

KIPP FOUNDATION

JUNE 30, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS

**HOOD &
STRONG** LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2021 and 2020, 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, 2021 and 2020, 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
February 24, 2022

KIPP Foundation

Statement of Financial Position

<i>June 30,</i>	2021	2020
Assets		
Cash and cash equivalents	\$ 16,473,728	\$ 11,873,686
Receivables, net	5,851,153	4,005,390
Government grants receivable	4,871,522	4,318,263
Contributions receivable, net (Note 4)	19,829,265	28,796,028
Investment contracts (Note 5)	3,750,000	-
Investments (Note 6)	43,564,886	37,341,647
Notes receivable (Note 7)	3,550,000	2,100,000
Furniture and equipment, net (Note 8)	1,744,374	2,114,408
Deposits, prepaids, and other assets	1,754,869	1,633,310
Total assets	\$ 101,389,797	\$ 92,182,732
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,359,310	\$ 1,624,337
Accrued expenses	2,886,725	3,618,731
Government grants accrued expenses	4,502,236	3,962,317
Guarantees and other liabilities (Note 10)	100,000	100,000
Unearned network support service income	37,500	4,000
Government advance - KCEP (Note 9)	7,662,042	7,620,089
Total liabilities	17,547,813	16,929,474
Net Assets:		
Without donor restrictions:		
Board designated net assets	3,680,589	3,680,589
Undesignated net assets	33,568,552	27,314,709
Total net assets without donor restrictions	37,249,141	30,995,298
With donor restrictions (Note 13)	46,592,843	44,257,960
Total net assets	83,841,984	75,253,258
Total liabilities and net assets	\$ 101,389,797	\$ 92,182,732

See accompanying notes to financial statements.

KIPP Foundation

Statement of Activities and Change in Net Assets

For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Support:			
Contributions	\$ 29,383,009	\$ 33,615,899	\$ 62,998,908
Government grants (Note 9)	-	3,279,703	3,279,703
Government grants - school designated grants (Note 9)	-	15,184,098	15,184,098
License fees	5,369,716	-	5,369,716
Network support service income	1,339,453	-	1,339,453
Contributed services	742,309	-	742,309
Investment return, net	(94,193)	-	(94,193)
Total revenue, gains and support	36,740,294	52,079,700	88,819,994
Net Assets Released from Restrictions (Note 14)	49,744,817	(49,744,817)	-
Expenses:			
Program services:			
Network Growth & Sustainability	32,480,160	-	32,480,160
Academics & Culture	13,411,734	-	13,411,734
KIPP Forward	6,980,648	-	6,980,648
Policy & Public Affairs	6,504,652	-	6,504,652
Network Talent & Leadership Development	6,206,945	-	6,206,945
Research, Design & Innovation	5,586,340	-	5,586,340
Total program services	71,170,479	-	71,170,479
Support services:			
Administration	5,972,608	-	5,972,608
Fundraising	3,088,181	-	3,088,181
Total support services	9,060,789	-	9,060,789
Total expenses	80,231,268	-	80,231,268
Change in Net Assets	6,253,843	2,334,883	8,588,726
Net Assets, beginning of year	30,995,298	44,257,960	75,253,258
Net Assets, end of year	\$ 37,249,141	\$ 46,592,843	\$ 83,841,984

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 return, net	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	28,896,351	-	28,896,351
Network Talent & Leadership Development	10,543,882	-	10,543,882
Research, Design & Innovation	9,473,217	-	9,473,217
Academics & Culture	8,782,287	-	8,782,287
Policy & Public Affairs	5,310,937	-	5,310,937
KIPP Forward	5,262,919	-	5,262,919
Total program services	68,269,593	-	68,269,593
Support services:			
Administration	6,655,093	-	6,655,093
Fundraising	2,427,555	-	2,427,555
Total support services	9,082,648	-	9,082,648
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 Functional Expenses

For the Year Ended June 30, 2021

	Network Growth & Sustainability	Academics & Culture	KIPP Forward	Policy & Public Affairs	Network Talent & Leadership Development	Research, Design & Innovation	Total Program	Support Services		2021 Total
								Administration	Fundraising	
Grants	\$ 22,999,073	\$ 6,060,507	\$ 3,650,598	\$ 1,048,500	\$ 1,447,876	\$ 440,270	\$ 35,646,824	\$ -	\$ -	\$ 35,646,824
Salaries and related employee expenses	6,466,074	4,645,915	2,295,428	3,738,772	3,275,477	3,865,080	24,286,746	4,511,895	2,450,427	31,249,068
Professional fees	1,797,839	2,149,526	709,685	817,187	1,074,138	483,242	7,031,617	486,046	411,041	7,928,704
Office expenses	440,199	91,930	99,766	475,858	103,851	372,939	1,584,543	588,160	47,454	2,220,157
Occupancy	277,150	177,607	103,604	170,207	133,205	162,806	1,024,579	203,869	88,803	1,317,251
Depreciation	136,532	96,376	56,219	92,360	72,282	88,344	542,113	104,407	48,188	694,708
Information technology	322,107	110,171	37,048	14,962	30,530	95,985	610,803	37,438	13,341	661,582
Training and event production	3,299	40,302	2,756	59,263	40,209	36,874	182,703	3,093	1,271	187,067
Advertising and promotion	10,573	6,475	13,667	72,611	7,676	5,073	116,075	2,077	16,133	134,285
Insurance	20,163	14,233	8,303	13,640	10,675	13,047	80,061	15,419	7,116	102,596
Travel	7,151	18,492	3,574	1,292	11,026	2,680	44,215	5,954	(48)	50,121
Other	-	200	-	-	-	20,000	20,200	14,250	4,455	38,905
	\$ 32,480,160	\$ 13,411,734	\$ 6,980,648	\$ 6,504,652	\$ 6,206,945	\$ 5,586,340	\$ 71,170,479	\$ 5,972,608	\$ 3,088,181	\$ 80,231,268

Included in professional fees above is \$742,309 in contributed services (see Note 2k).

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 & Culutre	Policy & Public Affairs	KIPP Forward	Total Program	Support Services		2020 Total
								Administration	Fundraising	
Salaries and related employee expenses	\$ 5,509,502	\$ 5,549,756	\$ 3,207,527	\$ 5,247,135	\$ 3,697,386	\$ 1,865,573	\$ 25,076,879	\$ 4,556,962	\$ 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	6,637,037	1,506,608	1,057,505	1,108,826	621,048	551,620	11,482,644	701,176	120,641	12,304,461
Training and event production	48,107	230,454	2,939,579	104,612	152,890	63,023	3,538,665	66,616	3,594	3,608,875
Travel	192,700	1,048,485	751,040	528,498	285,209	142,763	2,948,695	107,518	87,020	3,143,233
Office expenses	147,735	121,904	634,191	109,419	167,640	65,129	1,246,018	706,711	45,248	1,997,977
Occupancy	284,538	224,173	167,981	168,098	151,983	103,988	1,100,761	238,705	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	248,084	66,061	164,213	33,989	12,566	52,179	577,092	28,022	7,555	612,669
Advertising and promotion	1,138	23,558	61,652	48,828	77,967	3,208	216,351	12,745	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
	\$ 28,896,351	\$ 10,543,882	\$ 9,473,217	\$ 8,782,287	\$ 5,310,937	\$ 5,262,919	\$ 68,269,593	\$ 6,655,093	\$ 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 Cash Flows

<i>For the Year Ended June 30,</i>	2021	2020
Cash Flows from Operating Activities:		
Changes in net assets	\$ 8,588,726	\$ 26,944,275
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	694,708	1,207,858
Loss of disposal of assets	-	10,355
Change in discount and allowance	(38,813)	(16,026)
Decrease (increase) in operating assets:		
Receivables	(1,858,891)	1,167,071
Government grants receivable	(553,259)	1,523,081
Contributions receivable	9,018,704	(22,048,495)
Deposits, prepaids and other assets	(121,559)	279,203
(Decrease) increase in operating liabilities:		
Accounts payable	734,973	(1,704,855)
Accrued expenses	(732,006)	732,037
Government grants accrued expenses	539,919	(1,032,805)
Unearned network support service income	33,500	(152,850)
Net cash provided by operating activities	16,306,002	6,908,849
Cash Flows from Investing Activities:		
Purchase of investments	(36,449,690)	(70,110,360)
Proceeds from the sale of investments	30,226,451	65,542,431
Advances on investment contracts	(3,750,000)	-
Advances on notes receivables	(1,450,000)	(750,000)
Collections on notes receivable	-	374,156
Purchases of fixed assets	(324,674)	(1,051,153)
Interest earned on KCEP investment	41,953	106,902
Net cash used by investing activities	(11,705,960)	(5,888,024)
Net Change in Cash and Cash Equivalents	4,600,042	1,020,825
Cash and Cash Equivalents, beginning of year	11,873,686	10,852,861
Cash and Cash Equivalents, end of year	\$ 16,473,728	\$ 11,873,686

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 sustainable growth, new site development, and school finance and operations; as well as directed financial, legal, and technology support.

Academics & Culture:

To ensure all KIPPsters experience a joyful, academically excellent, anti-racist education, the Foundation partners with KIPP Schools and Regions to build systems that promote academic equity, establish a healthy and equitable school culture, and 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.

KIPP Forward:

The Foundation supports KIPP Schools and Regions in strengthening their college counseling and alumni advising to ensure that KIPP alumni are prepared for the educational and career path that fits their goals and sense of purpose. The Foundation has created a set of national initiatives and programs designed to support and provide resources to local KIPP Forward (previously KIPP Through College) programs across the country. These programs include building college partnerships, building support for KIPP alumni on college campuses, career exposure and exploration, and professional development for school leaders through training, and shared tools and resources.

Policy & Public Affairs:

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

- Proactively shift the narrative about KIPP and charters to protect and grow the KIPP brand, engage more stakeholders and pave the way for growth;

KIPP Foundation

Notes to Financial Statements

- 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.

Network Talent & Leadership Development:

The 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. The 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 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 within KIPP Schools & Regions by:

- Creating on-going visibility into KIPP's 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.

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, 2021 and 2020.

c. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents 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 estimated that an allowance for doubtful accounts of approximately \$13 thousand was required at June 30, 2021 and deemed the balance fully collectible at June 30, 2020.

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 was no allowance for uncollectible unconditional promises to give at June 30, 2021 and 2020.

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 statements 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 balances fully collectible at June 30, 2021 and 2020.

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.

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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 statements 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, 2021 and 2020.

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, 2021 the Foundation recorded approximately \$38 thousand as unearned network support service. Unearned network support service income as of June 30, 2020 of \$4 thousand was recognized as revenue during the year ended June 30, 2021.

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 statements of activities and change in net assets and were comprised of the following for the years ended June 30:

	2021	2020
Program services - consulting	\$ 701,000	\$ 5,517,000
Program services - legal	41,309	143,137
Program services - other	-	5,250
<u>Total contributed services</u>	<u>\$ 742,309</u>	<u>\$ 5,665,387</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.

During the years ended June 30, 2021 and 2020, contributions receivable from two donors/foundations accounted for approximately 89% and 82% of total contributions receivable, respectively.

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During the year ended June 30, 2021, contributions from three donors/foundations accounted for approximately 46% of total contributions revenue. During the year ended June 30, 2020, contributions from four donors/foundations accounted for approximately 65% of total contributions revenue.

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 2020 financial statements in order to conform to the 2021 presentation. These reclassifications had no impact on net assets or the change in net assets.

q. Recent Accounting Pronouncements

Pronouncements Effective in the Future:

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under the ASU, a lessee will be required to recognize right-to-use assets and liabilities on their statement of financial position for all leases with lease terms of more than twelve months. The ASU is effective for 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.

KIPP Foundation

Notes to 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, 2021 through February 24, 2022, 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 June 30, 2021 and 2020, 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.

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

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	\$ 16,473,728	\$ 11,873,686
Receivables, net	5,851,153	4,005,390
Government grants receivable	4,871,522	4,318,263
Contributions receivable	19,829,265	28,796,028
Investments	43,564,886	37,341,647
Notes receivable – current portion	133,333	-
Deposits, prepaids and other assets – current portion	769,665	526,722
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Total financial assets	91,493,552	86,861,736
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Less amounts not available to be used within one year:		
Net assets with donor restrictions	46,592,843	44,257,960
KCEP funds included in investments (see Note 9)	4,584,190	7,620,088
Board-designated net assets	3,680,589	3,680,589
Add net assets with restrictions to be met in less than a year	(7,416,000)	(7,176,696)
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Total amounts not available to be used within one year	47,441,622	48,381,941
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Financial assets available to meet general expenditures over the next twelve months	\$ 44,051,930	\$ 38,479,795
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The 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.

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Note 4 - Contributions Receivable:

Contributions receivable are expected to be collected as follows as of June 30:

	2021	2020
Within one year	\$ 7,471,772	\$ 9,367,476
In one to five years	12,416,477	19,539,477
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Total	19,888,249	28,906,953
Less: Discount	(58,984)	(110,925)
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Contributions receivable, net	\$ 19,829,265	\$ 28,796,028

The Foundation has approximately \$5.5 million and \$6.4 million in conditional contributions (not including federal grants) at June 30, 2021 and 2020, 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, 2021 98% of conditional contributions were from one foundation and at June 30, 2020 total conditional contributions were from one foundation. This foundation contributed approximately 10% and 9% of total contribution revenue for the year ended June 30, 2021 and 2020, respectively.

Note 5 - Investment Contracts:

On June 24, 2021, the Foundation entered into a \$3.8 million investment contract to enable a KIPP school to facilitate financing for the refurbishment of a facility utilizing \$3.4 million in KIPP Credit Enhancement Program (KCEP) funds and \$0.4 million in Foundation funds. The contract is a three-year contract with interest payable on a quarterly basis using the six-month treasury rate, to be reset annually, plus 1% per annum. The principal is due at the end of the contract. The principal balance on this contract was \$3.8 million at June 30, 2021.

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Notes to Financial Statements

Note 6 - Investments and Fair Value Measurements:

The table below presents the Foundation's investments measured at fair value at June 30, 2021, on a recurring basis:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 20,783,044	\$ -	\$ -	\$ 20,783,044
Fixed income:				
Certificates of deposit	-	1,001,201	-	1,001,201
U.S. treasuries	-	7,328,872	-	7,328,872
U.S. corporate bonds	-	13,399,851	-	13,399,851
International bonds	-	1,051,918	-	1,051,918
Investments	\$ 20,783,044	\$ 22,781,842	\$ -	\$ 43,564,886

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

Note 7 - 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 at June 30, 2021 and June 30, 2020.

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Emergency Loan Program

Unsecured notes receivable from KIPP Schools & Regions issued under an emergency loan program in order for the KIPP Schools & Regions to meet financial covenants, were distributed. The notes issued bear interest payable annually 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 \$3.0 million and \$1.5 million at June 30, 2021 and June 30, 2020, respectively.

Future principal payments on all notes are due as follows:

Years Ending June 30,	
2022	\$ 133,333
2023	233,333
2024	2,533,334
2025	250,000
2026	400,000
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Total	\$ 3,550,000

Note 8 - Furniture and Equipment:

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

	2021	2020
Computer equipment	\$ 654,264	\$ 870,582
Computer software	4,571,050	4,404,182
Office furniture	607,721	777,721
Leasehold improvements	1,403,569	1,962,757
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Total	7,236,604	8,015,242
Accumulated depreciation	(5,492,230)	(5,900,834)
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Furniture and equipment, net	\$ 1,744,374	\$ 2,114,408

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Notes to Financial Statements

Note 9 - Government Grants and Government Advance - KCEP:

The Foundation is the recipient of various government grants from the U.S. Department of Education:

Grant Program	Charter Schools Program Replication & Expansion of High Quality Charter Schools	Supporting Effective Educator Development Grant Program	Charter Schools Program Replication & Expansion of High Quality Charter Schools
Grant Awarded	Spring 2019	Fall 2018	Fall 2016
Span of Grant	5 years	3 years	5 years
No Cost Extension Approved	Not Applicable	Yes 10/1/2021- 9/30/2022	Yes 10/1/2021- 9/30/2022
Amount of Total Grant	\$88.0 million	\$10.2 million	\$48.8 million
Total Authorized	\$62.8 million	\$10.2 million	\$48.8 million
Conditional Amount	\$77.5 million	\$4.8 million	\$6.9 million
	Fiscal Year	Fiscal Year	Fiscal Year
	2021 2020	2021 2020	2021 2020
Expenditures (in millions)	\$ 7.5 \$ 2.7	\$ 2.1 \$ 2.6	\$ 8.8 \$ 13.3
Pass-through Grants Portion (in millions)	\$ 6.2 \$ 1.8	\$ 1.0 \$ 1.2	\$ 8.0 \$ 11.7

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In fiscal year 2007, the Foundation started KCEP (see Note 5) 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 approximately \$6.8 million 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 \$90.3 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 for the years ended June 30, 2021 and 2020.

Future minimum lease payments under noncancelable facilities and equipment operating leases are as follows:

Years Ending June 30,	
2022	\$ 986,518
2023	973,884
2024	975,408
2025	850,567
2026	532,403
Thereafter	1,738,638
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Total	\$ 6,057,418

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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, 2021 is \$6.7 million of which \$0.7 million are from unrestricted funds, and \$6.0 million are from KCEP funds. At June 30, 2020, the maximum amount of future payments was \$4.5 million of which \$0.5 million are from unrestricted funds, and \$4.0 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, 2021 and 2020. There were no payouts related to the guarantees during June 30, 2021 and 2020.

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 \$2.4 million for leadership and training meetings and events, professional services, fees and subscriptions, which are to be held or completed 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 for the years ended June 30, 2021 and 2020.

The Foundation offers a 457(b) non-qualified deferred compensation plan that covers certain employees. There were no contributions made to the 457(b) plan during June 30, 2021 and 2020.

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Note 12 - Related Party Transactions:

The Foundation received contributions totaling approximately \$7.5 million from two board members, their families, foundations, and companies on whose boards they sit, during the years ended June 30, 2021 and 2020. There were no contributions receivable from these parties at June 30, 2021 and 2020. 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, 2021 and June 30, 2020. There were no amounts receivable relating to these fees at June 30, 2021 and June 30, 2020. In addition, the Foundation incurred approximately \$11 thousand and \$5 thousand for services provided by these related parties for the years ended June 30, 2021 and 2020, respectively. There were no amounts payable to these related parties at June 30, 2021 and 2020.

The Foundation has received contributions totaling approximately \$22.9 million and \$9.5 million from all other board members, their families, foundations, and companies on whose boards they sit for the years ended June 30, 2021 and 2020, respectively. There were no contributions receivable from these parties at June 30, 2021 and \$2.0 million in contributions receivable at June 30, 2020. 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 \$0.1 million and \$0.2 million for the years ended June 30, 2021 and June 30, 2020, respectively. There were no amounts receivable relating to these fees at June 30, 2021 and June 30, 2020. The Foundation incurred approximately \$0.3 million for services provided by these related parties in each of the years ended June 30, 2021 and June 30, 2020. There were no amounts payable to these related parties at June 30, 2021 and 2020.

Note 13 - Net Assets With Donor Restrictions:

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

	2021	2020
KIPP Forward	\$ 15,478,198	\$ 18,597,568
Network Growth & Sustainability	4,421,290	3,847,290
Policy & Public Affairs	2,359,054	2,148,212
Academics & Culture	2,280,093	5,610,773
Research, Design & Innovation	504,201	146,712
Network Talent & Leadership Development	100,000	-
Time restrictions	21,450,007	13,907,405
	<hr/>	<hr/>
	\$ 46,592,843	\$ 44,257,960

The net assets with donor restrictions above include \$6.2 million and \$8.6 million restricted for future grants to schools as of June 30, 2021 and 2020, respectively.

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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 ended June 30:

	2021	2020
Government grants – school designated grants (Note 9)	\$ 15,184,098	\$ 14,648,104
Government grants (Note 9)	3,279,703	3,929,204
Academics & Culture	7,332,019	1,125,222
KIPP Forward	7,286,183	7,110,114
Research, Design & Innovation	7,285,231	166,542
Policy & Public Affairs	3,178,193	2,531,685
Network Talent & Leadership Development	1,100,000	1,100,000
Network Growth & Sustainability	1,000,000	1,857,623
Time restrictions	4,099,390	2,214,869
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	\$ 49,744,817	\$ 34,683,363

The net assets released from restrictions above include \$17.2 million and \$5.6 million of grants to schools for the years ended June 30, 2021 and 2020, respectively.

Note 15 - Pandemic & Business Operations:

On March 11, 2020, the World Health Organization (WHO) publicly characterized COVID-19 as a pandemic. In response to recommendations from the WHO, the Foundation moved employees to remote work, canceled employee travel, postponed and canceled events, and developed contingency plans for operations through the remainder of calendar 2021. 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.