

KIPP FOUNDATION

JUNE 30, 2015 AND 2014

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

KIPP Foundation

Independent Auditors' Report and Consolidated Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
KIPP FOUNDATION
San Francisco, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **KIPP FOUNDATION (the Foundation)** which comprise the consolidated statement of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and change in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KIPP Foundation as of June 30, 2015 and 2014, 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 22, 2015

KIPP Foundation

Consolidated Statement of Financial Position

<i>June 30,</i>	2015	2014
Assets		
Cash and cash equivalents	\$ 17,657,602	\$ 15,898,544
Receivables, net of allowance of \$361,153 in 2015 and \$277,678 in 2014	2,917,360	3,247,668
E-Rate receivable (Note 8)	-	151,425
Government grants receivable	9,678,338	7,478,696
Contributions receivable, net (Note 4)	6,249,096	12,366,362
Investment contracts (Note 5)	576,157	1,921,242
Investments (Note 3)	22,049,963	19,552,266
Notes receivable (Note 6)	2,300,000	1,700,000
Furniture and equipment, net (Note 7)	2,135,908	2,188,969
Deposits, prepaids, and other assets	1,884,683	2,698,033
Total assets	\$ 65,449,107	\$ 67,203,205
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,598,884	\$ 3,156,532
Accrued expenses	3,593,408	3,247,674
Government grants accrued expenses	6,626,318	4,943,685
E-Rate liability (Note 8)	-	181,204
Guarantees and other liabilities (Note 11)	15,905	29,786
Unearned leadership development income	596,322	175,625
Government advance - KCEP (Note 10)	7,221,361	7,179,254
Total liabilities	20,652,198	18,913,760
Net Assets:		
Unrestricted net assets:		
Board designated net assets	3,680,589	3,680,589
Operating assets	26,656,919	22,458,421
Total unrestricted net assets	30,337,508	26,139,010
Temporarily restricted net assets (Note 14)	14,459,401	22,150,435
Total net assets	44,796,909	48,289,445
Total liabilities and net assets	\$ 65,449,107	\$ 67,203,205

See accompanying notes to financial statements.

KIPP Foundation

Consolidated Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Support:			
Contributions	\$ 14,181,168	\$ 23,363,132	\$ 37,544,300
Government grants (Note 10)	8,349,075	-	8,349,075
Government grants - school designated grants (Note 10)	15,716,373	-	15,716,373
Contributed services	1,931,364	-	1,931,364
Leadership development income	1,762,033	-	1,762,033
License fees	3,468,022	-	3,468,022
Investment income	30,772	2,240	33,012
Total revenue, gains and support	45,438,807	23,365,372	68,804,179
Net Assets Released from Restrictions (Note 15)	31,056,406	(31,056,406)	-
Expenses:			
Program services:			
Leadership Development	12,793,679	-	12,793,679
Research, Design & Innovation	9,985,776	-	9,985,776
Network Growth & Sustainability	9,209,283	-	9,209,283
Teaching & Learning Labs	5,481,890	-	5,481,890
KIPP Through College	1,687,321	-	1,687,321
Total program services	39,157,949	-	39,157,949
Support services:			
Administration	7,574,172	-	7,574,172
Fundraising	2,085,120	-	2,085,120
Total support services	9,659,292	-	9,659,292
Grants to schools	23,479,474	-	23,479,474
Total expenses	72,296,715	-	72,296,715
Changes in Net Assets	4,198,498	(7,691,034)	(3,492,536)
Net Assets, beginning of year	26,139,010	22,150,435	48,289,445
Net Assets, end of year	\$ 30,337,508	\$ 14,459,401	\$ 44,796,909

See accompanying notes to financial statements.

KIPP Foundation

Consolidated Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Support:			
Contributions	\$ 12,493,360	\$ 25,481,046	\$ 37,974,406
Government grants (Note 10)	7,128,861	-	7,128,861
Government grants - school designated grants (Note 10)	14,482,333	-	14,482,333
Contributed services	2,547,385	-	2,547,385
Leadership development income	1,543,942	-	1,543,942
License fees	2,869,317	-	2,869,317
Investment income	37,928	2,344	40,272
Total revenue, gains and support	41,103,126	25,483,390	66,586,516
Net Assets Released from Restrictions (Note 15)	26,313,423	(26,313,423)	-
Expenses:			
Program services:			
Leadership Development	14,163,200	-	14,163,200
Network Growth & Sustainability	9,531,901	-	9,531,901
Research, Design & Innovation	8,423,213	-	8,423,213
Teaching & Learning Labs	2,896,400	-	2,896,400
KIPP Through College	1,784,259	-	1,784,259
Total program services	36,798,973	-	36,798,973
Support services:			
Administration	5,816,432	-	5,816,432
Fundraising	2,145,694	-	2,145,694
Total support services	7,962,126.00	-	7,962,126
Grants to schools	25,072,623	-	25,072,623
Total expenses	69,833,722	-	69,833,722
Changes in Net Assets	(2,417,173)	(830,033)	(3,247,206)
Net Assets, beginning of year	28,556,183	22,980,468	51,536,651
Net Assets, end of year	\$ 26,139,010	\$ 22,150,435	\$ 48,289,445

See accompanying notes to financial statements.

KIPP Foundation

Consolidated Statement of Cash Flows

<i>For the Years Ended June 30,</i>	2015	2014
Cash Flows from Operating Activities:		
Changes in net assets	\$ (3,492,536)	\$ (3,247,206)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation expense	877,248	807,516
Allowance and bad debt expense	92,904	110,000
Decrease (increase) in operating assets:		
Receivables	237,404	(565,240)
E-Rate receivable	151,425	(61,634)
Government grants receivable	(2,199,642)	(2,753,788)
Contribution receivable	6,117,266	2,620,287
Investment contracts	1,345,085	1,025,487
Deposits, prepaids and other assets	813,350	(1,915,649)
(Decrease) increase in operating liabilities:		
Accounts payable	(557,648)	1,694,771
Accrued expenses	345,734	330,772
Government grants accrued expenses	1,682,633	1,725,330
E-Rate liability	(181,204)	61,633
Guarantees and other liabilities	(13,881)	(12,360)
Unearned leadership development income	420,697	79,375
Net cash provided (used) by operating activities	5,638,835	(100,706)
Cash Flows from Investing Activities:		
Purchase of investments	(24,259,000)	(21,445,731)
Proceeds from the sale of investments	21,761,303	19,205,038
Advances on notes receivables	(600,000)	(200,000)
Purchases of fixed assets	(824,187)	(1,173,508)
Interest earned on KCEP investment	42,107	41,274
Net cash used by investing activities	(3,879,777)	(3,572,927)
Net Change in Cash and Cash Equivalents	1,759,058	(3,673,633)
Cash and Cash Equivalents, beginning of year	15,898,544	19,572,177
Cash and Cash Equivalents, end of year	\$ 17,657,602	\$ 15,898,544

See accompanying notes to financial statements.

KIPP Foundation

Notes to Consolidated Financial Statements

Note 1 - Nature of the Organization:

KIPP Foundation (the Foundation) is a nonprofit corporation, organized under the laws of the State of California in April 2000. The purpose of the Foundation is to create a respected, influential, and national network of free, open enrollment, college preparatory public schools (KIPP Schools & Regions) that are successful in helping students from educationally underserved communities develop the knowledge, skills, character and habits needed to succeed in college and the competitive world beyond.

To fulfill its mission, the Foundation focuses on five programmatic areas:

Leadership Development: The Foundation trains teachers to be leaders and to establish new KIPP Schools through its year long KIPP School Leadership Program (KSLP). KSLP has five cohorts: The Fisher Fellowship, Successor Preparation, Leadership Team, Teacher Leader, and the Miles Family Fellowship.

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

Successor Preparation is an 18-month long training focused on taking leadership of an existing KIPP school.

The Leadership Team, Teacher Leader, and Miles Family Fellowship programs are year-long trainings, focusing on developing staff to take over leadership roles (Assistant Principal, Dean, Grade Level or Department Chair) within their current KIPP School.

Network Growth & Sustainability: The Foundation provides on-going assistance to existing KIPP Schools & Regions in the area of professional development, curriculum, instructional support, school operations, sustainable growth, fundraising, and marketing.

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

- Creating ongoing visibility into network-wide, regional, and school health and performance trends; generating actionable insights; and ensuring high quality data and research support network leaders in making data-driven decisions;
- Promoting the codifying and dissemination of promising practices and ideas as well as tools and resources which support the implementation of these practices and ideas;
- Hosting an annual gathering of KIPP's teachers, leaders, and staff focused on learning, professional development, and sharing;
- Providing the technology infrastructure and application development support for KIPP Foundation teams.

KIPP Foundation

Notes to Consolidated Financial Statements

Teaching & Learning Labs: The Foundation focuses on equipping teachers, schools and regions with training and resources to maximize their instructional effectiveness and outcomes.

KIPP Through College: The Foundation has created a set of national initiatives and programs designed to support and provide resources to local KIPP Through College programs across the country. These programs include building college partnerships, building support for college students, supporting sites and professional development through training and website collaboration tools.

Note 2 - Significant Accounting Policies:

a. Basis of Accounting

These consolidated financial statements are prepared on the accrual basis of accounting. The accounts of the Foundation are maintained in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) relevant to not-for-profit organizations.

b. Principles of Consolidation

These consolidated financial statements include the accounts of the Foundation and KCEP Mortgage. There has been no activity in KCEP Mortgage and it was dissolved during December 2014. KIPP Schools & Regions are separate entities operating independently of the Foundation and therefore are not consolidated with these financial statements of the Foundation.

c. Description of Net Assets

Unrestricted Net Assets - The portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. Unrestricted net assets include Board Designated net assets, which are funds reserved by the board of directors for guarantees made by the Foundation to a third party for the performance of certain schools and for loans made directly to schools.

Temporarily Restricted Net Assets - The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation.

Permanently Restricted Net Assets - The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Foundation. The Foundation has no permanently restricted net assets.

KIPP Foundation

Notes to Consolidated Financial Statements

d. Cash and Cash Equivalents

Cash and cash equivalents, for the purposes of the consolidated statements of financial position and cash flows, consist of cash and highly liquid money market funds held with banks, except those held for investment purposes. Cash and cash equivalents that are donor-restricted are included in investments. Based on the Foundation's investment policy, cash is to be employed productively at all times by investment in short-term cash equivalents to provide safety, liquidity, and return.

e. Investments

Investments are comprised of certificates of deposit and cash. Investments are recorded at fair value based on quoted market prices. Investment income is accrued when earned. Unrealized gains and losses are included in the statement of activities and change in net assets.

U.S. Department of Education funds held for KCEP must be held in cash and investments which protect the principal from undue market risk while allowing the funds to be liquidated and applied toward the four statutory purposes allowed under the program guidelines (see Note 10).

f. Receivables

Receivables represent uncollateralized obligations due from KIPP Schools & Regions for leadership development income, license fees, and reimbursement of expenses.

The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of the probability of collecting those amounts. Management estimates that an allowance for doubtful accounts of \$361,153 and \$277,678 is required at June 30, 2015 and 2014, respectively.

g. Contributions Receivable

Unconditional promises to give are recognized as contributions when such promises are made by the donor. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the rates applicable in the years in which those promises are received. The rates related to balances outstanding at June 30, 2015 were 0.11% to 1.87%. Amortization of the discount is included in contribution revenue.

The Foundation uses the allowance method to record uncollectible unconditional promises. The allowance is based on prior years' experience and management's analysis of specific promises made. There is no allowance for uncollectible unconditional promises to give at June 30, 2015 and 2014.

KIPP Foundation

Notes to Consolidated Financial Statements

h. Notes Receivable

Notes receivable represent loans to KIPP Schools & Regions used primarily to finance facilities-related projects. Also included are notes representing extended payment terms for some schools for program loans drawn to finance a portion of school start-up costs. These notes receivable are uncollateralized and are stated at principal amount. Payments of notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance. The carrying amount of notes receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management deemed the balance fully collectible at year at June 30, 2015 and 2014.

i. Furniture and Equipment

Furniture and equipment are carried at cost less accumulated depreciation and amortization and are depreciated on a straight line basis over estimated useful lives of 3 – 7 years. Leasehold improvements are amortized on the straight-line basis over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

The Foundation regularly evaluates its long-lived assets for indicators of possible impairment. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset's fair value or discounted estimates of future cash flows. The Foundation has not identified any such impairment losses to date.

j. Fair Value Measurements

The carrying value of financial instruments not otherwise disclosed herein is comparable to the fair value due to the short term nature of these financial instruments.

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 Consolidated Financial Statements

k. Revenue Recognition

Contributions - Contributions received are recorded at fair value as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions.

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

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

Leadership Development Income - Leadership development income represents fees received from KIPP Schools and Regions and unrelated parties for conferences or for KSLP for participation in the program. The Foundation recognizes the income over the period the event or programs occur. Amounts received in advance are recorded as unearned leadership development income in the statement of financial position.

License Fees - License fees represent annual fees received from KIPP Schools and Regions for use of the KIPP brand and network and are recorded at the end of the fiscal year based on either a flat rate or an agreed-upon percentage of funding received by the KIPP Schools and Regions from state and local governments during the year.

KIPP Foundation

Notes to Consolidated Financial Statements

1. Contributed Services

The Foundation receives donations of professional services, which it records at the estimated fair value of the services at the time of contribution as contributed services. The nature of the donated service determines the classification of the related expense. Contributed services are included on the consolidated statement of activities and change in net assets and were comprised of the following:

	2015	2014
Program services		
Consulting	\$ 1,542,000	\$ 2,400,000
Administrative expenses		
Legal	161,013	94,785
Other	228,351	52,600
<u>Total contributed services</u>	<u>\$ 1,931,634</u>	<u>\$ 2,547,385</u>

m. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the consolidated statement of activities and change in net assets. Certain costs have been allocated among the programs and supporting services by the management of the Foundation based upon estimates of time or headcount.

n. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments. The Foundation places its cash and investments with high credit quality financial institutions. At times, the account balances may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. To address the market risk of investments, the Foundation maintains a formal investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines, and requires review of the investment managers' performance.

o. Use of Estimates

The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements. Actual results could differ from those estimates.

KIPP Foundation

Notes to Consolidated Financial Statements

p. Tax Exempt Status

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

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

q. Reclassifications

Certain reclassifications have been made to the 2014 consolidated financial statements in order to conform to the 2015 presentation. These reclassifications had no impact on net assets or the change in net assets.

r. Subsequent Events

The Foundation evaluated subsequent events from June 30, 2015 through December 22, 2015, the date these consolidated financial statements were available to be issued. In August 2015 and September 2015, the Foundation was awarded multi-year grants from private donors and the Department of Education totaling approximately \$38 million. There were no other material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

Note 3 - Investments and Fair Value Measurements:

Investments are comprised of the following at June 30:

	2015	2014
Cash and money market fund	\$ 9,758,627	\$ 10,391,831
Certificates of deposit	12,291,336	9,160,435
	<hr/>	<hr/>
	\$ 22,049,963	\$ 19,552,266

The fair value of the Foundation's investments in certificates of deposit are measured on a recurring basis using Level 2 inputs and cash is measured as Level 1 as discussed in Note 2.

KIPP Foundation

Notes to Consolidated Financial Statements

Note 4 - Contributions Receivable:

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

	2015	2014
Within one year	\$ 3,000,000	\$ 6,973,935
In one to five years	3,300,000	5,500,000
Total	6,300,000	12,473,935
Less: Discount	(50,904)	(107,573)
Contributions receivable, net	\$ 6,249,096	\$ 12,366,362

The Foundation has approximately \$12 million and \$20 million in conditional contributions receivable at June 30, 2015 and 2014, respectively. The grants are conditioned upon certain program achievements and other criteria and therefore have not been recorded at year end. Of the total conditional receivables at June 30, 2015, approximately 44% was from one foundation. This foundation contributed approximately 25% of total contribution revenue for the year ended June 30, 2015.

Note 5 - Investment Contracts:

On December 29, 2011, the Foundation entered into a \$2 million investment contract to enable a KIPP school to facilitate financing for the refurbishment of a facility utilizing \$1.8 million in KCEP funds (see Note 9) and \$0.2 million in Foundation funds. The contract is a four year contract in which interest is payable on a quarterly basis using the six month treasury rate. Principal payments are to be made every six months through the first two years and the final payment is to be paid at the end of the contract. Principal payment due for the years ending 2016 was received in the year ended June 30, 2015. There was no principal balance on this contract at June 30, 2015 and there was a \$500,000 principal balance at June 30, 2014.

KIPP Foundation

Notes to Consolidated Financial Statements

On February 1, 2011, the Foundation entered into a \$2 million investment contract to enable a KIPP school to facilitate financing for the acquisition, development and construction of facilities utilizing \$1.8 million in KCEP funds and \$0.2 million in Foundation funds. The contract is a seven year contract in which interest is payable on a quarterly basis using the six month treasury rate and principal payments are to be paid annually. Principal payments due for the years ending 2016 and 2017 were received in the year ended June 30, 2015. The principal balance on this contract was \$576,157 and \$1,421,242 at June 30, 2015 and June 30, 2014, respectively.

Future principal payments are due as follows:

Years Ending June 30,		
2018	\$	286,358
2019		289,799
<hr/>		
Total	\$	576,157

Note 6 - Notes Receivable:

At June 30, the Foundation has unsecured notes receivable from KIPP Schools & Regions totaling \$2.3 million and \$1.7 million as of June 30, 2015 and 2014, respectively. The notes bear interest at 1% per annum and have annual principal payments due beginning in the year ended June 30, 2017.

Future principal payments are due as follows:

Years Ending June 30,		
2017	\$	433,333
2018		700,000
2019		700,000
2020		266,667
Thereafter		200,000
<hr/>		
Total	\$	2,300,000

KIPP Foundation

Notes to Consolidated Financial Statements

Note 7 - Furniture and Equipment:

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

	2015	2014
Computer equipment	\$ 1,048,712	\$ 1,595,879
Computer software	1,749,762	2,569,338
Office furniture	1,226,399	1,223,475
Leasehold improvements	1,065,639	627,491
Infrastructure software and equipment	321,470	321,470
Total	5,411,982	6,337,653
Accumulated depreciation	(3,276,074)	(4,148,684)
<u>Furniture and equipment, net</u>	<u>\$ 2,135,908</u>	<u>\$ 2,188,969</u>

Depreciation expense was \$877,248 and \$807,516 for the years ended June 30, 2015 and 2014, respectively.

Note 8 - E-Rate Universal Service Fund Schools and Libraries Program (E-Rate):

The Schools and Libraries Program of the Universal Service Fund, commonly known as "E-Rate," is administered by the Universal Service Administrative Company (USAC) under the direction of the Federal Communications Commission (FCC), and provides discounts to assist schools and libraries in the United States to obtain affordable telecommunications and internet access. It is one of four support programs funded through a Universal Service fee charged to companies that provide interstate and/or international telecommunications services.

The Schools and Libraries Program supports connectivity - the conduit or pipeline for communications using telecommunications services and/or the internet. Funding is requested under four categories of service: telecommunications services, internet access, internal connections, and basic maintenance of internal connections. Discounts for support depend on the level of poverty and the urban/rural status of the population served and range from 20% to 90% of the costs of eligible services. Eligible schools, school districts and libraries may apply individually or as part of a consortium.

KIPP Foundation

Notes to Consolidated Financial Statements

The Foundation applied for E-rate funding as a consortium representing both the Foundation and various KIPP Schools & Regions in four separate applications. Based on eligibility requirements, the consortium is eligible for a 90% discount on approved expenditures. The Foundation records the gross expenditures at the value of services provided. The Foundation also records the 90% discount on expenditures within the E-rate receivable to recognize the expected value of reimbursement for funds that have not yet been awarded and records the liability for funds owed to vendors should the consortium not receive funding. Finally, the Foundation records a receivable from various KIPP Schools & Regions in the event that the consortium does not receive funding. The Foundation's participation in the Schools and Libraries Program concluded at June 30, 2014.

Note 9 - KCEP Programs:

On August 31, 2009, the Foundation entered into a Loan Program Agreement with a single lender to create the KCEP Leasehold Improvement and Construction Loan Program. Through this program, the lender will offer loans up to \$10 million in aggregate principal amount outstanding at any one time. The KCEP Leasehold Improvement and Construction Loan Program is subject to the terms of the Performance Agreement between the Foundation and the U.S. Department of Education (see Note 10). The loans offered through the program are for the purpose of securing timely construction loans or refinancing construction loans with leasehold improvement mini-perm or permanent loans for schools. All loans are subject to a 1% origination fee, of which the Foundation receives 25% for support and services rendered during the application process. As of June 30, 2015 and 2014, two Leasehold Improvement and Construction Loans were outstanding for \$2,134,665 and \$2,245,057, respectively, between the lender and a school. The Foundation guarantees a portion of the loan (see Note 11).

Note 10 - Government Grants and Advance - KCEP:

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

In 2015, the Foundation was awarded a four year \$13.8 million federal grant from the US Department of Education under the Charter School Program: Grants for Replication and Expansion of High – Quality Charter Schools. Current year's expenditures equal \$1,607,131 of which funds identified for certain KIPP schools as pass-through grants and awarded to the schools in fiscal year 2015 totaled \$1,375,744.

In 2013, the Foundation was awarded a three year \$10.3 million federal grant from the U.S. Department of Education under the Charter School Program: Grants for Replication and Expansion of High – Quality Charter Schools. Expenditures in 2015 and 2014 equaled \$7,719,855 and \$4,586,160, respectively, of which funds identified for certain KIPP schools as pass-through grants and awarded to the schools in fiscal years 2015 and 2014 totaled \$6,671,347 and \$4,199,043, respectively.

KIPP Foundation

Notes to Consolidated Financial Statements

In 2012, the Foundation was awarded a two year \$9.5 million federal grant from the U.S. Department of Education under the Charter School Program: Grants for Replication and Expansion of High-Quality Charter Schools. Expenditures in 2015 and 2014 equaled \$3,071,000 and \$4,419,460, respectively, of which funds identified for certain KIPP schools and awarded to the schools as pass-through grants in fiscal year 2015 and 2014 totaled \$2,237,650 and \$4,018,147, respectively.

In 2011, the Foundation was awarded a three year \$14.5 million federal grant from the U.S. Department of Education under the Charter School Program: Grants for Replication and Expansion of High-Quality Charter Schools. Expenditures in 2014 equaled \$313,406, of which funds identified for certain KIPP schools and awarded to the schools as pass-through grants in 2014 totaled \$224,058. The performance period for this grant ended on September 30, 2014. The final performance report for this grant was filed on December 23, 2014.

In 2011, the Foundation was awarded a five year \$50 million federal grant from the U.S. Department of Education under the Investing in Innovation Fund: Scale Up Grants. Expenditures in 2015 and 2014 equaled \$11,667,363 and \$12,292,167, respectively, of which grants identified with certain KIPP schools and awarded to the schools as pass through grants in fiscal years 2015 and 2014 totaled \$5,431,631 and \$6,041,085, respectively.

In fiscal year 2007, the Foundation started KIPP Credit Enhancement Program (KCEP) to sustain as well as increase the number of KIPP and KIPP-affiliate charter schools by promoting affordable financing of the acquisition and renovation of school facilities. In the same fiscal year, the Foundation was awarded a federal grant in the amount of \$6,805,891 from the U.S. Department of Education under the Credit Enhancement of Charter School Facilities Program to support KCEP. This grant covers the time period from June 2007 until the Federal Funds and earnings on those funds have been expended for the grant purposes or until financing facilitated by the grant has been retired, whichever is later. The purpose of the funds is to help charter schools gain access to capital from the private sector and other non-Federal sources in order to address their facilities renovation, construction, and acquisition needs. The funds are to be used to leverage the \$6.8 million to secure \$39.6 million in construction loans, permanent loans, leasehold guarantees, letters of credit, and tax exempt bonds. No direct loans will be made using the federal funds. The funds for this grant were drawn down in November 2007 and are included in the consolidated statement of financial position as Government advances - KCEP until the funds are expended to fulfill guarantee obligations (see Note 11) or are returned to the U.S. Department of Education. The Foundation is required to match the \$6.8 million grant by 10%. The grant agreement also restricts the type of investments the funds are to be held in. Interest income earned is reinvested and increases the government advances balance as earned.

KIPP Foundation

Notes to Consolidated Financial Statements

Note 11 - Commitments and Contingencies:

Operating Leases

The Foundation leases its office facilities and certain office equipment in San Francisco, Chicago, New York, and Washington DC under various operating leases expiring at various times through February 2021. The operating leases require minimum monthly rental payments ranging from \$55 to \$50,656. Rent expense totaled approximately \$1 million for the years ended June 30, 2015 and 2014.

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

Years Ending,	
2016	\$ 1,154,468
2017	1,170,340
2018	1,067,543
2019	709,928
2020	719,792
Thereafter	422,912
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Total	\$ 5,244,983

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, 2015 is \$1,590,516 of which \$159,052 are from unrestricted funds, and \$1,431,464 from KIPP Credit Enhancement Program funds. Management determines the carrying value of the Foundation's guarantees based on an estimated payout rate. The estimated carrying amount is included in liabilities in the consolidated statement of financial position, and was \$15,905 and \$29,786 as of June 30, 2015 and 2014, respectively.

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation, which is likely to have a material adverse effect on the consolidated statement of financial position of the Foundation.

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Federal grants administered by the Foundation are subject to audit and final acceptance by the granting agency. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the Foundation management expects such amounts, if any, will not have a significant impact on these consolidated financial statements.

The Foundation has entered into certain agreements totaling approximately \$5.6 million for leadership and training conferences which are to be held during the following two fiscal years.

Note 12 - 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 \$540,512 and \$564,528 for the years ended June 30, 2015 and 2014, respectively.

The Foundation implemented a 457(b) non-qualified deferred compensation plan on October 1, 2014 that covers certain employees.

Note 13 - Related Party Transactions:

The Foundation has received contributions totaling \$8,572,500 and \$7,687,500 from a board member's family and foundations, for the years ended June 30, 2015 and 2014, respectively. There were no contributions receivable from these parties at June 30, 2015 and 2014. In addition, the Foundation incurred amounts of \$264,494 and \$294,786 for services provided by these related parties for the years ended June 30, 2015 and 2014. There were amounts payable to related parties of \$1,528 and \$23,173 at June 30, 2015 and 2014, respectively.

The Foundation has received contributions totaling \$4,032,313 and \$9,690,144 from other board members' families, foundations, and companies at which they sit on the board for the years ended June 30, 2015 and 2014, respectively. Contributions receivable from these parties were \$3,800,000 and \$4,250,000 at June 30, 2015 and 2014, respectively. The Foundation incurred \$117,355 and \$45,011 for services provided by these board members for the years ended June 30, 2015 and June 30, 2014. There were amounts payable to related parties of \$33,022 at June 30, 2015.

KIPP Foundation

Notes to Consolidated Financial Statements

Note 14 - Temporarily Restricted Assets:

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

	2015	2014
School Start up	\$ 4,281,032	\$ 4,496,188
Elementary School Development	2,999,218	1,465,045
KIPP Through College Program	566,615	1,630,989
Student Programs	257,675	965,352
Leadership Development	110,731	3,637,735
Research, Design & Innovation	20,002	1,849,342
KIPP School Summit Sponsorship	-	100,000
Other Programs	529,456	695,809
Time Restrictions	5,694,672	7,309,975
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	\$ 14,459,401	\$ 22,150,435

Note 15 - Net Assets Released From Restrictions:

At June 30, 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:

	2015	2014
Elementary School Development	\$ 5,169,460	\$ 5,380,881
Leadership Development	3,332,853	3,786,600
KIPP School Summit Sponsorship	2,922,500	30,000
Research, Design & Innovation	1,829,341	3,600,877
School Start-Up	1,715,156	2,118,192
KIPP Through College Program	1,642,431	1,475,891
Student Programs	840,678	471,788
Other Programs	2,049,986	686,409
Time Restrictions	11,554,001	8,762,785
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	\$ 31,056,406	\$ 26,313,423