

KIPP FOUNDATION

JUNE 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

KIPP Foundation
Independent Auditors' Report
and Financial Statements

Independent Auditors' Report	1 - 2
 Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Change in Net Assets	4 - 5
Statement of Functional Expenses – 2020	6
Statement of Functional Expenses – 2019	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 25



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, 2020 and 2019, and the related statements of activities and change in net assets, functional expenses, 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, 2020 and 2019, 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
December 17, 2020

KIPP Foundation

Statement of Financial Position

<i>June 30,</i>	2020	2019
Assets		
Cash and cash equivalents	\$ 11,873,686	\$ 10,852,861
Receivables, net	4,005,390	5,169,639
Government grants receivable	4,318,263	5,841,344
Contributions receivable, net (Note 4)	28,796,028	6,734,329
Investments (Note 5)	37,341,647	32,773,718
Notes receivable (Note 6)	2,100,000	1,724,156
Furniture and equipment, net (Note 7)	2,114,408	2,281,468
Deposits, prepaids, and other assets	1,633,310	1,912,513
Total assets	\$ 92,182,732	\$ 67,290,028
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,624,337	\$ 3,329,192
Accrued expenses	3,618,731	2,886,694
Government grants accrued expenses	3,962,317	4,995,122
Guarantees and other liabilities (Note 10)	100,000	100,000
Unearned network support service income	4,000	156,850
Government advance - KCEP (Note 9)	7,620,089	7,513,187
Total liabilities	16,929,474	18,981,045
Net Assets:		
Without donor restrictions:		
Board designated net assets	3,680,589	3,680,589
Undesignated net assets	27,314,709	27,210,018
Total net assets without donor restrictions	30,995,298	30,890,607
With donor restrictions (Note 13)	44,257,960	17,418,376
Total net assets	75,253,258	48,308,983
Total liabilities and net assets	\$ 92,182,732	\$ 67,290,028

See accompanying notes to financial statements.

KIPP Foundation

Statement of Activities and Change in Net Assets

For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Support:			
Contributions	\$ 29,506,092	\$ 42,945,639	\$ 72,451,731
Government grants (Note 9)	-	3,929,204	3,929,204
Government grants - school designated grants (Note 9)	-	14,648,104	14,648,104
Contributed services	5,665,387	-	5,665,387
License fees	5,010,804	-	5,010,804
Network support service income	2,080,903	-	2,080,903
Investment income	510,383	-	510,383
Total revenue, gains and support	42,773,569	61,522,947	104,296,516
Net Assets Released from Restrictions (Note 14)	34,683,363	(34,683,363)	-
Expenses:			
Program services:			
Network Growth & Sustainability	28,236,301	-	28,236,301
Network Talent & Leadership Development	10,543,882	-	10,543,882
Research, Design & Innovation	9,473,217	-	9,473,217
Academics	7,649,437	-	7,649,437
Policy & Public Affairs	5,310,937	-	5,310,937
KIPP Through College	5,262,919	-	5,262,919
Total program services	66,476,693	-	66,476,693
Support services:			
Administration	8,447,993	-	8,447,993
Fundraising	2,427,555	-	2,427,555
Total support services	10,875,548	-	10,875,548
Total expenses	77,352,241	-	77,352,241
Change in Net Assets	104,691	26,839,584	26,944,275
Net Assets, beginning of year	30,890,607	17,418,376	48,308,983
Net Assets, end of year	\$ 30,995,298	\$ 44,257,960	\$ 75,253,258

See accompanying notes to financial statements.

KIPP Foundation

Statement of Activities and Change in Net Assets

For the 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
Network support service 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	26,031,326	-	26,031,326
Network Talent & Leadership Development	15,407,965	-	15,407,965
Research, Design & Innovation	5,553,413	-	5,553,413
Academics	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	60,346,241	-	60,346,241
Support services:			
Administration	8,579,992	-	8,579,992
Fundraising	2,022,463	-	2,022,463
Total support services	10,602,455	-	10,602,455
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 Functional Expenses

For the Year Ended June 30, 2020

	Network Growth & Sustainability	Network Talent & Leadership Development	Research, Design & Innovation	Academics	Policy & Public Affairs	KIPP Through College	Total Program	Support Services		2020 Total
								Administration	Fundraising	
Salaries and related employee expenses	\$ 4,927,622	\$ 5,549,756	\$ 3,207,527	\$ 4,455,560	\$ 3,697,386	\$ 1,865,573	\$ 23,703,424	\$ 5,930,417	\$ 1,960,888	\$ 31,594,729
Grants	15,614,934	1,560,307	330,000	1,273,450	-	2,316,740	21,095,431	-	-	21,095,431
Professional fees	6,584,605	1,506,608	1,057,505	963,640	621,048	551,620	11,285,026	898,794	120,641	12,304,461
Training and event production	47,529	230,454	2,939,579	72,252	152,890	63,023	3,505,727	99,554	3,594	3,608,875
Travel	172,686	1,048,485	751,040	418,483	285,209	142,763	2,818,666	237,547	87,020	3,143,233
Office expenses	144,959	121,904	634,191	61,179	167,640	65,129	1,195,002	757,727	45,248	1,997,977
Occupancy	284,538	224,173	167,981	167,981	151,983	103,988	1,100,644	238,822	95,989	1,435,455
Depreciation	196,628	196,628	147,471	147,471	133,426	91,292	912,916	210,673	84,269	1,207,858
Information technology	245,783	66,061	164,213	32,670	12,566	52,179	573,472	31,642	7,555	612,669
Advertising and promotion	1,069	23,558	61,652	44,790	77,967	3,208	212,244	16,852	11,834	240,930
Insurance	15,948	15,948	12,058	11,961	10,822	7,404	74,141	17,087	6,835	98,063
Other	-	-	-	-	-	-	-	8,878	3,682	12,560
	\$ 28,236,301	\$ 10,543,882	\$ 9,473,217	\$ 7,649,437	\$ 5,310,937	\$ 5,262,919	\$ 66,476,693	\$ 8,447,993	\$ 2,427,555	\$ 77,352,241

Included in professional fees above is \$5,665,387 in contributed services (see Note 2k).

See accompanying notes to financial statements.

KIPP Foundation

Statement of Functional Expenses

For the Year Ended June 30, 2019

	Network Growth & Sustainability	Network Talent & Leadership Development	Research, Design & Innovation	Academics	Policy & Public Affairs	KIPP Through College	Total Program	Support Services		2019 Total
								Administration	Fundraising	
Salaries and related employee expenses	\$ 5,011,001	\$ 7,185,500	\$ 2,938,117	\$ 3,118,769	\$ 2,209,325	\$ 1,511,410	\$ 21,974,122	\$ 5,955,422	\$ 1,528,286	\$ 29,457,830
Grants	14,442,790	1,805,148	229,000	20,000	-	1,305,485	17,802,423	-	-	17,802,423
Professional fees	5,538,532	2,350,038	503,878	1,302,167	776,406	330,007	10,801,028	915,868	143,833	11,860,729
Travel	208,050	1,794,719	636,718	608,991	424,563	354,856	4,027,897	359,328	101,794	4,489,019
Training and event production	48,453	1,386,241	358,127	98,379	117,606	128,885	2,137,691	236,747	3,158	2,377,596
Office expenses	129,534	240,628	285,202	92,094	124,608	65,972	938,038	523,699	44,156	1,505,893
Occupancy	243,317	235,455	140,502	117,516	117,517	88,137	942,444	258,372	80,793	1,281,609
Depreciation	132,746	193,084	114,644	96,542	96,542	72,407	705,965	205,152	66,373	977,490
Information technology	261,231	90,930	302,054	32,532	10,041	14,539	711,327	38,261	21,084	770,672
Advertising and promotion	2,990	107,675	34,119	28,066	58,886	5,926	237,662	7,602	24,197	269,461
Insurance	12,682	18,447	10,953	9,223	9,223	6,917	67,445	19,600	6,341	93,386
Other	-	100	99	-	-	-	199	59,941	2,448	62,588
	\$ 26,031,326	\$ 15,407,965	\$ 5,553,413	\$ 5,524,279	\$ 3,944,717	\$ 3,884,541	\$ 60,346,241	\$ 8,579,992	\$ 2,022,463	\$ 70,948,696

Included in professional fees above is \$4,800,425 in contributed services (see Note 2k).

See accompanying notes to financial statements.

KIPP Foundation

Statement of Cash Flows

<i>For the Year Ended June 30,</i>	2020	2019
Cash Flows from Operating Activities:		
Changes in net assets	\$ 26,944,275	\$ (1,869,638)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	1,207,858	977,490
Loss of disposal of assets	10,355	-
Change in discount and allowance	(16,026)	(163,550)
Decrease (increase) in operating assets:		
Receivables	1,167,071	216,241
Government grants receivable	1,523,081	(399,787)
Contributions receivable	(22,048,495)	4,260,672
Deposits, prepaids and other assets	279,203	(708,996)
(Decrease) increase in operating liabilities:		
Accounts payable	(1,704,855)	(2,556)
Accrued expenses	732,037	(1,282,026)
Government grants accrued expenses	(1,032,805)	(318,558)
Guarantees and other liabilities	-	78,433
Unearned network support service income	(152,850)	61,625
Net cash provided by operating activities	6,908,849	849,350
Cash Flows from Investing Activities:		
Purchase of investments	(70,110,360)	(39,110,482)
Proceeds from the sale of investments	65,542,431	35,422,865
Advances on notes receivables	(750,000)	(400,000)
Collections on notes receivable	374,156	700,001
Purchases of fixed assets	(1,051,153)	(1,281,359)
Interest earned on KCEP investment	106,902	157,384
Net cash used by investing activities	(5,888,024)	(4,511,591)
Net Change in Cash and Cash Equivalents	1,020,825	(3,662,241)
Cash and Cash Equivalents, beginning of year	10,852,861	14,515,102
Cash and Cash Equivalents, end of year	\$ 11,873,686	\$ 10,852,861

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 mission of the Foundation is to collaborate with families and communities to create a network of joyful, academically excellent schools that prepare students with the skills and confidence to pursue the paths they choose, so that they can lead fulfilling lives and build a more just world. 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:

Network Growth & Sustainability:

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

Network Talent & Leadership Development:

The KIPP Foundation partners with KIPP Schools and Regions to build and sustain healthy talent ecosystems; and ensure strong, equitable and inclusive talent planning, recruitment, selection and development of teachers and leaders so that all KIPPsters experience a joyful, academically excellent, anti-racist education. The KIPP Foundation trains and develops aspiring, new, and established leaders to be assistant principals, founding principals, successor principals, and regional leaders through various cohort-based programs and also supports regions in developing and leading local leadership development programs.

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

KIPP Foundation

Notes to Financial Statements

Academics:

The KIPP Foundation partners with KIPP Schools and Regions to build systems that promote academic equity, and to ensure teachers are effectively supported in expanding their content knowledge and culturally responsive pedagogy. The Foundation also provides KIPP Schools & Regions with curriculum, assessment, and other instructional resources; as well as training and implementation support to maximize instructional effectiveness and student 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, 2020 and 2019.

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 network support service, 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 deemed the balance fully collectible at June 30, 2020 and estimated that an allowance for doubtful accounts of \$2,822 was required at June 30, 2019.

e. Contributions Receivable

Unconditional promises to give are recognized as contributions when such promises are made by the donor. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, 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, 2020 and 2019.

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, 2020 and 2019.

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 conditional contributions and are recognized when the conditions on which they depend (expenditures have been incurred in accordance with the contract specifications) are substantially met and they become unconditional.

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 conditional contributions and are recognized when the conditions on which they depend (when expenditures have been incurred in accordance with the contract specifications) are substantially met and they become unconditional.

The Foundation accounts for license fees and network support services as exchange transactions under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*.

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 (performance obligation) 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 (transaction price). Amounts received in advance, if any, are recorded as deferred revenue, a contract liability, in the statement of financial position. There were no such amounts at June 30, 2020 and 2019.

Network Support Service Income - Network support service income represents fees received from KIPP Schools & Regions and unrelated parties for curriculum or network development, or for participation in leadership development courses, programs, or conferences. The Foundation recognizes the income over the period the service, or events occur (performance obligation). Amounts received in advance are recorded as unearned network support service income, a contract liability, in the statement of financial position. For the year ended June 30, 2020, recognized revenue included \$156,850 of unearned network support service income from June 30, 2019.

KIPP Foundation

Notes to Financial Statements

k. Contributed Services

The Foundation receives donations of professional services. 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:

	2020	2019
Program services - consulting	\$ 5,517,000	\$ 4,577,746
Program services - legal	143,137	222,579
Program services - other	5,250	-
<u>Total contributed services</u>	<u>\$ 5,665,387</u>	<u>\$ 4,800,325</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 change 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.

KIPP Foundation

Notes to Financial Statements

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.

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 2019 financial statements in order to conform to the 2020 presentation. These reclassifications had no impact on net assets or the change in net assets.

q. Recent Accounting Pronouncements

Pronouncement Adopted:

In June 2018, the FASB issued Accounting Standards Update (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 Foundation has adopted the ASU on a modified prospective basis effective July 1, 2019. The impact of adopting this guidance is reflected in the financial statements and resulted in federal grants being recorded as conditional contributions and the activity being recorded as net assets with donor restrictions in the statement of activities and change in net assets as of June 30, 2020.

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)*. This guidance amends the existing accounting standards for revenue recognition and outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The Foundation has adopted the ASU effective July 1, 2019.

KIPP Foundation

Notes to Financial Statements

Analysis of various provisions of ASU 2014-09 resulted in no significant changes in the way the Foundation recognizes revenue and, therefore, no changes to the previously issued audited financial statements were required on a modified retrospective basis.

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 the Foundation for the fiscal year beginning after December 15, 2021 with early application permitted. The Foundation is currently assessing the impact the adoption of this ASU will have on its financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the required presentation for in-kind contributions other than contributed services. The first element will require separate presentation on the statement of activities and change in net assets and the second element will require additional disclosure about how the in-kind gifts were utilized (in which program or part of management and general or fundraising), donor restrictions associated with the gifts and valuation techniques employed. The ASU is effective for the Foundation for the fiscal year beginning after June 15, 2021 with early application permitted. 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, 2020 through December 17, 2020, 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 except as disclosed in Note 15.

Note 3 - Availability and Liquidity:

The following reflects the Foundation's financial assets as of the June 30, 2020 and 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 for general expenditures are as follows:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 11,873,686	\$ 10,852,861
Receivables, net	4,005,390	5,169,639
Government grants receivable	4,318,263	5,841,344
Contributions receivable	28,796,028	6,734,329
Investments	37,341,647	32,773,718
Notes receivable – current portion	-	1,124,157
Deposits, prepaids and other assets – current portion	526,722	872,617
Total financial assets	86,861,736	63,368,665
Less amounts not available to be used within one year:		
Net assets with donor restrictions	44,257,960	17,418,376
Net assets with restrictions to be met in less than a year	(7,176,696)	(4,408,458)
KCEP funds included in investments (see Note 9)	7,620,088	7,513,187
Board designated net assets	3,680,589	3,680,589
Total amounts not available to be used within one year	48,381,941	24,203,694
Financial assets available to meet general expenditures over the next twelve months	\$ 38,479,795	\$ 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:

	2020	2019
Within one year	\$ 9,367,476	\$ 4,708,458
In one to five years	19,539,477	2,150,000
Total	28,906,953	6,858,458
Less: Discount	(110,925)	(124,129)
Contributions receivable, net	\$ 28,796,028	\$ 6,734,329

KIPP Foundation

Notes to Financial Statements

The Foundation has approximately \$6.4 million and \$12.6 million in conditional contributions (not including federal grants) at June 30, 2020 and 2019, respectively. The contributions are conditional upon attaining certain program achievements and other criteria and therefore have not been recorded at year end. At June 30, 2020 99% of conditional contributions were from one foundation and at June 30, 2019 total conditional contributions were from one foundation. This foundation contributed approximately 9% and 14% of total contribution revenue for the year ended June 30, 2020 and 2019, respectively.

Note 5 - Investments and Fair Value Measurements:

The table below presents the Foundation's investments measured at fair value at June 30, 2020, on a recurring basis:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 15,366,103	\$ -	\$ -	\$ 15,366,103
Fixed income:				
Certificates of deposit	-	1,218,585	-	1,218,585
U.S. treasuries	-	9,375,717	-	9,375,717
U.S. corporate bonds	-	8,306,035	-	8,306,035
International bonds	-	3,075,207	-	3,075,207
Investments	\$ 15,366,103	\$ 21,975,544	\$ -	\$ 37,341,647

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

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 program was approximately \$0.6 million and \$1.0 million at June 30, 2020 and June 30, 2019, 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 annually in lieu of interest on the loan. An unsecured note receivable for \$750,000 from KIPP regions was distributed and bears interest at 4% per annum. The notes issued bear interest at rates lower than the market rate. Imputed interest is immaterial and has not been recorded. The notes receivable balances relating to this loan program totaled approximately \$1.5 million and \$0.8 million at June 30, 2020 and June 30, 2019, respectively.

Future principal payments on all notes are due as follows:

Years Ending June 30,	
2021	\$ -
2022	33,333
2023	133,333
2024	1,633,334
2025	100,000
Thereafter	200,000
<hr/>	
Total	\$ 2,100,000

KIPP Foundation

Notes to Financial Statements

Note 7 - Furniture and Equipment:

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

	2020	2019
Computer equipment	\$ 870,582	\$ 695,859
Computer software	4,404,182	4,123,052
Office furniture	777,721	1,054,919
Leasehold improvements	1,962,757	1,842,949
Total	8,015,242	7,716,779
Accumulated depreciation	(5,900,834)	(5,435,311)
Furniture and equipment, net	\$ 2,114,408	\$ 2,281,468

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, 2020 and 2019, there were no loans outstanding.

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 \$88 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, 2020 is \$34.5 million. Expenditures in fiscal years 2020 and 2019 totaled \$2.7 million and \$0.3 million, respectively of which funds identified and awarded as pass-through grants for certain KIPP schools in fiscal years 2020 and 2019 totaled \$1.8 million and \$0, respectively. Conditional amounts related to this grant were approximately \$85 million as of June 30, 2020.

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, 2020 is \$5.9 million. Expenditures in fiscal years 2020 and 2019 totaled \$2.6 million and \$0.8 million, respectively, of which funds identified and awarded as pass-through grants for certain KIPP schools and Mathematica Policy Research in fiscal years 2020 and 2019 totaled \$1.2 million and \$0.5 million, respectively. Conditional amounts related to this grant were approximately \$6.8 million as of June 30, 2020.

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, 2020 is \$42.1 million. Expenditures in fiscal years 2020 and 2019 totaled \$13.3 million and \$11.9 million, respectively, of which, funds identified and awarded as pass-through grants for certain KIPP schools totaled \$11.7 million and \$10.5 million, respectively. Conditional amounts related to this grant were approximately \$15.6 million as of June 30, 2020.

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, 2020 is \$17.9 million. Expenditures in fiscal years 2020 and 2019 totaled \$0 and \$19 thousand, respectively, of which, funds identified and awarded as pass-through grants for certain KIPP schools totaled \$0 and \$19 thousand, respectively. There were no conditional amounts related to this grant as of June 30, 2020.

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, 2020 is \$30.5 million. Expenditures in fiscal years 2020 and 2019 totaled \$0 and \$2.5 million, respectively, of which, funds identified and awarded as pass-through grants for certain KIPP schools totaled \$0 and \$1.9 million, respectively. There were no conditional amounts related to this grant as of June 30, 2020.

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 \$85.8 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 \$1.2 million and \$1.0 million for the years ended June 30, 2020 and 2019, respectively.

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

Years Ending June 30,	
2021	\$ 1,089,002
2022	734,281
2023	714,329
2024	708,316
2025	666,268
Thereafter	2,262,554
<hr/>	
Total	\$ 6,174,750

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, 2020 is \$4.5 million of which \$0.45 million are from unrestricted funds, and \$4.05 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 \$0.1 million as of June 30, 2020 and 2019.

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 \$2 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 \$0.9 million and \$0.8 million for the years ended June 30, 2020 and 2019, respectively.

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 approximately \$7.5 million from two board members, their family, foundations, and companies of which they sit on the board, for the years ended June 30, 2020 and 2019. There were no contributions receivable from these parties at June 30, 2020 and 2019. One of these board members sits on the board of a KIPP Region, from which the Foundation recorded license, program, and service fees of approximately \$0.1 million for the years ended June 30, 2020 and June 30, 2019. There were no amounts receivable relating to these fees at June 30, 2020 and June 30, 2019. In addition, the Foundation incurred approximately \$5 thousand and \$0.1 million for services provided by these related parties for the years ended June 30, 2020 and 2019, respectively. There were no amounts payable to related parties at June 30, 2020 and 2019.

The Foundation has received contributions totaling approximately \$9.5 million and \$7.6 million from all other board members, their families, foundations, and companies of which they sit on the board for the years ended June 30, 2020 and 2019, respectively. There were no contributions receivable from these parties at June 30, 2020 and 2019. 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 \$0.2 million and \$0.4 million for the years ended June 30, 2020 and June 30, 2019, respectively. There were no amounts receivable relating to these fees at June 30, 2020 and June 30, 2019. The Foundation incurred approximately \$0.3 million and \$0.8 million for services provided by these related parties for the years ended June 30, 2020 and June 30, 2019. There were no amounts payable to related parties at June 30, 2020 and 2019.

Note 13 - Net Assets With Donor Restrictions:

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

	2020	2019
KIPP Through College	\$ 18,173,135	\$ 4,199,362
Academics	7,596,905	1,170,720
Network Growth & Sustainability	3,847,290	4,611,246
Policy & Public Affairs	2,572,644	5,005,605
Research, Design & Innovation	146,712	163,254
Network Talent & Leadership Development	-	100,000
Time restrictions	11,921,274	2,168,189
	<hr/>	<hr/>
	\$ 44,257,960	\$ 17,418,376

The net assets with donor restrictions above include \$8.6 million and \$4.6 million of grants to schools as of June 30, 2020 and 2019, 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:

	2020	2019
Government grants – school designated grants (Note 9)	\$ 14,648,104	\$ -
Government grants (Note 9)	3,929,204	-
KIPP Through College	6,309,638	3,647,207
Policy & Public Affairs	3,332,161	2,925,406
Network Growth & Sustainability	2,857,623	2,966,250
Academics	1,140,091	1,323,008
Research, Design & Innovation	166,542	19,007
Network Talent & Leadership Development	100,000	580,000
Time restrictions	2,200,000	2,451,825
	<hr/>	<hr/>
	\$ 34,683,363	\$ 13,912,703

The net assets released from restrictions above include \$5.6 million and \$3.9 million of grants to schools for the years ended June 30, 2020 and 2019, respectively.

Note 15 - Pandemic & Business Operations:

On March 11, 2020, the World Health Organization (WHO) publicly characterized COVID-19 as a pandemic. States of emergency have been declared in many federal, state, and local jurisdictions and shelter in place orders have been instituted.

In response to recommendations from the WHO, the Foundation has moved employees to remote work, canceled employee travel, postponed and canceled events, and developed contingency plans for operations through the remainder of calendar 2020. The immediate impacts are the reallocation of resources to support KIPP Schools and Regions that are directly serving students to minimize interruptions to academic instruction. While the long-term impacts of the pandemic on business operations and resource allocations cannot be determined, the Foundation has seen no significant adverse impact in terms of contributions and grants.