

KIPP ADMINISTRATIVE SERVICES CORPORATION

**FINANCIAL STATEMENTS
JUNE 30, 2023**

KIPP ADMINISTRATIVE SERVICES CORPORATION

Contents
June 30, 2023

	<u>Pages</u>
Independent Auditor’s Report	1 - 1A
Financial Statements:	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Statement of Functional Expenses	5
Notes to Financial Statements	6 - 17

Independent Auditor's Report

To the Board of Directors of
KIPP Administrative Services Corporation:

Opinion

We have audited the financial statements of KIPP Administrative Services Corporation (a Pennsylvania nonprofit corporation) (the Corporation), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KIPP Administrative Services Corporation as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

AAFCPA, Inc.

Westborough, Massachusetts
December 13, 2023

KIPP ADMINISTRATIVE SERVICES CORPORATION

Statement of Financial Position
June 30, 2023

Assets

Current Assets:

Cash and cash equivalents	\$ 313,849
Current portion of grants and pledges receivable	1,139,376
Lease receivable	203,967
Due from related parties	9,616,719
Prepaid expenses	30,499
Total current assets	<u>11,304,410</u>

Grants and Pledges Receivable, net of current portion	398,478
Property and Equipment, net	37,595
Right-of-Use Assets - Operating, net	1,864,618
Right-of-Use Asset - Finance	23,411
Total assets	<u><u>\$ 13,628,512</u></u>

Liabilities and Net Assets

Current Liabilities:

Current portion of notes payable	\$ 208,839
Accounts payable	362,706
Current portion of operating lease liabilities	735,145
Current portion of finance lease liability	11,724
Due to related parties	4,503,496
Accrued liabilities	147,335
Conditional advances	71,600
Deferred revenue	30,132
Total current liabilities	<u>6,070,977</u>

Operating Lease Liabilities, net of current portion	1,337,340
Notes Payable, net of current portion	10,271
Finance Lease Liability, net of current portion	12,019
Total liabilities	<u>7,430,607</u>

Net Assets:

Without donor restrictions	4,927,599
With donor restrictions	1,270,306
Total net assets	<u>6,197,905</u>

Total liabilities and net assets	<u><u>\$ 13,628,512</u></u>
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KIPP ADMINISTRATIVE SERVICES CORPORATIONStatement of Activities and Changes in Net Assets
For the Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Support and Revenues:			
Revenue from services rendered - management services	\$ 6,213,084	\$ -	\$ 6,213,084
Contributions and grants	1,174,842	1,319,009	2,493,851
Rental income	610,967	-	610,967
Other revenue	41,495	-	41,495
Net assets released from restrictions	2,205,579	(2,205,579)	-
	<u>10,245,967</u>	<u>(886,570)</u>	<u>9,359,397</u>
Operating Expenses:			
Program services	6,263,668	-	6,263,668
Management and general	3,198,120	-	3,198,120
Fundraising	464,270	-	464,270
	<u>9,926,058</u>	<u>-</u>	<u>9,926,058</u>
Changes in net assets from operations	319,909	(886,570)	(566,661)
Non-operating Revenue:			
Debt forgiveness income	200,000	-	200,000
Changes in net assets	519,909	(886,570)	(366,661)
Net Assets:			
Beginning of year, as restated	<u>4,407,690</u>	<u>2,156,876</u>	<u>6,564,566</u>
End of year	<u>\$ 4,927,599</u>	<u>\$ 1,270,306</u>	<u>\$ 6,197,905</u>

KIPP ADMINISTRATIVE SERVICES CORPORATIONStatement of Cash Flows
For the Year Ended June 30, 2023

Cash Flows from Operating Activities:

Changes in net assets	\$ (366,661)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation and amortization	46,753
Change in operating right-of-use assets and lease liabilities	(63,333)
Change in discount on grants and pledges receivable	77,931
Debt forgiveness income	(200,000)
Changes in operating assets and liabilities:	
Grants and pledges receivable	538,292
Lease receivable	103,991
Due from related parties	(2,814,215)
Prepaid expenses	59,046
Accounts payable	275,665
Due to related parties	592,055
Accrued liabilities	50,154
Conditional advances	71,600
	<hr/>
Net cash used in operating activities	(1,628,722)

Cash Flows from Investing Activities:

Proceeds from sale of property and equipment	<hr/> 254,459
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Cash Flows from Financing Activities:

Principal payments on finance lease	(11,500)
Payments on notes payable	<hr/> (9,548)
	<hr/>
Net cash used in financing activities	(21,048)

Net Change in Cash and Cash Equivalents

(1,395,311)

Cash and Cash Equivalents:

Beginning of year	<hr/> 1,709,160
End of year	<hr/> <hr/> \$ 313,849

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest	<hr/> <hr/> \$ 729
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KIPP ADMINISTRATIVE SERVICES CORPORATIONStatement of Functional Expenses
For the Year Ended June 30, 2023

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Operating Expenses:				
Employee wages	\$ 3,186,560	\$ 1,447,186	\$ 216,375	\$ 4,850,121
Employee benefits and payroll taxes	807,809	354,043	44,410	1,206,262
Professional fees and services	461,063	520,503	68,643	1,050,209
Occupancy	339,726	321,258	53,543	714,527
Subawards to related organizations	750,000	-	-	750,000
Supplies and materials	196,405	191,144	29,539	417,088
Accounting and audit service fees	146,576	146,576	24,429	317,581
Scholarships and awards	136,879	229	41	137,149
Training and staff development	39,779	82,101	5,529	127,409
Travel expenses	86,703	28,611	4,094	119,408
Insurance	40,926	40,926	6,821	88,673
Litigation and legal service fees	37,123	37,123	6,187	80,433
Depreciation and amortization	21,579	21,578	3,596	46,753
Printing and publications	9,955	4,092	660	14,707
Bank and other fees	1,575	1,575	262	3,412
Interest expense	755	756	126	1,637
Postage and shipping	255	419	15	689
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	<u>\$ 6,263,668</u>	<u>\$ 3,198,120</u>	<u>\$ 464,270</u>	<u>\$ 9,926,058</u>

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

1. OPERATIONS AND NONPROFIT STATUS

KIPP Administrative Services Corporation (the Corporation or KIPP Admin) is a corporation organized in 2011 under the nonprofit laws of the Commonwealth of Pennsylvania. The Corporation is organized for the purpose of awarding scholarships and grants, including educational improvement grants to public elementary and secondary schools in Pennsylvania and to provide business and administrative support to KIPP schools in the Philadelphia area. Revenues are primarily derived from contributions, grants, other fundraising revenue, and administrative service fees.

Nonprofit Status

The Corporation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Corporation is also exempt from state income taxes. Donors may deduct contributions made to the Corporation within IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Corporation prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Recently Adopted Accounting Pronouncement

FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statement of financial position. The Corporation adopted the ASU using the modified retrospective transition approach as of July 1, 2022. The Corporation elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Corporation to carry forward the historical lease classification as operating or capital leases.

On July 1, 2022, due to the adoption of Topic 842, the Corporation recorded operating right-of-use lease assets and operating lease liabilities of \$2,464,291 and \$2,735,491, respectively, with differences in amounts resulting from the beginning deferred rent balance.

Estimates

The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

The Corporation follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Corporation would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The Corporation uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Corporation. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset, either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Grants and Pledges Receivable

Grants and pledges receivable generally consist of unconditional promises received from donors. Contributions and grants that are expected to be collected within one year are recorded at net realizable value. Contributions and grants to be collected or paid after one year are discounted at the net present value of future cash receipts. Management determines the allowance for uncollectible contributions and grants based on management's estimate of realization of the underlying contributions and grants. Individual contributions or grants are written off when deemed uncollectible. There was no allowance for doubtful accounts as of June 30, 2023. See Note 3 for grants and pledges receivable as of June 30, 2023.

Property and Equipment

All capital assets are capitalized at cost and updated for additions and retirements during the year. The Corporation does not possess any infrastructure. Improvements are capitalized with a value in excess of \$1,500; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	Life of lease
Machinery and equipment	3 - 5 years

Net Asset Classifications

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Corporation.

Net assets with donor restrictions consist of grants and contributions that are designated by donors for specific purposes or for a specified time. These contributions are recorded as net assets with donor restrictions until they are expended for their designated purposes, or the time restrictions have lapsed.

Net assets with donor restrictions consist of the following restrictions at June 30, 2023:

Purpose restricted:	
Educational programs	\$ 518,237
Specific salaries and positions	<u>75,000</u>
Total purpose restricted	593,237
Time restricted	<u>677,069</u>
	<u>\$ 1,270,306</u>

The Corporation reported net assets released from restrictions as follows for the fiscal year ended June 30:

Purpose restrictions	\$ 1,829,579
Time restrictions	<u>376,000</u>
	<u>\$ 2,205,579</u>

Revenue Recognition

Revenue from Services Rendered - Management Services

The Corporation provides comprehensive educational and operational management services, including without limitations human resources, recruiting, operations, finance, technology, instructional support and instructional management services, and personnel to meet its administrative and instruction requirements. For KIPP Philadelphia Schools, the administrative fee is 12% of the revenue as defined in the academic and services agreement (see Note 11). These services are continuously provided over the fiscal year and, therefore, the revenue is recognized over the twelve-month period.

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Revenue from Services Rendered - Management Services (Continued)

In accordance with FASB's ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, the Corporation uses a five-step model for recognizing and measuring revenue from contracts with customers, which includes 1) identifying the contract with the customer, 2) identifying the performance obligation(s) promised within the contract, 3) determining the transaction price (the amount of consideration to which the Corporation expects to be entitled), 4) allocating the transaction price to the performance obligation(s), and 5) recognizing revenue when (or as) the performance obligation(s) are satisfied.

The Corporation assesses the contract term as the period in which the parties to the contract have presently enforceable rights and obligations. The contract term can differ from the stated term in contracts that include certain termination or renewal rights, depending on whether there are penalties associated with those rights. Customer contracts generally are standardized and non-cancellable for the duration of the stated contract term. Because the Corporation's performance obligations relate to contracts with a duration of less than one year, the Corporation elected to apply the optional exemption provided in Topic 606. Therefore, it is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Fees collected in advance of the services being provided are initially recorded as deferred revenue (contract liabilities) and are recognized as revenue as the services are provided. The Corporation had deferred revenue of \$30,132 as of June 30, 2023. There was no deferred revenue as of June 30, 2022.

Grants and Contributions

In accordance with ASC Subtopic 958-605, *Revenue Recognition*, the Corporation must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barriers or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Corporation should not consider probability of compliance with the barrier when determining if such awards are conditional. Assets received before the barrier is overcome are accounted for as conditional advances (see Note 8).

Grants and contributions without donor restrictions are recorded as revenue when received or unconditionally committed. Grants and contributions with donor restrictions are recorded as net assets with donor restrictions when received or unconditionally committed. Transfers are made to net assets without donor restrictions as costs are incurred, program restrictions have been met, or time restrictions have lapsed. Donor restricted grants and contributions received and satisfied in the same period are included in net assets without donor restrictions.

All other revenue is recorded when it is earned.

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

The Corporation determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be a lease or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The Corporation determines such assets are leased because the Corporation has the right to obtain substantially all of the economic benefits from and the right to direct the use of the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of its right to substitute the asset are not considered to be or contain a lease because the Corporation determines it does not have the right to control and direct the use of the identified asset. The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating its contracts, the Corporation separately identifies lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office buildings, apartments and vehicles. The Corporation has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Corporation determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Corporation uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Corporation uses the risk-free rate at lease commencement date to determine the present value of lease payments.

The lease term may include options to extend or to terminate the lease that the Corporation is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Corporation has elected not to record leases with an initial term of twelve months or less on the statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term. There were no short-term leases as of June 30, 2023.

Expense Allocation

The Corporation allocates expenses on a functional basis among its program and supporting services. Supporting services are those related to operating and managing the Corporation and its programs on a day-to-day basis. Expenses are composed of the following:

Program Services: Includes all activities related to educational programming, including the existence and maintenance of school facilities and operations.

Management and General: Includes all activities related to the Corporation's internal management and accounting for program services.

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation (Continued)

Fundraising: Includes activities related to maintaining contributor information, writing grant proposals, distribution of materials, and other similar projects related to the procurement of funds for the Corporation's programs.

Directly identifiable expenses are charged to programs and supporting activities. Expenses related to more than one function are allocated across program and supporting services based on estimates of time and effort expended. Program expenses constitute those related to educational programming, including the existence and maintenance of school facilities and operations. Administrative expenses constitute fees and activities, or school operational activity, but that are indispensable to the conduct of those activities and to the Corporation's existence. Fundraising expenses are those that are directly related to the development function at the Corporation.

Statement of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of the Corporation's operations are reported as either operating revenue and support or operating expenses in the accompanying statement of activities and changes in net assets. Non-operating revenue includes debt forgiveness income.

Advertising Expense

The Corporation's policy is to expense advertising costs as incurred. Advertising expense was \$4,631 for the year ended June 30, 2023, which is included in printing and publications in the accompanying statement of functional expenses.

Income Taxes

The Corporation accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Corporation has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements as of June 30, 2023. The Corporation's informational returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through December 13, 2023, which is the date the financial statements were available to be issued. There were no events that met the criteria for subsequent event disclosure, with the exception of the item disclosed in Note 6.

3. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable are expected to be received as follows at June 30, 2023:

Due within one year	\$ 1,139,376
Due within two to five years	<u>490,000</u>
	1,629,376
Less - unamortized discount	(91,522)
Less - current portion	<u>(1,139,376)</u>
Grants and pledges receivable, net	<u>\$ 398,478</u>

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

3. GRANTS AND PLEDGES RECEIVABLE (Continued)

The present value discount was calculated using a discount factor, which was 5.50% at June 30, 2023. Approximately 87% of the Corporation's grants and pledges receivable are due from three donors as of June 30, 2023. Approximately 100% of the Corporation's accounts receivable balance is due from one funder. Approximately 49% of the Corporation's grants and contributions were received from three donors during the year ended June 30, 2023.

4. LEASE AGREEMENTS

Nature of Leases

Building Leases - Operating Lease

The Corporation leases a building under a lease agreement that expires in August 2025. The lease agreement includes two renewal options to extend the term for an additional period of five years. The renewal options are not reasonably certain to be exercised and are not included in the measurement of the lease assets and liabilities. Monthly rent payments were \$4,453 during fiscal year 2023 and increase annually by 4% each September. In addition, the lease agreement called for tenant provided improvements, which amounted to \$73,019. The leasehold improvements were capitalized as part of property and equipment and are being depreciated over the lease term period. As part of the lease agreement, the landlord would finance the cost of the improvements and the Corporation would be required to make monthly payments of \$856 over 96 months (see Note 6).

The Corporation leases a second building under a lease agreement with KIPP Philadelphia Charter School (KPCS) that expires in June 2026, with an option to extend the lease through fiscal year 2031. The renewal options are not reasonably certain to be exercised and are not included in the measurement of the lease assets and liabilities. Monthly rent payments were \$56,517 during fiscal year 2023 and fluctuate annually as part of the fee schedule.

Equipment Leases - Finance Lease

The Corporation leases a copier machine under a lease agreement that expires in July 2025. Monthly rent payments were \$977 during fiscal year 2023. Interest expense on the lease was \$908 for the year ended June 30, 2023, which is included in interest expense in the accompanying statement of functional expenses.

Lease Summary

The following summarizes the lease expense for the year ended June 30, 2023:

Operating lease cost, included in occupancy expense	\$ 672,046
Finance lease costs:	
Amortization of lease asset, included in depreciation and amortization expense	9,736
Interest on financing lease liability, included in interest expense	<u>908</u>
Total lease expense	<u>\$ 682,690</u>

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

4. LEASE AGREEMENTS (Continued)

Lease Summary (Continued)

The following summarizes cash flow information related to leases for the year ended June 30, 2023:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 735,379
Operating cash flows from finance lease	\$ 908
Financing cash flows from finance lease	\$ 11,500
ROU assets obtained in exchange for lease obligations (as a result of adoption of Topic 842)	\$ 2,735,491

The future minimum payments by fiscal year for the operating and financing leases as of June 30, 2023, were as follows:

	<u>Financing</u>	<u>Operating</u>
2024	\$ 11,724	\$ 735,145
2025	11,724	735,354
2026	<u>977</u>	<u>688,631</u>
Total future undiscounted lease payments	24,425	2,159,131
Less - discount to present value/interest	(682)	(86,646)
Less - current portion	<u>(11,724)</u>	<u>(735,145)</u>
Lease liability, net of current portion	<u>\$ 12,019</u>	<u>\$ 1,337,340</u>

The following summarizes the weighted-average remaining lease terms and discount rates of operating leases as of June 30, 2023:

Weighted-Average Remaining Lease Term:	
Building leases	2.9 - 3.2 years
Equipment lease	3.1 years
Weighted-Average Discount Rate:	
Operating leases	2.85 - 2.88%
Finance lease	2.85%

Lessor Agreements

The Corporation has subleased portions of its facilities under non-cancelable operating leases through fiscal year 2026. Rental income relating to these leases totaled \$610,967 for the year ended June 30, 2023, and is reflected as rental income in the accompanying statement of activities and changes in net assets. Rental income is recorded on a straight-line basis, accordingly, at June 30, 2023, the Corporation has a lease receivable due of \$203,967.

Total future minimum rentals by fiscal year to be received under the non-cancelable sublease are as follows as of June 30:

2024	\$ 679,933
2025	\$ 677,933
2026	\$ 679,000

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2023:

Machinery and equipment	\$ 371,671
Leasehold improvements	<u>88,019</u>
	459,690
Less - accumulated depreciation	<u>422,095</u>
	<u>\$ 37,595</u>

Depreciation expense for the year ended June 30, 2023, was \$37,017 and is included in depreciation and amortization in the accompanying statement of functional expenses.

6. LONG-TERM DEBT

The Corporation previously entered into a subordinated promissory note with Charter Fund, Inc., a nonprofit corporation. The note accrues interest from the date of funding the principal amounts until maturity dated October 1, 2023. Interest accrues on the note at 1% per annum. As of June 30, 2023, the outstanding principal balance of this note was \$200,000. Subsequent to year-end, the remaining balance of the note was paid off in September 2023. The Charter Fund, Inc. forgave \$200,000 of outstanding principal during fiscal year 2023, which is reflected as debt forgiveness income in the accompanying statement of activities and changes in net assets.

The Corporation financed leasehold improvements through the landlord and building lease agreement (see Note 4). The loan is payable in monthly installments of \$856 through May 2025, and bears interest at 3%. As of June 30, 2023, the balance of the loan was \$19,110.

Future minimum payments under these agreements and future amortization are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2024	\$ 208,839
2025	<u>10,271</u>
Total	<u>\$ 219,110</u>

7. LOAN GUARANTY

During fiscal year 2016, KPCS (see Note 11) was issued \$15,425,000 and \$370,000 in the form of Revenue Bonds, Series of 2016 A and Series 2016 B, respectively, for the acquisition and renovation of school facilities and paying the costs of issuing and insuring bonds. The school facilities are located at 2539 N. 16th Street and 24019 W. Westmoreland Street in Philadelphia, Pennsylvania. The Corporation guaranteed the annual interest and principal payments for the revenue bond obligations provided to KPCS, as stated in the Guaranty and Security Agreement dated April 1, 2016, between the Corporation and lender. The outstanding balance at June 30, 2023, is \$14,783,225. As of June 30, 2023, KPCS was in default of certain covenants related to this debt. However, KPCS is current on its payments and, therefore, no liability has been recorded for the Corporation as of June 30, 2023.

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

8. CONDITIONAL GRANTS

The Corporation received grants and contributions that contained donor-imposed conditions that represent barriers that must be overcome as well as a right of return of the assets transferred. The Corporation recognizes these grants and contributions only when donor-imposed conditions are substantially met. Accordingly, the ending balance of conditional promises to give are not included in the accompanying financial statements. The Corporation has received cash of \$71,600 related to the below conditional promises to give which is reflected as a conditional advance in the accompanying statement of financial position.

The following summarizes conditional promises to give, which are expected to be earned through fiscal year 2024:

Conditional promises to give, June 30, 2022	\$ 350,000
New conditional awards received in fiscal year 2023	<u>413,651</u>
Conditional promises to give, June 30, 2023	<u>\$ 763,651</u>

9. CONCENTRATION OF CREDIT RISK

The Corporation maintains its operating cash balances in certain banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain amounts. The Corporation has not experienced any losses in such accounts and management believes the Corporation is not exposed to any significant credit risk on its cash.

10. RETIREMENT PLANS

Effective July 1, 2013, the Corporation established a defined contribution plan under Section 403(b) of the IRC, to which employees of the Corporation can elect to contribute. Employees who do not participate in the Pennsylvania Public School Employees' Retirement System's (PSERS) retirement plan can contribute up to 5% of their qualified compensation, with the Corporation matching up to 5% of their qualified compensation. For the year ended June 30, 2023, the Corporation contributed \$248,015 to the Section 403(b) plan, which is included in employee benefits and payroll taxes in the accompanying statement of functional expenses.

11. RELATED PARTY TRANSACTIONS

The Corporation supports KIPP Philadelphia Charter School (KPCS), KIPP DuBois Charter School (KDCS), KIPP West Philadelphia Charter School (KWPCS), KIPP North Philadelphia Charter School (KNPCS), and KIPP Octavius Catto Elementary Academy (CATTO) (collectively, KIPP Philadelphia Charter Schools). The Corporation and the KIPP Philadelphia Charter Schools are considered related parties as a result of the mission. The KIPP Philadelphia Charter Schools and the Corporation are under common management and common usage of employees.

During fiscal year 2023, the administrative management, general, and fundraising services were all provided by the Corporation to the KIPP Philadelphia Charter Schools through academic and business service agreements. Administrative fee revenue charged to the KIPP Philadelphia Charter Schools from the Corporation for management, professional, facility, and education services was \$5,093,084 for the year ended June 30, 2023. An additional pandemic support fee was charged to KWPCS, KDCS and KNPCS of \$1,120,000 for the year ended June 30, 2023.

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

11. RELATED PARTY TRANSACTIONS (Continued)

For the year ended June 30, 2023, the Corporation provided grants and scholarships to the related schools for the purposes such as arts and music instruction, second language instruction, advanced placement courses, expansion, progression through high school, enroll in college, and work towards college graduation. For the year ended June 30, 2023, the Corporation provided grants and scholarships to CATTO in the amount of \$750,000.

The Corporation leased space at 2539 N. 16th Street in Philadelphia, Pennsylvania, from KPCS and then subleased the space to KNPCS. Rental expense and sublease rental income for the year ended June 30, 2023, totaled \$610,967. The Corporation has a lease receivable of \$203,967 as of June 30, 2023, related to this lease (see Note 4).

Due from related parties consists of the following at June 30, 2023:

Inter-entity transactions	\$ 3,104,739
KDCS	1,331,406
KNPCS	2,883,980
KWPCS	<u>2,296,594</u>
	<u>\$ 9,616,719</u>

Due to related parties consists of the following at June 30, 2023:

KPCS	\$ 4,350,736
CATTO	<u>152,760</u>
	<u>\$ 4,503,496</u>

12. LIQUIDITY

The Corporation has a policy to structure its financial assets to be available and liquid as its obligations become due. The financial assets available within one year of the statement of financial position date to meet cash needs are as follows as of June 30, 2023:

Cash and cash equivalents	\$ 313,849
Current portion of grants and pledges receivable, net	1,139,376
Due from related parties	<u>9,616,719</u>
	11,069,944
Less - time restricted net assets with donor restrictions, net of non-current pledges receivables (see Note 2)	(278,591)
Less - purpose restricted net assets with donor restrictions (see Note 2)	<u>(593,237)</u>
	<u>\$ 10,198,116</u>

KIPP ADMINISTRATIVE SERVICES CORPORATION

Notes to Financial Statements
June 30, 2023

13. PRIOR PERIOD ADJUSTMENT

During fiscal year 2023, the Corporation discovered that certain grants and contributions were not properly stated as of June 30, 2022. The errors resulted in a net understatement of net assets without donor restrictions, a net overstatement of net assets with donor restrictions, and an understatement of grants and pledges receivable as of June 30, 2022. The Corporation has restated the June 30, 2022 financial statement as follows to correct the following errors:

Net assets without donor restrictions, as previously stated	\$ 4,132,690
Transfer between funds - release of restricted grants	300,000
Transfer between funds - reclassification of restricted grants	<u>(25,000)</u>
Net assets without donor restrictions, as restated	<u>\$ 4,407,690</u>
Net assets with donor restrictions, as previously stated	\$ 2,251,876
Transfer between funds - release of restricted grants	(300,000)
Transfer between funds - reclassification of restricted grants	25,000
Net increase in restricted grants and grants receivable	<u>180,000</u>
Net assets with donor restrictions, as restated	<u>\$ 2,156,876</u>
Grants and pledges receivable, net, as previously stated	\$ 1,974,077
Net increase in grants and pledges receivable, net	<u>180,000</u>
Grants and pledges receivable, net, as restated	<u>\$ 2,154,077</u>