KIPP, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2013 and 2012

KIPP, Inc.

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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) as of June 30, 2013 and 2012 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, 2013 and 2012 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.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013 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 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 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 29, 2013

KIPP, Inc.

Statements of Financial Position as of June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents *(Note 2)*	$ 8,502,127	$ 7,690,223
Receivables:		
Government agencies	15,977,208	14,688,117
Pledges, net *(Note 3)*	465,465	839,791
Other	861,105	1,032,677
Prepaid expenses	446,104	497,794
Total current assets	26,252,009	24,748,602
Investments in certificates of deposit	300,000	300,000
Pledges receivable, net *(Note 3)*	511,887	664,511
Capitalized bond issuance costs	3,663,740	3,205,296
Bond proceeds held in trust *(Note 5)*	31,288,511	12,731,572
Property and equipment, net *(Note 4)*	133,283,463	121,856,439
TOTAL ASSETS	$ 195,299,610	$ 163,506,420
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,626,862	$ 4,426,361
Accrued payroll expenses	7,966,553	6,864,303
Due to PHILO Finance Corporation	532	170,310
Construction payable	3,698,525	1,514,245
Accrued interest	3,226,647	2,607,129
Refundable advances	141,004	101,656
Current portion of bonds and notes payable *(Notes 5 and 10)*	1,191,142	6,138,452
Total current liabilities	21,851,265	21,822,456
Bonds and notes payable *(Note 5)*	147,874,979	119,649,524
Total liabilities	169,726,244	141,471,980
Commitments *(Note 12)*		
Net assets *(Note 8)*:		
Unrestricted	23,170,088	17,467,175
Temporarily restricted *(Note 7)*	2,213,278	4,377,265
Permanently restricted for scholarships	190,000	190,000
Total net assets	25,573,366	22,034,440
TOTAL LIABILITIES AND NET ASSETS	$ 195,299,610	$ 163,506,420

See accompanying notes to financial statements.

KIPP, Inc.

Statement of Activities for the year ended June 30, 2013

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Government grants *(Note 9)*	$ 79,130,691			$ 79,130,691
Contributions *(Note 10)*	2,931,687	$ 7,588,408		10,520,095
Program service fees	9,222,581			9,222,581
Special events	1,177,341			1,177,341
Cost of direct donor benefits	(128,865)			(128,865)
Interest income	6,313	2,273		8,586
Other	186,308			186,308
Total revenue	92,526,056	7,590,681		100,116,737
Net assets released from restrictions:				
Program expenditures	2,251,112	(2,251,112)		
Capital expenditures and debt repayment	7,268,556	(7,268,556)		
Expiration of time restrictions	235,000	(235,000)		
Total	102,280,724	(2,163,987)		100,116,737
EXPENSES:				
Program expenses:				
Instructional program	69,438,859			69,438,859
Auxiliary services	11,075,275			11,075,275
Total program expenses	80,514,134			80,514,134
General and administrative	14,496,603			14,496,603
Fundraising	1,562,074			1,562,074
Total expenses	96,572,811			96,572,811
Transfer of funds to PHILO Finance Corporation *(Note 10)*	5,000			5,000
Total expenses and other reductions	96,577,811			96,577,811
CHANGES IN NET ASSETS	5,702,913	(2,163,987)		3,538,926
Net assets, beginning of year	17,467,175	4,377,265	$ 190,000	22,034,440
Net assets, end of year	$ 23,170,088	$ 2,213,278	$ 190,000	$ 25,573,366

See accompanying notes to financial statements.

KIPP, Inc.

Statement of Activities for the year ended June 30, 2012

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Government grants *(Note 9)*	$ 69,950,746			$ 69,950,746
Contributions	4,114,338	$ 2,393,684		6,508,022
Program service fees	6,873,113			6,873,113
Special events	1,175,944			1,175,944
Cost of direct donor benefits	(140,096)			(140,096)
Interest income	13,445	5,652		19,097
Other	312,531			312,531
Total revenue	82,300,021	2,399,336		84,699,357
Net assets released from restrictions:				
Program expenditures	1,832,703	(1,832,703)		
Capital expenditures	72,729	(72,729)		
Expiration of time restrictions	125,000	(125,000)		
Total	84,330,453	368,904		84,699,357
EXPENSES:				
Program expenses:				
Instructional program	56,792,828			56,792,828
Auxiliary services	10,450,373			10,450,373
Total program expenses	67,243,201			67,243,201
General and administrative	12,492,568			12,492,568
Fundraising	1,328,582			1,328,582
Total expenses	81,064,351			81,064,351
Transfer of funds to PHILO Finance Corporation *(Note 10)*	23,400			23,400
Total expenses and other reductions	81,087,751			81,087,751
CHANGES IN NET ASSETS	3,242,702	368,904		3,611,606
Net assets, beginning of year	14,224,473	4,008,361	$ 190,000	18,422,834
Net assets, end of year	$ 17,467,175	$ 4,377,265	$ 190,000	$ 22,034,440

See accompanying notes to financial statements.

KIPP, Inc.

Statements of Cash Flows for the years ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 3,538,926	$ 3,611,606
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for expansion of facilities	(3,000,000)	
Contributions restricted for repayment of loan	(2,906,540)	
Donated land		(1,100,000)
Depreciation	5,488,358	3,866,422
Amortization of bond issuance costs	134,980	117,169
Amortization of bond issuance discounts	243,092	36,271
Changes in operating assets and liabilities:		
Receivables	(595,569)	(3,814,982)
Prepaid expenses	51,690	53,526
Accounts payable and accrued expenses	2,302,751	1,810,694
Due to PHILO Finance Corporation	(169,778)	(2,493,833)
Accrued interest	619,518	(22,029)
Refundable advances	39,348	26,471
Net cash provided by operating activities	5,746,776	2,091,315
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(14,731,102)	(11,126,850)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bond proceeds held in trust	(18,556,939)	8,799,847
Proceeds from bonds and notes payable	29,209,775	
Principal repayments of bonds and notes payable	(6,174,722)	(4,739,852)
Capitalized bond issuance costs	(593,424)	
Proceeds from contributions restricted for expansion of facilities	3,005,000	
Proceeds from contributions restricted for repayment of loan	2,906,540	10,000
Net cash provided by financing activities	9,796,230	4,069,995
NET CHANGE IN CASH AND CASH EQUIVALENTS	811,904	(4,965,540)
Cash and cash equivalents, beginning of year	7,690,223	12,655,763
Cash and cash equivalents, end of year	$ 8,502,127	$ 7,690,223

Supplemental disclosure of cash flow information:		
Interest payments	$7,143,282	$6,916,062
Property and equipment purchased with debt to PHILO Finance Corporation		$4,793,827

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – KIPP, Inc. (KIPP) operates nineteen Texas Open-Enrollment Charter Schools under two state charters. The schools are located in Houston, Texas and serve approximately 7,700 students from pre-kindergarten through 12th grade. Additionally, KIPP operates an elementary school and a middle school within Galveston Independent School District and 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). KIPP files annual federal information returns that are subject to routine examinations; however, there are no examinations for any tax periods currently in progress. KIPP believes it is no longer subject to examinations of returns for tax years ended before June 30, 2010.

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.

Capitalized bond 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 vehicles and equipment. 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 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 general operations.

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

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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2013	2012
Demand deposits	$ 7,471,427	$ 5,733,961
Money market mutual funds	1,030,700	1,956,262
Total cash and cash equivalents	$ 8,502,127	$ 7,690,223

Bank deposits exceed the federally insured limit per depositor per institution. Through December 2012, non-interest bearing accounts had unlimited protection per the Transaction Account Guarantee program of the Federal Deposit Insurance Corporation (FDIC). After that time, all deposit accounts are insured by the FDIC up to $250,000 per institution.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are comprised of the following:

	2013	2012
Pledges receivable	$ 1,019,465	$ 1,569,791
Discount to net present value at 1% to 3.55%	(42,113)	(65,489)
Pledges receivable, net	$ 977,352	$ 1,504,302

Pledges receivable at June 30, 2013 are expected to be collected as follows:

Due within one year	$ 465,465
Due in one to five years	554,000
Total pledges receivable	$ 1,019,465

KIPP received a conditional pledge for approximately $1.9 million from a foundation with payments contingent upon meeting certain milestones and conditions. At June 30, 2013, the conditional pledge outstanding totaled approximately $618,000.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	2013	2012
Land	$ 30,013,078	$ 29,549,775
Buildings and improvements	100,598,915	88,993,287
Vehicles and equipment	6,724,090	5,449,550
Construction in progress	18,964,061	15,392,150
Total property and equipment, at cost	156,300,144	139,384,762
Accumulated depreciation	(23,016,681)	(17,528,323)
Property and equipment, net	$ 133,283,463	$ 121,856,439

NOTE 5 – BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following:

	2013	2012
Series 2009A bonds payable, issued by La Vernia Higher Education Finance Corporation, net of unamortized discount of $929,654 at June 30, 2013 and $960,404 at June 30, 2012. The bonds bear interest at rates from 4% to 6.4% and are due in installments through August 15, 2044. The proceeds were used to refinance certain existing obligations and to fund construction, debt service, and debt service reserve. The bonds are secured by real property and are guaranteed by PHILO Finance Corporation.	$ 64,245,346	$ 64,214,596
Series 2006A bonds payable, issued by Texas Public Finance Authority Charter School Finance Corporation; interest at rates ranging from 4% to 5%; due in installments through February 15, 2036. The proceeds were used to refinance certain existing obligations and to fund construction, debt service, and debt service reserve. The bonds are secured by real property.	32,585,000	32,865,000
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.	22,477,775	

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.	12,345,000	12,345,000
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 were used for building construction on specified campuses and are secured by pledged revenue.	10,681,000	10,681,000
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 campus and are secured by pledged revenue.	6,732,000	
Uncollateralized, non-interest bearing note payable to PHILO Finance Corporation due December 31, 2012.		5,004,721
Series 2009B bonds payable issued by La Vernia Higher Education Finance Corporation, net of unamortized discount of $212,341 at June 30, 2012. The bonds bear interest at rates from 4.9% to 6.4% and are due in installments through August 15, 2013. The proceeds were used to refinance certain existing obligations and to fund construction, debt service, and debt service reserve. The bonds are secured by real property and are guaranteed by PHILO Finance Corporation.		677,659
Total bonds and notes payable	$ 149,066,121	$ 125,787,976

KIPP capitalized interest of approximately $311,000 in 2013 and $320,000 in 2012. Interest expense totaled approximately $7,452,000 and $6,883,000 in 2013 and 2012, respectively. The discount on the bonds is being amortized over the lives of the bonds. Imputed interest expense of approximately $18,000 and $56,000 was reported in the accompanying statement of activities for the years ended June 30, 2013 and 2012, respectively.

The Texas Public Finance Authority, under the Texas Credit Enhancement Program for Charter Schools, provided a $2 million guarantee for the Series 2009A and Series 2006A bonds issued in 2010 and 2007, respectively.

Maturities of bonds and notes payable at June 30, 2013 are as follows:

2014	$ 1,191,142
2015	1,290,297
2016	2,887,899
2017	4,515,500
2018	4,580,500
Thereafter	134,600,783
Total	$ 149,066,121

KIPP had a $3,000,000 line of credit with a financial institution that expired in August 2013. No draws were outstanding at June 30, 2013.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of significant financial instruments, including cash and cash equivalents, pledges receivable, bond proceeds held in trust and other short-term assets and liabilities approximates fair value as of June 30, 2013 and 2012. The fair value of bonds and notes payable at June 30, 2013 carried at $149,066,121 was $149,023,275. The fair value of bonds and notes payable at June 30, 2012 carried at $125,787,976 was $137,388,863.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2013	2012
KIPP scholarships	$ 577,179	$ 634,284
KIPP future operations	507,887	719,511
Teacher recruitment	337,140	357,140
College Readiness Model	228,157	38,762
Administrative costs – Government Affairs Grant	178,290	125,000
Northeast High School future operations	150,816	
KIPP Turbo expansion	100,000	1,362,016
Courage future operations	47,755	154,000
KIPP through college	39,575	98,459
STEM lab and teacher development		348,024
Teacher excellence awards		180,000
Peace & Generation future operations		147,197
Sunnyside future operations		119,761
Other	46,479	93,111
Total temporarily restricted net assets	$ 2,213,278	$ 4,377,265

NOTE 8 – 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, 2011	$ 0	$ 210,000	$ 190,000	$ 400,000
Interest		5,652		5,652
Appropriation for distribution		(5,652)		(5,652)
Endowment net assets, June 30, 2012	0	210,000	190,000	400,000
Contribution		100,000		100,000
Interest		2,273		2,273
Appropriation for distribution		(2,273)		(2,273)
Endowment net assets, June 30, 2013	$ 0	$ 310,000	$ 190,000	$ 500,000

Spending Policies and Return Objectives

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. KIPP expects its endowment funds, over time, to provide an average annual rate-of-return of 5%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, KIPP relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Distributions are determined annually by the Superintendent.

NOTE 9 – GOVERNMENT GRANTS

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

	2013	2012
State grants:		
Texas Education Agency Foundation School Program Act	$ 64,403,781	$ 55,194,018
Textbook and Kindergarten Materials	270,678	93,424
Expanding 3E (Texas Department of Agriculture)	50,003	
School Lunch Matching	25,090	24,436
Texas Science, Technology, Engineering, and Math Initiative		308,741
SSI Intensive Math Initiative		76,177
Pre-K Expansion Grant		53,817
Teacher Excellence Awards		49,883
Texas Fitness Now		12,080
Total state grants	64,749,552	55,812,576
Federal grants:		
U. S. Department of Education	9,770,456	9,938,799
U. S. Department of Agriculture	4,610,683	4,199,371
Total federal grants	14,381,139	14,138,170
Total government grants	$ 79,130,691	$ 69,950,746

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 10 – 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 superintendent 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*.

KIPP's Board of Directors authorized a transfer to PHILO of up to $55,000,000 raised in connection with *KIPP Turbo.* KIPP transferred approximately $5,000 and $23,000 of *KIPP Turbo* funds raised in 2013 and 2012, respectively. These transactions are reported in the statements of activities as transfers to PHILO. As of June 30, 2013, KIPP has transferred a cumulative amount of $29,578,000 to PHILO.

In 2013, PHILO contributed a total of $5,906,540 to KIPP for capital projects and repayment of debt. This amount is included in temporarily restricted contributions on the statement of activities and represents 56% of total contributions.

During 2012, PHILO made land and building purchases and building construction expenditures on behalf of KIPP totaling approximately $4,800,000. Approximately $3,625,000 in 2012 was repaid to PHILO. In 2012, PHILO stopped making construction-related expenditures on behalf of KIPP, and KIPP fully paid down the note to PHILO. The net amounts owed to PHILO by KIPP at June 30, 2012 are reported as bonds and notes payable.

NOTE 11 – LEASE COMMITMENTS

KIPP leases office space and certain equipment under noncancellable operating leases. Future minimum lease payments are due as follows:

2014	$ 304,992
2015	240,873
2016	141,434
2017	77,059
2018	987
Total	$ 765,345

Rental expense was approximately $1,040,000 and $773,000 in 2013 and 2012, respectively.

NOTE 12 – CONSTRUCTION COMMITMENTS

In 2013 and 2012, KIPP entered into several contracts totaling approximately $11.2 million for construction projects at certain schools. As of June 30, 2013, outstanding commitments totaled approximately $3.4 million.

NOTE 13 – RELATED PARTY TRANSACTION

In 2013 and 2012, approximately $585,000 and $66,000 was paid for travel services to a company that is owned by an immediate family member of a KIPP employee.

NOTE 14 – 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 up to a maximum of $1,200 per employee per year. KIPP contributed approximately $203,000 to these plans in 2013. No contribution was made in 2012.

KIPP's full-time employees participate in the Teacher Retirement System of Texas, a public employee retirement system. It is a cost-sharing, multiple employer defined benefit pension plan. All risks and costs are the responsibility of the State of Texas, with the exception of KIPP's required contributions for certain categories of teachers. Plan members contribute 6.5% of their annual covered salary. KIPP contributed $903,072 and $798,571 to the plan during 2013 and 2012, respectively.

Health benefits – Beginning in December 2010, KIPP became 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 $429,000 in the accompanying statements of financial position for its share of claims arising from incidents occurring on or before June 30, 2013.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 29, 2013, 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.