seven years. Total base rent payments for the next seven years are \$1.6 million.

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 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 financial statements.

The Foundation has entered into certain agreements totaling approximately \$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 approximately \$0.7 million for the years ended June 30, 2017 and 2016.

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

# KIPP Foundation

## Notes to Financial Statements

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### Note 12 - Related Party Transactions:

The Foundation has received contributions totaling \$8.3 million and \$8.2 million from two board members, their family, foundations, and companies at which they sit on the board, for the years ended June 30, 2017 and 2016, respectively. There were no contributions receivable from these parties at June 30, 2017 and 2016. One of these board members sits on the board of a KIPP Region, from which the Foundation recorded license, program and service fees of \$0.4 million and \$0.3 million for the years ended June 30, 2017 and 2016, respectively. The amount receivable relating to these fees were \$0.3 million and \$0.2 million at June 30, 2017 and 2016, respectively. In addition, the Foundation incurred approximately \$0.3 million for services provided by these related parties for the years ended June 30, 2017 and 2016. There were amounts payable to related parties of approximately \$29,000 and \$43,000 at June 30, 2017 and 2016, respectively.

The Foundation has received contributions totaling \$10.6 million and \$11.6 million from other board members, their families, foundations, and companies at which they sit on the board for the years ended June 30, 2017 and 2016, respectively. Contributions receivable from these parties were \$9 million and approximately \$12 million at June 30, 2017 and 2016, respectively. Some of these board members sit on the board of a KIPP Region, from which the Foundation recorded license, program and service fees of approximately \$2.4 million and \$2.2 million for the years ended June 30, 2017 and 2016, respectively. The amount receivable relating to these fees were approximately \$1.8 million and \$1.0 million at June 30, 2017 and 2016, respectively. The Foundation incurred \$133,000 and \$74,000 for services provided by these board members for the years ended June 30, 2017 and June 30, 2016. There were amounts payable to related parties of approximately \$92,000 and \$400,000 at June 30, 2017 and 2016, respectively.

### Note 13 - Temporarily Restricted Assets:

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

	2017	2016
KIPP Through College Program	\$ 3,868,332	\$ 4,470,703
School Start-up	3,802,908	3,812,691
Elementary School Development	2,834,555	3,001,173
External Impact	2,386,680	2,335,165
Curriculum Development	1,970,798	2,543,317
Leadership Development	448,216	226,058
Student Programs	146,461	613,824
Research, Design & Innovation	20,001	20,001
Other Programs	624,005	-
Time Restrictions	7,178,084	11,826,506
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	\$ 23,280,040	\$ 28,849,438

# KIPP Foundation

## Notes to Financial Statements

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The temporarily restricted assets amounts above include \$4.8 million and \$7.3 million of grants to schools as of June 30, 2017 and 2016, respectively.

### 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:

	2017	2016
Elementary School Development	\$ 6,720,774	\$ 7,327,924
KIPP Through College Program	1,503,062	1,333,553
Student Programs	1,268,529	760,351
Curriculum Development	848,879	1,803,562
School Start-Up	830,000	694,854
Leadership Development	736,432	1,767,173
External Impact	472,815	227,303
Other Programs	683,366	-
Time Restrictions	4,748,175	13,109,980
	<hr/>	<hr/>
	\$ 17,812,032	\$ 27,024,700

The net assets released from restrictions above include \$6.7 million and \$6.4 million of grants to schools for the years ended June 30, 2017 and 2016, respectively.