

KIPP FOUNDATION

JUNE 30, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

KIPP Foundation
Independent Auditors' Report
and Financial Statements

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A Century Strong

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, 2019 and 2018, and the related statements of activities and change in net assets, and cash flows for the years then ended and the statement of functional expenses for the year ended June 30, 2019 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, 2019 and 2018, 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.

Effect of Adopting New Accounting Standard

As described in Note 2q, the Foundation adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Accordingly, the accounting change has been retrospectively applied to all periods presented, with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

Hood & Strong LLP

San Francisco, California
December 20, 2019

KIPP Foundation

Statement of Financial Position

<i>June 30,</i>	2019	2018
Assets		
Cash and cash equivalents	\$ 10,852,861	\$ 14,515,102
Receivables, net	5,169,639	5,363,939
Government grants receivable	5,841,344	5,441,557
Contributions receivable, net (Note 4)	6,734,329	10,853,393
Investments (Note 5)	32,773,718	29,086,101
Notes receivable (Note 6)	1,724,156	2,024,157
Furniture and equipment, net (Note 7)	2,281,468	1,977,597
Deposits, prepaids, and other assets	1,912,513	1,203,517
Total assets	\$ 67,290,028	\$ 70,465,363
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 3,329,192	\$ 3,331,747
Accrued expenses	2,886,694	4,168,720
Government grants accrued expenses	4,995,122	5,313,680
Guarantees and other liabilities (Note 10)	100,000	21,567
Unearned leadership development income	156,850	95,225
Government advance - KCEP (Note 9)	7,513,187	7,355,803
Total liabilities	18,981,045	20,286,742
Net Assets:		
Without donor restrictions:		
Board designated net assets	3,680,589	3,680,589
Undesignated net assets	27,210,018	27,889,882
Total net assets without donor restrictions	30,890,607	31,570,471
With donor restrictions (Note 13)	17,418,376	18,608,150
Total net assets	48,308,983	50,178,621
Total liabilities and net assets	\$ 67,290,028	\$ 70,465,363

See accompanying notes to financial statements.

KIPP Foundation

Statement of Activities and Change in Net Assets

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Support:			
Contributions	\$ 28,604,643	\$ 12,722,604	\$ 41,327,247
Government grants (Note 9)	2,427,093	-	2,427,093
Government grants - school designated grants (Note 9)	12,928,703	-	12,928,703
Contributed services	4,800,325	-	4,800,325
License fees	4,695,889	-	4,695,889
Leadership development income	2,129,675	-	2,129,675
Investment income	769,801	325	770,126
Total revenue, gains and support	56,356,129	12,722,929	69,079,058
Net Assets Released from Restrictions (Note 14)	13,912,703	(13,912,703)	-
Expenses:			
Program services:			
Network Growth & Sustainability	25,791,132	-	25,791,132
Leadership Development	14,758,678	-	14,758,678
Research, Design & Innovation	5,553,413	-	5,553,413
Teaching & Learning	5,524,279	-	5,524,279
Policy & Public Affairs	3,944,717	-	3,944,717
KIPP Through College	3,884,541	-	3,884,541
Total program services	59,456,760	-	59,456,760
Support services:			
Administration	9,469,473	-	9,469,473
Fundraising	2,022,463	-	2,022,463
Total support services	11,491,936	-	11,491,936
Total expenses	70,948,696	-	70,948,696
Change in Net Assets	(679,864)	(1,189,774)	(1,869,638)
Net Assets, beginning of year	31,570,471	18,608,150	50,178,621
Net Assets, end of year	\$ 30,890,607	\$ 17,418,376	\$ 48,308,983

See accompanying notes to financial statements.

KIPP Foundation

Statement of Activities and Change in Net Assets

Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Support:			
Contributions	\$ 28,707,801	\$ 8,029,883	\$ 36,737,684
Government grants (Note 9)	8,940,714	-	8,940,714
Government grants - school designated grants (Note 9)	15,577,797	-	15,577,797
License fees	4,986,007	-	4,986,007
Contributed services	3,003,064	-	3,003,064
Leadership development income	1,745,612	-	1,745,612
Investment income	320,466	341	320,807
Total revenue, gains and support	63,281,461	8,030,224	71,311,685
Net Assets Released from Restrictions (Note 14)	12,702,114	(12,702,114)	-
Expenses:			
Program services:			
Leadership Development	12,676,323	-	12,676,323
Network Growth & Sustainability	12,299,412	-	12,299,412
Research, Design & Innovation	8,074,152	-	8,074,152
Teaching & Learning	6,367,242	-	6,367,242
Policy & Public Affairs	2,907,044	-	2,907,044
KIPP Through College	2,120,634	-	2,120,634
Total program services	44,444,807	-	44,444,807
Support services:			
Administration	9,833,384	-	9,833,384
Fundraising	1,941,508	-	1,941,508
Total support services	11,774,892	-	11,774,892
Grants to schools	19,401,907	-	19,401,907
Total expenses	75,621,606	-	75,621,606
Change in Net Assets	361,969	(4,671,890)	(4,309,921)
Net Assets, beginning of year	31,208,502	23,280,040	54,488,542
Net Assets, end of year	\$ 31,570,471	\$ 18,608,150	\$ 50,178,621

See accompanying notes to financial statements.

The KIPP Foundation

Statement of Functional Expenses

Year Ended June 30, 2019 (with comparative totals for 2018)

	Network Growth & Sustainability	Leadership Development	Research, Design & Innovation	Teaching & Learning	Policy & Public Affairs	KIPP Through College	Total Program	Support Services		2019 Total	2018 Total
								Administration	Fundraising		
Salaries and related employee expenses	\$ 4,583,516	\$ 6,730,232	\$ 2,938,117	\$ 3,118,769	\$ 2,209,325	\$ 1,511,410	\$ 21,091,369	\$ 6,838,173	\$ 1,528,286	\$ 29,457,828	\$ 27,669,770
Grants	14,442,790	1,805,148	229,000	20,000	-	1,305,485	17,802,423	-	-	17,802,423	20,769,705
Operations consulting	5,144,951	301,382	390,543	935,790	544,814	261,835	7,579,315	390,360	107,997	8,077,672	7,890,829
Travel	316,870	1,683,528	636,718	608,991	424,563	354,856	4,025,526	361,699	101,794	4,489,019	4,954,153
Instructional consulting	12,340	2,024,454	77,574	362,683	150,945	55,908	2,683,904	143,831	-	2,827,735	1,998,930
Training and event production	57,346	1,377,348	358,127	98,379	117,606	128,885	2,137,691	236,747	3,158	2,377,596	5,195,856
Occupancy	243,518	235,255	140,502	117,516	117,517	88,137	942,445	258,372	80,793	1,281,610	1,248,436
Office expenses	155,904	214,258	285,202	92,094	124,608	65,972	938,038	523,701	44,156	1,505,895	1,564,057
Information technology	272,336	77,599	302,054	32,532	10,041	14,539	709,101	40,487	21,084	770,672	850,893
Depreciation	132,746	193,084	114,644	96,542	96,542	72,407	705,965	205,152	66,373	977,490	845,278
Other professional fees	395,924	7,387	35,761	3,694	80,647	12,264	535,677	383,808	35,836	955,321	2,230,296
Advertising and promotion	20,209	90,456	34,119	28,066	58,886	5,926	237,662	7,602	24,197	269,461	300,284
Insurance	12,682	18,447	10,953	9,223	9,223	6,917	67,445	19,600	6,341	93,386	103,119
Other	-	100	99	-	-	-	199	59,941	2,448	62,588	-
	\$ 25,791,132	\$ 14,758,678	\$ 5,553,413	\$ 5,524,279	\$ 3,944,717	\$ 3,884,541	\$ 59,456,760	\$ 9,469,473	\$ 2,022,463	\$ 70,948,696	\$ 75,621,606

See accompanying notes to financial statements.

KIPP Foundation

Statement of Cash Flows

<i>Years Ended June 30,</i>	2019	2018
Cash Flows from Operating Activities:		
Changes in net assets	\$ (1,869,638)	\$ (4,309,921)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	977,490	845,278
Change in discount and allowance	(163,550)	(234,661)
Decrease (increase) in operating assets:		
Receivables	216,241	(588,710)
Government grants receivable	(399,787)	1,237,967
Contributions receivable	4,260,672	5,367,570
Deposits, prepaids and other assets	(708,996)	923,900
(Decrease) increase in operating liabilities:		
Accounts payable	(2,556)	(263,910)
Accrued expenses	(1,282,026)	1,218,899
Government grants accrued expenses	(318,558)	(281,249)
Guarantees and other liabilities	78,433	(7,603)
Unearned leadership development income	61,625	95,225
Net cash provided by operating activities	849,350	4,002,785
Cash Flows from Investing Activities:		
Purchase of investments	(41,165,847)	(38,727,185)
Proceeds from the sale of investments	37,478,230	40,469,713
Advances on notes receivables	(400,000)	-
Collections on notes receivable	700,001	900,000
Collections on investment contracts	-	288,704
Purchases of fixed assets	(1,281,359)	(753,997)
Interest earned on KCEP investment	157,384	70,737
Net cash (used) provided by investing activities	(4,511,591)	2,247,972
Net Change in Cash and Cash Equivalents	(3,662,241)	6,250,757
Cash and Cash Equivalents, beginning of year	14,515,102	8,264,345
Cash and Cash Equivalents, end of year	\$ 10,852,861	\$ 14,515,102

See accompanying notes to financial statements.

KIPP Foundation

Notes to 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. 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 leaders to be assistant principals, founding principals, successor principals, and regional leaders through its KIPP School Leadership Program (KSLP) and Network Leader Development (NLD) programming. KSLP has multiple program offerings including: The Fisher Fellowship, Successor Prep, Leadership Team, and the Miles Family Fellowship. The Fisher Fellowship is a one-year, cohort-based leadership program that prepares selected educators to found, lead, and grow a new high-performing KIPP school. Successor Prep is a 15-month cohort-based leadership program that prepares experienced leaders who have been identified and/or selected as the successor leader of an existing KIPP school. The Leadership Team and Miles Family Fellowship programs are year-long cohort-based leadership programs, focused on developing assistant principals. NLD offers additional instructional leadership support to regional academic leaders as well as high school leadership development and support to high school leaders.

Network Growth & Sustainability:

The Foundation provides on-going assistance to grow KIPP Schools & Regions in the areas of school leader and regional leader recruitment, school finance and operations, legal support, technology support, sustainable growth, and new site development.

Research, Design & Innovation:

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

- Creating ongoing visibility into network-wide performance;
- Generating actionable insights;
- Ensuring high quality data and research support network leaders in making data-driven decisions; and

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Notes to Financial Statements

- Promoting innovation and facilitating the exchange of ideas through shared resources, retreats and professional development events such as the KIPP School Summit.

Teaching & Learning Labs:

The Foundation provides KIPP Schools & Regions with curriculum and related resources, training, and implementation support to maximize instructional effectiveness and outcomes.

Policy & Public Affairs:

The Foundation has adopted a Policy & Public Affairs strategy to do the following:

- Proactively shift the narrative about KIPP and charters to protect and grow the KIPP brand, engage more stakeholders and pave the way for growth;
- Build authentic relationships rooted in a shared agenda to advocate nationally and locally on key policy priorities that support students and alumni on the path to leading choice-filled lives;
- Connect adult alumni to each other and to KIPP;
- Build the capacity of KIPP schools & regions to leverage KIPP's national scale and communicate and advocate proactively in a coordinated manner.

KIPP Through College:

The Foundation supports KIPP Schools and Regions in strengthening their college counseling and alumni advising to ensure that KIPP alumni, nationwide, successfully matriculate to and graduate from college, and transition successfully to strong first jobs. 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 KIPP alumni on college campuses, and professional development for school leaders through training and shared tools and resources.

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

b. Description of Net Assets

Net Assets Without Donor Restrictions - The portion of net assets that is not subject to donor-imposed stipulations. Net assets without donor restrictions 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.

Net Assets With Donor Restrictions - 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. Net assets with donor restrictions also include net assets to be retained in perpetuity of which the Foundation has none as of June 30, 2019 and 2018.

c. Cash and Cash Equivalents

Cash and cash equivalents, for the purposes of the statement of cash flows, consist of cash and highly liquid money market funds held with banks, except those held for investment purposes. 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. 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 \$2,822 and \$24,763 is required at June 30, 2019 and 2018, respectively.

e. 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, 2019 and 2018.

KIPP Foundation

Notes to Financial Statements

f. Investments

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).

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, if any. Management deemed the balance fully collectible at June 30, 2019 and 2018.

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 the assets' estimated useful lives of 3 - 7 years. Leasehold improvements are amortized on the straight-line basis over the estimated useful lives of the assets or term of the lease. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

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.

KIPP Foundation

Notes to Financial Statements

j. Revenue Recognition

Contributions - Contributions received are recorded at fair value as net assets without donor restrictions, or net assets with donor restrictions 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), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restrictions. The Foundation's contributions in the form of securities, are sold as soon as practicable and may result in a gain or loss. These contributions are recorded at their net realizable value when sold.

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

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

Leadership Development Income - Leadership development income represents fees received from KIPP Schools & Regions and unrelated parties for curriculum development, programs, or for participation in leadership development courses, programs or conferences. 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 that the license covers 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.

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Notes to Financial Statements

k. Contributed Services

The Foundation receives donations of professional service. Contributions of donated services that create or enhance non-financial assets that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. 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:

	2019	2018
Program services - consulting	\$ 4,577,746	\$ 2,840,308
Program services - legal	222,579	162,756
<u>Total contributed services</u>	<u>\$ 4,800,325</u>	<u>\$ 3,003,064</u>

l. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the statements of activities and changes in net assets and functional expenses. Certain costs, such as occupancy, information technology, depreciation, and other miscellaneous expenses, have been allocated among the programs and supporting services by management based upon headcount. All other costs are allocated directly to the functions they benefit.

m. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash, investments, and receivables. 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. Receivables are due from various individuals and organizations which mitigate the risk associated therein.

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

o. Tax Exempt Status

The Foundation has received a determination 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 2018 financial statements in order to conform to the 2019 presentation. These reclassifications had no impact on net assets or the change in net assets.

q. Recent Accounting Pronouncements

Pronouncement Adopted:

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*, which changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, expenses, and liquidity. The Foundation adopted the ASU as of July 1, 2018. Accordingly, the accounting change has been retrospectively applied to all periods presented, with the exception of the omission of prior year functional expense and liquidity and availability of resource information as permitted by the ASU.

Pronouncements Effective in the Future:

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.

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In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction.

The ASU provides criteria for determining whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The amendments in this ASU related to contributions received are effective for the fiscal year ending June 30, 2020, while the amendments related to contributions made are effective one year later. The Foundation is currently assessing the impact the adoption of this ASU will have on its financial statements.

r. Subsequent Events

The Foundation evaluated subsequent events from June 30, 2019 through December 20, 2019, the date these 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.

Note 3 - Availability and Liquidity:

The following reflects the Foundation's financial assets as of the June 30, 2019, reduced by amounts not available for general use within one year of that date because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for long-term investing in the operating and capital reserves that could be drawn upon if the governing board approves that action.

KIPP Foundation

Notes to Financial Statements

The Foundation's financial assets available within one year of June 30, 2019 for general expenditures are as follows:

Financial assets at year-end:	
Cash and cash equivalents	\$ 10,852,861
Receivables	5,169,639
Government grants receivable	5,841,344
Contributions receivable	6,734,329
Investments	32,773,718
Notes receivable – current portion	1,124,157
Deposits, prepaids and other assets – current portion	872,617
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Total financial assets	63,368,665
Less amounts not available to be used within one year:	
Net assets with donor restrictions	17,418,376
Net assets with restrictions to be met in less than a year	(4,408,458)
KCEP funds included in investments (see Note 9)	7,513,187
Board designated net assets	3,680,589
<hr/>	
Total amounts not available to be used within one year	24,203,694
Financial assets available to meet general expenditures over the next twelve months	
	\$ 39,164,971

KIPP Foundation's investment policy is designed to manage investment risk and to optimize investment returns within acceptable risk parameters to support the mission. As such, the objectives of the Foundation's funds include the preservation of capital, liquidity and optimization of investment returns.

Note 4 - Contributions Receivable:

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

	2019	2018
Within one year	\$ 4,708,458	\$ 4,769,000
In one to five years	2,150,000	6,350,000
<hr/>		
Total	6,858,458	11,119,000
Less: Discount	(124,129)	(265,607)
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Contributions receivable, net	\$ 6,734,329	\$ 10,853,393

KIPP Foundation

Notes to Financial Statements

The Foundation has approximately \$12.6 million and \$22 million in conditional contributions at June 30, 2019 and 2018, respectively. The contributions are conditional upon attaining certain program achievements and other criteria and therefore have not been recorded at year end. Total conditional contributions at June 30, 2019 and 2018 were from one foundation. This foundation contributed approximately 14% of total contribution revenue for the year ended June 30, 2019. Two donors represented 87% and 90% of pledges receivable at June 30, 2019 and 2018, respectively.

Note 5 - Investments and Fair Value Measurements:

The table below presents the Foundation's investments measured at fair value at June 30, 2019, on a recurring basis:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 9,706,331	\$ -	\$ -	\$ 9,706,331
Fixed income:				
Certificates of deposit	-	1,612,247	-	1,612,247
U.S. treasuries	-	15,096,913	-	15,096,913
U.S. corporate bonds	-	4,845,700	-	4,845,700
International bonds	-	1,512,527	-	1,512,527
Investments	\$ 9,706,331	\$ 23,067,387	\$ -	\$ 32,773,718

The table below presents the Foundation's investments measured at fair value at June 30, 2018, on a recurring basis:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 15,674,311	\$ -	\$ -	\$ 15,674,311
Fixed income:				
U.S. treasuries	-	9,928,760	-	9,928,760
U.S. corporate bonds	-	2,987,788	-	2,987,788
International bonds	-	495,242	-	495,242
Investments	\$ 15,674,311	\$ 13,411,790	\$ -	\$ 29,086,101

KIPP Foundation

Notes to Financial Statements

Note 6 - Notes Receivable:

Start Up Loan Program

Unsecured notes receivable from KIPP Schools & Regions issued under a start-up loan pool program, bear interest at 1% per annum and have annual principal payments due. The notes receivable balance relating to this loan pool was approximately \$1.0 million and \$1.3 million at June 30, 2019 and June 30, 2018, respectively.

Emergency Loan Program

An unsecured note receivable for \$750,000 from KIPP regions issued under an emergency loan program in order for the KIPP regions to meet financial covenants, was distributed and is held by the participants in federally-insured certificates of deposit. The interest on the certificates of deposit are payable to the Foundation in lieu of interest on the loan. After June 30, 2019, the note receivable bears interest at 5% per annum and the principal sum and accrued interest is due in a single payment on June 30, 2020. The note issued bears interest at rates lower than the market rate. Imputed interest is immaterial and has not been recorded. The notes receivable balance relating to this loan pool was approximately \$750,000 at June 30, 2019 and June 30, 2018, respectively.

Future principal payments on all notes are due as follows:

Years Ending June 30,	
2020	\$ 1,124,157
2021	-
2022	33,333
2023	133,333
2024	133,333
Thereafter	300,000
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Total	\$ 1,724,156

KIPP Foundation

Notes to Financial Statements

Note 7 - Furniture and Equipment:

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

	2019	2018
Computer equipment	\$ 695,859	\$ 617,792
Computer software	4,123,052	3,769,879
Office furniture	1,054,919	879,278
Leasehold improvements	1,842,949	1,175,219
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Total	7,716,779	6,442,168
Accumulated depreciation	(5,435,311)	(4,464,571)
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Furniture and equipment, net	\$ 2,281,468	\$ 1,977,597

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 (the Program). Through this Program, the lender offers loans to schools up to \$10 million in aggregate principal amount outstanding at any one time. The 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. The Foundation guarantees a portion of the loan (see Note 10). At June 30, 2019, there were no loans outstanding. At June 30, 2018, loans were outstanding for \$214,851 between the lender and a school.

Note 9 - Government Grants and Government Advance - KCEP:

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

In Spring 2019, the Foundation was awarded a five year \$86.3 million federal grant from the U.S Department of Education under the Charter School Program: Grants for Replication and Expansion of High – Quality Charter Schools. Total authorized funding as of June 30, 2019 is \$32.9 million. Expenditures in fiscal year 2019 equaled \$0.25 million.

KIPP Foundation

Notes to Financial Statements

In Fall 2018, the Foundation was awarded a three year \$10.2 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, 2019 is \$2.7 million. Expenditures in fiscal year 2019 equaled \$0.8 million, of which funds identified and awarded as pass-through grants for certain KIPP schools and Mathematica Policy Research in fiscal year 2019 totaled \$0.5 million.

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, 2019 is \$29.8 million. Expenditures in fiscal years 2019 and 2018 equaled \$11.9 million and \$6.5 million, respectively, of which, funds identified and awarded as pass-through grants for certain KIPP schools totaled \$10.5 million and \$4.9 million, respectively.

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, 2019 is \$17.9 million. Expenditures in fiscal years 2019 and 2018 equaled \$19 thousand and \$8.9 million, respectively, of which, funds identified and awarded as pass-through grants for certain KIPP schools totaled \$19 thousand and \$3.3 million, respectively.

In Fall 2014, the Foundation was originally awarded a four year, \$30.5 million, federal grant and subsequently awarded a one year no-cost extension 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, 2019 is \$30.5 million. Expenditures in fiscal years 2019 and 2018 equaled \$2.5 million and \$9.2 million, respectively, of which, funds identified and awarded as pass-through grants for certain KIPP schools totaled \$1.9 million and \$7.4 million, respectively.

KIPP Foundation

Notes to Financial Statements

In fiscal year 2007, the Foundation started KCEP (see Note 8) to sustain as well as increase the number of KIPP and KIPP-affiliated 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 \$75.9 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 in which the funds can be invested. 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 August 2029. Rent expense totaled approximately \$1.1 million for the years ended June 30, 2019 and 2018.

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

Years Ending June 30,	
2020	\$ 1,248,146
2021	997,532
2022	586,464
2023	694,908
2024	707,431
Thereafter	2,921,504
Total	\$ 7,155,985

KIPP Foundation

Notes to 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, 2019 is \$3.7 million of which \$0.4 million are from unrestricted funds, and \$3.4 million are from KCEP funds. Management determines the carrying value of the Foundation's guarantees based on an estimated payout rate. The estimated payable on commitments is included in liabilities in the statement of financial position and was \$100,000 and \$22,000 as of June 30, 2019 and 2018, 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 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's 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 \$3.6 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 \$0.8 million for the years ended June 30, 2019 and 2018.

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

KIPP Foundation

Notes to Financial Statements

Note 12 - Related Party Transactions:

The Foundation has received contributions totaling \$7.6 million and \$8.1 million from two board members, their family, foundations and companies of which they sit on the board, for the years ended June 30, 2019 and 2018, respectively. There were no contributions receivable from these parties at June 30, 2019 and 2018. 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 \$0.4 million for the years ended June 30, 2019 and June 30, 2018, respectively. The amounts receivable relating to these fees were \$0.02 million and \$0.3 million at June 30, 2019 and June 30, 2018, respectively. In addition, the Foundation incurred \$0.02 million and \$0.03 million for services provided by these related parties for the years ended June 30, 2019 and 2018, respectively. There were amounts payable to related parties of \$0 and \$24,000 at June 30, 2019 and 2018, respectively.

The Foundation has received contributions totaling \$9.6 million and \$10.1 million from all other board members, their families, foundations, and companies of which they sit on the board for the years ended June 30, 2019 and 2018, respectively. Contributions receivable from these parties were \$4.0 million and \$6.25 million at June 30, 2019 and 2018, 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 \$1.0 million and \$2.4 million for the years ended June 30, 2019 and June 30, 2018, respectively. The amount receivable relating to these fees were \$1.0 million and \$2.1 million at June 30, 2019 and June 30, 2018, respectively. The Foundation incurred \$1.0 million and \$0.1 million for services provided by these related parties for the years ended June 30, 2019 and June 30, 2018. There were amounts payable to related parties of \$640 and \$6,000 at June 30, 2019 and 2018, respectively.

Note 13 - Net Assets With Donor Restrictions:

Net assets with donor restrictions are restricted at June 30 as follows:

	2019	2018
Policy & Public Affairs	\$ 5,005,605	\$ 1,851,640
Network Growth & Sustainability	4,611,246	4,986,757
KIPP Through College	4,199,362	5,233,828
Teaching & Learning	1,170,720	1,695,180
Research, Design & Innovation	163,254	-
Leadership Development	100,000	280,000
Time restrictions	2,168,189	4,560,745
	<hr/>	<hr/>
	\$ 17,418,376	\$ 18,608,150

The net assets with donor restrictions above include \$4.6 million and \$4.5 million of grants to schools as of June 30, 2019 and 2018, respectively.

KIPP Foundation

Notes to Financial Statements

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:

	2019	2018
KIPP Through College	\$ 3,647,207	\$ 1,810,914
Network Growth & Sustainability	2,966,250	4,443,056
Policy & Public Affairs	2,925,406	2,267,899
Teaching & Learning	1,323,008	865,618
Leadership Development	580,000	644,626
Research, Design & Innovation	19,007	20,001
Time restrictions	2,451,825	2,650,000
	<hr/>	<hr/>
	\$ 13,912,703	\$ 12,702,114

The net assets released from restrictions above include \$3.9 million and \$3.4 million of grants to schools for the years ended June 30, 2019 and 2018, respectively.