KIPP, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2017 and 2016

KIPP, Inc.

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Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
KIPP, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of KIPP, Inc. (KIPP), which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities and of 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 entity'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 entity'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 as of June 30, 2017 and 2016 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.

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Change in Accounting Principle

As described in Note 2, KIPP adopted Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* and restated its financial statements for June 30, 2016 to retrospectively apply the ASU. Our opinion is not modified with respect to this matter.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017 on our consideration of KIPP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KIPP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KIPP's internal control over financial reporting and compliance.

Blazek & Vetterling

October 10, 2017

KIPP, Inc.

Statements of Financial Position as of June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,026,534	$ 16,962,005
Receivables:		
Government agencies	19,148,078	18,083,111
Pledges *(Note 3)*	914,996	956,749
Other	541,874	1,056,640
Prepaid expenses and other assets	776,603	511,494
Total current assets	47,408,085	37,569,999
Pledges receivable, net *(Note 3)*	41,315	336,521
Investments *(Notes 4 and 5)*	954,119	866,001
Bond proceeds held in trust *(Notes 5 and 7)*	4,326,262	6,199,966
Property and equipment, net *(Note 6)*	181,413,513	172,822,748
TOTAL ASSETS	$ 234,143,294	$ 217,795,235
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,666,618	$ 4,927,398
Accrued payroll expenses	8,849,071	9,854,161
Construction payable	2,442,618	3,566,624
Accrued interest	2,731,863	2,818,911
Deferred revenue		14,097
Current portion of bonds and notes payable *(Note 7)*	5,407,524	5,327,525
Total current liabilities	25,097,694	26,508,716
Bonds and notes payable, net *(Note 7)*	189,217,115	171,424,634
Total liabilities	214,314,809	197,933,350
Commitments *(Note 12)*		
Net assets *(Note 9)*:		
Unrestricted	17,147,880	16,894,894
Temporarily restricted *(Note 8)*	2,490,605	2,776,991
Permanently restricted for scholarships	190,000	190,000
Total net assets	19,828,485	19,861,885
TOTAL LIABILITIES AND NET ASSETS	$ 234,143,294	$ 217,795,235

See accompanying notes to financial statements.

KIPP, Inc.

Statement of Activities for the year ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Government grants *(Note 10)*	$ 133,408,997			$ 133,408,997
Contributions *(Note 11)*	2,781,907	$ 2,145,106		4,927,013
Program service fees	8,976,326			8,976,326
Special events	1,686,000			1,686,000
Cost of direct donor benefits	(111,456)			(111,456)
Investment return, net *(Note 4)*	11,326	91,588		102,914
Other	173,408			173,408
Total operating revenue	146,926,508	2,236,694		149,163,202
Net assets released from restrictions:				
Program expenditures	2,155,974	(2,155,974)		
Expiration of time restrictions	367,106	(367,106)		
Total	149,449,588	(286,386)		149,163,202
OPERATING EXPENSES:				
Program expenses:				
Instructional program	111,949,112			111,949,112
Auxiliary services	18,671,968			18,671,968
Total program expenses	130,621,080			130,621,080
General and administrative	16,325,752			16,325,752
Fundraising	2,249,770			2,249,770
Total operating expenses	149,196,602			149,196,602
CHANGES IN NET ASSETS	252,986	(286,386)		(33,400)
Net assets, beginning of year	16,894,894	2,776,991	$ 190,000	19,861,885
Net assets, end of year	$ 17,147,880	$ 2,490,605	$ 190,000	$ 19,828,485

See accompanying notes to financial statements.

KIPP, Inc.

Statement of Activities for the year ended June 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Government grants *(Note 10)*	$ 120,598,052			$ 120,598,052
Contributions *(Note 11)*	1,657,606	$ 6,335,292		7,992,898
Program service fees	9,400,481			9,400,481
Special events	1,381,579			1,381,579
Cost of direct donor benefits	(128,064)			(128,064)
Investment return, net *(Note 4)*	9,314	13,750		23,064
Other	260,540			260,540
Total operating revenue	133,179,508	6,349,042		139,528,550
Net assets released from restrictions:				
Program expenditures	1,641,096	(1,641,096)		
Capital expenditures	4,108,254	(4,108,254)		
Expiration of time restrictions	127,218	(127,218)		
Total	139,056,076	472,474		139,528,550
OPERATING EXPENSES:				
Program expenses:				
Instructional program	99,757,387			99,757,387
Auxiliary services	16,182,591			16,182,591
Total program expenses	115,939,978			115,939,978
General and administrative	15,222,091			15,222,091
Fundraising	2,048,653			2,048,653
Total operating expenses	133,210,722			133,210,722
CHANGES IN NET ASSETS	5,845,354	472,474		6,317,828
Net assets, beginning of year	11,049,540	2,304,517	$ 190,000	13,544,057
Net assets, end of year	$ 16,894,894	$ 2,776,991	$ 190,000	$ 19,861,885

See accompanying notes to financial statements.

KIPP, Inc.

Statements of Cash Flows for the years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (33,400)	$ 6,317,828
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for expansion of facilities	(25,000)	(4,000,000)
Net realized and unrealized gain on investments	(74,950)	(10,762)
Depreciation	10,611,929	9,420,334
Amortization of bond issuance costs	73,876	73,876
Amortization of bond issuance premiums	(156,200)	(156,200)
Changes in operating assets and liabilities:		
Certificate of deposit		300,000
Receivables	(188,242)	(634,971)
Prepaid expenses and other assets	(265,109)	147,572
Accounts payable and accrued expenses	(265,870)	397,377
Accrued interest	(87,048)	782,558
Deferred revenue	(14,097)	(47,586)
Net cash provided by operating activities	9,575,889	12,590,026
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	157,353	270,602
Purchases of investments	(292,596)	(293,274)
Net change in cash held as investments	122,075	(35,532)
Purchases of property and equipment	(18,452,996)	(8,583,744)
Net cash used by investing activities	(18,466,164)	(8,641,948)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	23,200,000	
Principal repayments of bonds and notes payable	(5,245,196)	(4,704,654)
Proceeds from contributions restricted for expansion of facilities		4,750,000
Net cash provided by financing activities	17,954,804	45,346
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,064,529	3,993,424
Cash and cash equivalents, beginning of year	16,962,005	12,968,581
Cash and cash equivalents, end of year	$ 26,026,534	$ 16,962,005

Supplemental disclosure of cash flow information:

Interest payments	$7,457,511	$6,818,989
Property and equipment acquired with bond proceeds	$1,873,704	$8,627,783

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – KIPP, Inc. (KIPP) operates twenty-five Texas Open-Enrollment Charter Schools under one state charter. The schools are located in Houston, Texas and serve approximately 13,500 students from pre-kindergarten through 12th grade. Additionally, KIPP operates a middle school within Spring Branch Independent School District on a contract basis.

Federal income tax status – KIPP is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii).

Cash equivalents include highly liquid investments with original maturities of three months or less.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows.

Investments in marketable securities are reported at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets.

Capitalized debt issuance costs represent costs incurred related to the issuance of bonds and notes payable and are amortized over the term of the bonds or notes.

Property and equipment is reported at cost if purchased or at fair value at the date of gift if donated. KIPP recognizes depreciation using the straight-line method over the estimated useful lives of the assets, which range from 12 to 39 years for buildings and improvements and 3 to 12 years for furniture, equipment and vehicles. KIPP capitalizes additions and improvements that have a cost of more than $5,000.

Net asset classification – Contributions, interest income and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and interest income restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Interest income may be used to support scholarships.

Government grants are recognized as revenue in the period in which the services are provided. Amounts collected in advance are reported as deferred revenue.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are included in contribution revenue when the conditions are substantially met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted revenue. Absent explicit donor stipulations about how long those long-lived assets must be maintained, KIPP reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Program service fees are recognized in the period in which services are provided.

Contributed services and facilities are recognized at fair value when an unconditional commitment is received from the donor. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will significantly impact the presentation and disclosures of the financial statements. KIPP will adopt this ASU effective for the fiscal year ended June 30, 2019.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

In 2017, KIPP retrospectively adopted ASU 2015-03 *Simplifying the Presentation of Debt Issuance Costs*. This amendment requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. As a result of this adoption, $1,657,393 of capitalized debt issuance costs at June 30, 2016 that had been presented as an asset, were reclassified and netted against the related debt.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are comprised of the following:

	2017	2016
Pledges receivable	$ 994,996	$ 1,306,749
Discount to net present value at 0.45% to 5.00%	(38,685)	(13,479)
Pledges receivable, net	$ 956,311	$ 1,293,270

Pledges receivable at June 30, 2017 are expected to be collected as follows:

Due within one year	$ 914,996
Due in one to five years	80,000
Total pledges receivable	$ 994,996

NOTE 4 – INVESTMENTS AND INVESTMENT RETURN

KIPP invests private funds which consist of the following:

	2017	2016
Equity securities	$ 723,516	$ 559,622
Mortgage-backed securities	176,351	130,052
Cash	54,252	176,327
Total investments	$ 954,119	$ 866,001

Investment return includes earnings on cash and cash equivalents and consists of the following:

	2017	2016
Interest and dividends	$ 27,964	$ 12,302
Realized and unrealized gain	74,950	10,762
Investment return, net	$ 102,914	$ 23,064

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. 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 three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2017 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bond proceeds held in trust:				
U. S. Treasury mutual fund	$ 4,326,262			$ 4,326,262
Investments:				
Equity securities:				
Domestic – large cap	633,771			633,771
International – large cap	89,745			89,745
Mortgage-backed securities		$ 176,351		176,351
Total investments	723,516	176,351		899,867
Total assets measured at fair value	$ 5,049,778	$ 176,351	$ 0	$ 5,226,129

Assets measured at fair value at June 30, 2016 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bond proceeds held in trust:				
U. S. Treasury mutual fund	$ 6,199,966			$ 6,199,966
Investments:				
Equity securities:				
Domestic – large cap	538,871			538,871
International – large cap	20,751			20,751
Mortgage-backed securities		$ 130,052		130,052
Total investments	559,622	130,052		689,674
Total assets measured at fair value	$ 6,759,588	$ 130,052	$ 0	$ 6,889,640

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value of shares held.
- *Equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mortgage-backed securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while KIPP believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	2017	2016
Land	$ 38,110,154	$ 32,743,734
Buildings and improvements	176,833,239	158,180,870
Furniture and equipment	12,943,116	11,341,112
Vehicles	652,616	642,323
Construction in progress	10,750,235	17,178,627
Total property and equipment, at cost	239,289,360	220,086,666
Accumulated depreciation	(57,875,847)	(47,263,918)
Property and equipment, net	$ 181,413,513	$ 172,822,748

NOTE 7 – BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following:

	2017	2016
Series 2015A bonds payable, issued by the City of Houston Higher Education Finance Corporation, including an unamortized premium of $2,669,676 and $2,768,553 and unamortized debt issuance costs of $536,767 and $556,648 at June 30, 2017 and 2016, respectively. The bonds bear interest at rates from 4% to 5% and are due in installments through August 15, 2044. The proceeds were used to defease a portion of the 2006A and the 2009A Series bonds. The bonds are secured by pledged revenues and future operating revenue.	$ 76,262,909	$ 77,221,905
Series 2014A bonds payable, issued by the City of Houston Higher Education Finance Corporation, including an unamortized premium of $1,573,543 and $1,632,922 and unamortized debt issuance costs of $516,184 and $535,663 at June 30, 2017 and 2016, respectively. The bonds bear interest at rates from 2% to 5% and are due in installments through February 15, 2044. The proceeds were used to defease a portion of the 2006A Series bonds, as well as to fund construction. The bonds are secured by real property.	43,222,359	44,522,259
Promissory note entered into with PHILO Finance Corporation on July 1, 2017. The maturity date for the note is August 15, 2021. Interest is payable semi-annually in February and August at 0.0%. The note is unsecured.	23,200,000	
Qualified Zone Academy Bond, Taxable Series 2012, issued by the City of Houston Higher Education Finance Corporation. The Laura and John Arnold Foundation is the third party in the bond agreement, having loaned the funds to the City of Houston Higher Education Finance Corporation. Interest on the bond of 4.19% is paid every six months to the bondholder by the Federal government as part of a federal tax credit bond program. The bond is due August 15, 2035. The proceeds are being used to rehabilitate or repair specified campus facilities and provide school program course materials and training and are secured by pledged revenue.	20,228,974	21,336,423

Qualified Zone Academy Bond, Taxable Series 2010, issued by the City of Houston Higher Education Finance Corporation. PHILO Finance Corporation is the third party in the bond agreement, having loaned the funds to the City of Houston Higher Education Finance Corporation. In December 2012, this bond was sold to The Laura and John Arnold Foundation. Interest on the bond of 5.42% is paid every six months to the bondholder by the Federal government as part of a federal tax credit bond program. The bond is due August 15, 2029. The proceeds are being used to rehabilitate or repair specified campus facilities and provide school program course materials and training and are secured by pledged revenue.	10,932,056	11,806,318
Qualified School Construction Bond, Taxable Series 2010, issued by the City of Houston Higher Education Finance Corporation. PHILO Finance Corporation is the third party in the bond agreement, having loaned the funds to the City of Houston Higher Education Finance Corporation. In December 2012, this bond was sold to The Laura and John Arnold Foundation. Interest on the bond of 5.42% is paid every six months to the bondholder by the Federal government as part of a federal tax credit bond program. The bond is due August 15, 2029. The proceeds are being used for building construction on specified campuses and are secured by pledged revenue.	9,448,327	10,203,898
Qualified School Construction Bond, Taxable Series 2012, issued by the City of Houston Higher Education Finance Corporation. The Laura and John Arnold Foundation is the third party in the bond agreement, having loaned the funds to the City of Houston Higher Education Finance Corporation. Interest on the bond of 4.19% is paid every six months to the bondholder by the Federal government as part of a federal tax credit bond program. The bond is due August 15, 2035. The proceeds are being used for building construction on specified campuses and are secured by pledged revenue.	6,224,071	6,560,502
Qualified School Construction Bond, Taxable Series 2014Q, issued by the City of Houston Higher Education Finance Corporation, net of an unamortized discount of $35,987 and $38,043 and unamortized debt issuance costs of $53,070 and $56,103 at June 30, 2017 and 2016, respectively. Interest on the bond of 4.509% is paid every six months to the bondholder by the Federal government as part of a federal tax credit bond program. The bond is due February 15, 2035. The proceeds are being used for building construction on specified campuses and are secured by assets of KIPP.	5,105,943	5,100,854
Total bonds and notes payable	$ 194,624,639	$ 176,752,159

KIPP capitalized interest of approximately $601,000 in 2017 and $738,000 in 2016. Interest recognized as expense totaled approximately $6,769,000 and $6,864,000 in 2017 and 2016, respectively. The discounts or premiums on the bonds and the capitalized bond issuance costs are being amortized over the lives of the bonds.

The Series 2015A, Series 2014A, and Series 2014Q bonds are guaranteed by the Permanent School Fund of the State of Texas under the Charter District Bond Guarantee Program.

Maturities of bonds and notes payable at June 30, 2017 are as follows:

2018	$ 5,407,524
2019	5,497,524
2020	5,587,524
2021	5,702,524
2022	29,022,524
Thereafter	143,407,019
Total	$ 194,624,639

Bond proceeds held in trust are held primarily in money market mutual funds and include the following:

	2017	2016
Escrowed for debt service	$ 4,024,027	$ 3,737,374
Bond funds available for projects	302,235	2,462,592
Total bond proceeds held in trust	$ 4,326,262	$ 6,199,966

KIPP has a $9,000,000 line of credit with a financial institution that expires in June 2018 and a $1,500,000 line of credit with Charter School Growth Fund that expires in December 2021. There were no draws on these lines of credit during the years ended June 30, 2017 and 2016. There were no amounts outstanding under these lines of credit at June 30, 2017.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
KIPP scholarships	$ 732,607	$ 709,641
Administrative costs – Government Affairs Grant	349,100	382,190
KIPP future operations	287,493	596,274
KIPP Climb Academy	247,211	250,000
Teacher recruitment	222,140	222,140
KIPP through college	208,420	28,776
Wellness	108,834	222,605
Drop-out prevention	80,000	
Athletics	46,252	29,385
KIPP Nexus	40,000	
Professional and curriculum development	34,698	34,698
Family assistance	27,607	57,621
STEM programs	21,691	96,707
Summer internships for students	16,579	31,440
KAMS redesign	15,694	
Playground at KIPP Connect	14,950	15,725
Blended Learning grant	5,536	38,077
Technology purchases	4,758	20,163
Other	27,035	41,549
Total temporarily restricted net assets	$ 2,490,605	$ 2,776,991

NOTE 9 – ENDOWMENT FUNDS

KIPP is subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). The Board of Directors of KIPP has interpreted TUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, KIPP classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by KIPP in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, KIPP considers the following factors in making a determination to appropriate accumulated donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of KIPP and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of KIPP
- The investment policies of KIPP

Changes in endowment net assets are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, July 1, 2015	$ 0	$ 303,337	$ 190,000	$ 493,337
Contributions		57,323		57,323
Interest and dividends		16,300		16,300
Unrealized loss		(2,550)		(2,550)
Appropriation for distribution		(17,705)		(17,705)
Endowment net assets, June 30, 2016	0	356,705	190,000	546,705
Interest and dividends		16,638		16,638
Unrealized gain		74,950		74,950
Appropriation for distribution		(24,037)		(24,037)
Endowment net assets, June 30, 2017	$ 0	$ 424,256	$ 190,000	$ 614,256

Investment and Spending Policies

KIPP has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment in such a manner as to preserve and enhance the net asset value. The endowment funds consist of contributions that are permanently restricted by the donor, as well as temporarily restricted by the donor. Distributions are determined annually by the Superintendent.

NOTE 10 – GOVERNMENT GRANTS

KIPP is the recipient of government grants from various federal, state and local agencies. Government grants include the following:

	2017	2016
State grants:		
Texas Education Agency Foundation School Program Act	$ 111,969,604	$ 102,735,761
Textbook and Kindergarten Materials	1,566,797	1,119,444
Pre-Kindergarten	631,309	
School Lunch Matching	38,428	36,201
Total state grants	114,206,138	103,891,406
Federal grants:		
U. S. Department of Education	10,433,202	9,340,770
U. S. Department of Agriculture	8,769,657	7,365,285
U. S. Department of Health and Human Services		591
Total federal grants	19,202,859	16,706,646
Total government grants	$ 133,408,997	$ 120,598,052

The grants from government funding sources require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by KIPP with the terms of the contracts. Management believes such disallowances, if any, would not be material to KIPP's financial position or changes in net assets.

NOTE 11 – PHILO FINANCE CORPORATION

PHILO Finance Corporation (PHILO) is a separate, independent §501(c)(3) nonprofit organization organized to assist public charter schools with obtaining financing, including providing below-market loans. KIPP's Co-Founder is on the Board of Directors of PHILO. KIPP participated in several transactions with PHILO related to the financing of KIPP's capital expansion program, *KIPP Turbo*.

In 2017 and 2016, respectively, PHILO contributed a total of $1,355,000 and $210,000 to KIPP for unrestricted purposes. These amounts are included in unrestricted contributions in the statements of activities and represent 21% and 3% of total contributions in 2017 and 2016, respectively. Additionally, as reported in Note 7, PHILO made a $23,200,000 unsecured, non-interest bearing loan to KIPP during 2017.

NOTE 12 – COMMITMENTS

Construction commitments – In 2017 and 2016, KIPP entered into several contracts totaling approximately $8 million for construction projects at certain schools. As of June 30, 2017, outstanding commitments totaled approximately $2,154,000.

NOTE 13 – EMPLOYEE BENEFIT PLANS

KIPP offers a §403(b) retirement plan and a §457 deferred compensation plan to all employees in their third school year of employment. KIPP matches 100% of employee contributions to the plan up to a maximum of $1,200 per employee, per year. KIPP also makes deferred compensation payments into the plan for senior employees. KIPP contributed approximately $472,000 to the plans in 2017 and $357,000 in 2016.

Health benefits – KIPP is self-insured for health benefits. Under this plan, health benefit claims are the responsibility of KIPP subject to a maximum on a per-employee and aggregate basis based on the number of employees currently covered. KIPP maintains a stop-loss policy (up to $1 million) that becomes effective when claims aggregate to a predetermined amount based on 125% of expected claims. KIPP has recorded an accrued liability of approximately $762,000 and $520,000 in the accompanying statements of financial position for its share of claims arising from incidents occurring on or before June 30, 2017 and 2016, respectively.

NOTE 14 – MULTIEMPLOYER PENSION PLAN

KIPP's full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multiemployer, defined benefit pension plan. All risks and costs are not shared by KIPP, but are the liability of the State of Texas. For 2017, plan members contribute 7.7% of their annual covered salary, KIPP contributes 6.8% for new TRS members the first 90 days of employment, and the State of Texas contributes 6.8%. Additionally, KIPP makes a 1.5% non-OASDI payment on all TRS eligible employees. KIPP's contributions do not represent more than 5% of the pension plan's total contributions. KIPP contributed $2,274,219 and $2,073,693 to the plan during fiscal years 2017 and 2016, respectively, equal to the required contribution for each year.

The risks of participating in a multiemployer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Total TRS plan assets as of August 31, 2016 and 2015 were $152.9 billion and $149.8 billion, respectively. Accumulated benefit obligations as of August 31, 2016 and 2015 were $171.8 billion and $163.9 billion, respectively. The plan was 79.70% funded at August 31, 2016 and 83.25% funded at August 31, 2015.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 10, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.