KIPP DC and Affiliates

Consolidated Financial Report
June 30, 2017

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
KIPP DC

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of KIPP DC and Affiliates (KIPP DC), which comprise the consolidated balance sheets as of June 30, 2017 and 2016; the related consolidated statements of activities and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, 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.

Auditor's 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 the audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 DC as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 31, 2017 and October 26, 2017, on our consideration of KIPP DC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KIPP DC's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
October 31, 2017

KIPP DC and Affiliates

Consolidated Balance Sheets
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 58,727,038**	$ 28,979,894
Investments	**42,866,618**	51,566,340
Receivables, net	**3,424,009**	5,144,874
Prepaid expenses	**1,863,826**	553,900
Promises to give, net	**430,711**	3,248,113
Total current assets	**107,312,202**	89,493,121
Promises to give, net of discount and current portion	**997,174**	1,277,591
Restricted cash	**550,578**	1,915,015
Restricted investments	**15,971,485**	20,225,056
Deferred rental income	**56,342**	76,531
Note receivable, net	**17,705,702**	17,705,702
Property and equipment, net	**179,691,476**	175,668,748
Interest rate cap	**-**	2
Deposits	**241,113**	262,999
	$ 322,526,072	$ 306,624,765
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 4,898,234**	$ 10,387,018
Current portion of capital lease obligations	**96,000**	96,000
Current portion of notes payable	**20,034,000**	-
Total current liabilities	**25,028,234**	10,483,018
Deferred rent	**3,654,877**	3,234,554
Capital lease obligations, net of current portion	**1,321,290**	1,303,733
Interest rate swap obligations	**2,071,235**	4,893,732
Notes payable, net of discount, current portion, and issuance costs	**152,109,357**	160,178,193
	184,184,993	180,093,230
Commitments and contingencies (Note 12)		
Net assets:		
Unrestricted	**128,064,715**	111,726,449
Temporarily restricted	**10,276,364**	14,805,086
	138,341,079	126,531,535
	$ 322,526,072	$ 306,624,765

See notes to consolidated financial statements.

KIPP DC and Affiliates

Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Pupil allocation	$ 104,651,639	$ -	$ 104,651,639	$ 90,655,801	$ -	$ 90,655,801
Contributions, grants and events	3,162,209	1,271,471	4,433,680	3,878,066	12,381,876	16,259,942
Federal awards	13,008,597	-	13,008,597	14,184,564	-	14,184,564
Investment income	380,288	-	380,288	86,074	-	86,074
Interest income	233,985	-	233,985	234,003	-	234,003
Sublease rental income	693,527	-	693,527	583,027	-	583,027
Unrealized gain (loss) on interest rate swaps	2,822,497	-	2,822,497	(3,536,577)	-	(3,536,577)
Unrealized loss on interest rate cap	(2)	-	(2)	(158)	-	(158)
Other	563,683	-	563,683	419,788	-	419,788
Net assets released from restrictions	5,800,193	(5,800,193)	-	4,463,864	(4,463,864)	-
Total support and revenue	131,316,616	(4,528,722)	126,787,894	110,968,452	7,918,012	118,886,464
Expenses:						
Program	100,978,528	-	100,978,528	88,871,430	-	88,871,430
General and administrative	13,065,071	-	13,065,071	10,348,708	-	10,348,708
Fundraising	934,751	-	934,751	1,006,047	-	1,006,047
Total expenses	114,978,350	-	114,978,350	100,226,185	-	100,226,185
Change in net assets before other gains (losses)	16,338,266	(4,528,722)	11,809,544	10,742,267	7,918,012	18,660,279
Other gains:						
Gain on NMTC transaction unwind	-	-	-	6,213,002	-	6,213,002
	-	-	-	6,213,002	-	6,213,002
Change in net assets	16,338,266	(4,528,722)	11,809,544	16,955,269	7,918,012	24,873,281
Net assets:						
Beginning	111,726,449	14,805,086	126,531,535	94,771,180	6,887,074	101,658,254
Ending	$ 128,064,715	$ 10,276,364	$ 138,341,079	$ 111,726,449	$ 14,805,086	$ 126,531,535

See notes to consolidated financial statements.

KIPP DC and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 11,809,544	$ 24,873,281
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,320,041	5,366,065
Amortization of debt issuance costs	308,687	276,251
Debt issuance costs write off	-	381,177
Unrealized (gain) loss on interest rate swap	(2,822,497)	3,536,577
Unrealized loss on interest rate caps	2	158
Gain on debt forgiveness	-	(6,213,002)
Realized and unrealized (gain) loss on investments	(3,823)	9,626
Loss on disposal of property and equipment	-	1,717
Interest expense in excess of capital lease payments	17,557	21,789
Provision for allowance on doubtful accounts	109,400	-
Discount on promises to give	5,417	(17,547)
Discount on notes payable	(30,872)	(30,873)
Contributions restricted for capital improvements	-	(5,000,000)
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	1,611,465	(2,276,293)
Prepaid expenses	(1,309,926)	400,099
Promises to give	3,092,402	2,017,383
Deferred rental income	20,189	1,376
Deposits	21,886	12,209
(Decrease) increase in:		
Accounts payable and accrued expenses	(315,275)	218,956
Refundable advances	-	(30,781)
Deferred revenue	-	(5,296)
Deferred rent	420,323	1,324,152
Net cash provided by operating activities	19,254,520	24,867,024
Cash flows from investing activities:		
Purchases of property and equipment	(15,516,278)	(28,574,862)
Purchase of investments	(101,242,928)	(3,847,307)
Sales of investments	109,946,473	3,741,981
Decrease (increase) in restricted investments	4,253,571	(13,450,504)
Decrease in restricted cash	1,364,437	160,497
Net cash used in investing activities	(1,194,725)	(41,970,195)
Cash flows from financing activities:		
Principal payments on long-term debt	(732,000)	(17,646,483)
Proceeds from long-term debt	12,419,349	45,589,453
Decrease in sinking fund	-	748,627
Debt issuance costs	-	(530,821)
Contributions restricted for capital improvements	-	5,000,000
Net cash provided by financing activities	11,687,349	33,160,776
Net increase in cash and cash equivalents	29,747,144	16,057,605

(Continued)

KIPP DC and Affiliates

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2017 and 2016

	2017	2016
Cash and cash equivalents:		
Beginning	**$ 28,979,894**	$ 12,922,289
Ending	**$ 58,727,038**	$ 28,979,894
Supplemental disclosure of cash flow information:		
Cash payments for interest, net of interest capitalized (2017 – $13,737; 2016 – $144,090)	**$ 6,062,738**	$ 6,115,862
Supplemental schedule of noncash investing and financing activities:		
Property and equipment included in accounts payable and accrued expenses	**$ 325,557**	$ 5,499,066

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: KIPP DC and Affiliates is comprised of four entities: KIPP DC, Woodrock LLC, KIPP DC – Douglass QALICB, Inc. (Douglass QALICB) and KIPP DC – Shaw QALICB, Inc. (Shaw QALICB). KIPP DC was organized for the purpose of operating a public charter school that raised expectations of public education in underserved communities in Washington, D.C. KIPP DC's mission is to support students in developing the knowledge, skills and character needed to succeed in top-quality high schools, colleges and the competitive world beyond. KIPP DC operates independently and has its own Board of Directors responsible for its operation but elects to have membership in the KIPP Network of Schools.

KIPP DC operates 16 schools: five early childhood schools (LEAP Academy, Discover Academy, Grow Academy, Connect Academy and Arts & Technology Academy); five elementary schools (Promise Academy, Heights Academy, Lead Academy, Spring Academy and Quest Academy); five middle schools (KEY Academy, AIM Academy, WILL Academy, Northeast Academy and Valor Academy); and one high school (KIPP DC College Preparatory).

On September 6, 2006, KIPP DC purchased 100% of the interest in Woodrock LLC (Woodrock). Woodrock holds the lease for the property and improvements at 421 Alabama Avenue, SE in Washington, D.C.; this lease is Woodrock's only activity. KIPP DC is the sole member of Woodrock, and Woodrock is a disregarded entity for tax purposes.

On May 7, 2009, KIPP DC obtained a master loan and disbursement agreement (the Agreement) in the principal amount of $13,859,486 by entering into a transaction structured to qualify for the New Markets Tax Credit (NMTC), as outlined in Internal Revenue Code (IRC) Section 45D. An additional $10,000,000 was disbursed under this transaction on September 1, 2010. As part of the transaction, KIPP DC formed Douglass QALICB to meet the necessary structuring requirements to qualify for the NMTC. Douglass QALICB is a nonprofit corporation formed under the laws of the District of Columbia. The Agreement was established to fund the development and renovation of the property located at 2600 Douglass Road, SE, Washington, D.C. (the Property) for use as an educational facility that houses an early childhood school, an elementary school, a middle school and a college preparatory high school (The high school has since been moved to another location). KIPP DC is the leasehold owner of the Property pursuant to a Ground Lease Agreement dated March 6, 2009, between the District of Columbia, a municipal corporation by and through its Chief Property Management Officer on behalf of the Department of Public Schools, as lessor, and KIPP DC, as lessee. KIPP DC assigned the lease to Douglass QALICB and Douglass QALICB, in turn, subleased the Property back to KIPP DC.

On May 9, 2016, the School, after a series of transactions, was able to unwind its existing financing arrangements related to the development of its Douglass Road campus. As part of the unwind transaction, the parties eliminated the long-term leases between them through an intercompany purchase agreement; the debt facilities were paid off; and new obligations were obtained through bond/bank financing. The School subsequently liquidated the Douglass QALICB in July 2016.

On October 4, 2011, KIPP DC entered into a credit agreement in the principal amount of $23,520,000 as part of the transaction structured to qualify for the NMTC, as outlined in IRC Section 45D. As part of the transaction, KIPP DC formed Shaw QALICB to meet the necessary structuring requirements to qualify for the NMTC. Shaw QALICB is a nonprofit corporation formed under the laws of the District of Columbia. The agreement was established to fund renovations at the Shaw Campus for use as an educational facility that houses an early childhood school, an elementary school and a middle school. KIPP DC is the leasehold owner of the property pursuant to a Ground Lease Agreement dated August 11, 2011, between the District of Columbia, a municipal corporation by and through its Chief Property Management Officer on behalf of the Department of Public Schools, as lessor, and KIPP DC, as lessee. KIPP DC assigned the lease to Shaw QALICB and Shaw QALICB, in turn, subleased the property back to KIPP DC.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

KIPP DC Supporting Corp. (KIPP DC SC) was formed in September 2014 for charitable, educational and literary purposes within the meaning of Section 501(c)(3) of the IRC, specifically for providing funds for the benefit of and to support all aspects of the mission of KIPP DC by acquiring, holding and managing assets for use by KIPP DC where doing so may result in lower costs or greater efficiencies for KIPP DC. KIPP DC has no majority board representation and has an overlap of only one Board member for the year ended June 30, 2017. As such, KIPP DC and KIPP DC SC are considered related parties, but are not consolidated for financial reporting purposes.

In the accompanying notes to the consolidated financial statements, KIPP DC and Affiliates are collectively referred to as KIPP DC.

A summary of KIPP DC’s significant accounting policies follows:

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of KIPP DC, Woodrock, Douglass QALICB and Shaw QALICB. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of presentation: The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Not-for-Profit Topic of the FASB ASC, Financial Statements of Not-for-Profit Organizations, KIPP DC is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. KIPP DC did not have any permanently restricted net assets at June 30, 2017 and 2016.

Charter school agreement: On June 4, 2001, KIPP DC entered into a 15-year Charter School Agreement (Charter School Agreement) with the District of Columbia Public Charter School Board (DCPCSB). Under the terms of the Charter School Agreement, KIPP DC will operate a school for students of certain ages in grades five through eight. On June 19, 2006, the Charter School Agreement was amended to include elementary school grades, as well as high school grades. On November 16, 2015, KIPP DC renewed the Charter School Agreement with the DCPCSB for an additional 15-year term, effective July 1, 2016.

Cash and cash equivalents: KIPP DC considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents held in the investment portfolio are excluded from cash and cash equivalents in reporting cash flows. Management maintains cash and cash equivalents as working capital to be used as needed.

Financial risk: KIPP DC maintains cash in bank deposit accounts which, at times, may exceed federally-insured limits. KIPP DC has not experienced any losses in such accounts. KIPP DC believes it is not exposed to any significant financial risk on cash.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

KIPP DC invests in a professionally managed portfolio that contains money market funds, certificates of deposit and fixed income securities. Such investments are exposed to various risk such as market and credit risk. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is recorded as a component of investment income or loss in the consolidated statements of activities.

Receivables: Receivables are carried at original invoice or claim amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management recorded an allowance of $109,400 at June 30, 2017. Management believed that an allowance was not required based on its evaluation of collectability of receivables at June 30, 2016.

Promises to give: Contributions are recognized when the donor makes a written promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. The allowance for doubtful promises to give is based on management's evaluation of the status of existing promises to give and historical results. Management has determined that contributions receivable are fully collectible, and there was no allowance for doubtful receivables at June 30, 2017 and 2016.

Property and equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of the related asset, ranging from 3 to 40 years. Normal repairs and maintenance are expensed as incurred. KIPP DC capitalizes all property and equipment purchased with a cost of $5,000 or more.

Valuation of long-lived assets: KIPP DC accounts for the subsequent measurement of certain long-lived assets in accordance with subsections of the FASB ASC Topic Property, Plant and Equipment that address Impairment or Disposal of Long-Lived Assets. The accounting standard requires that property, plant and equipment and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Interest rate swap agreements: The fair value of the interest rate swap agreements is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Interest rate cap agreement: The fair value of the interest rate cap agreement is the estimated amount that KIPP DC would receive to sell the cap agreement to a market participant at the reporting date, taking into account current interest rates and the current credit worthiness of the cap counter parties.

Debt issuance costs: KIPP DC paid certain customary fees, as required, to secure the notes payable used to finance the construction of its new schools. These fees have been capitalized and are being amortized over the term of the notes payable using the effective interest method. Unamortized debt issuance costs are reported with long-term debt.

Deferred rent: KIPP DC has various lease agreements. The leases include annual escalations that are being allocated on a straight-line basis over the term of the lease as an offset against each period's rent expense. The deferred rent liability on the accompanying consolidated balance sheets represents the cumulative difference between the monthly rent expense and rent paid.

Allocation of expenses: Expenses are either directly charged to program services as incurred or proportionately allocated to functional categories based on various allocation methods.

Net assets: Unrestricted net assets are the net assets that are neither permanently restricted, nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of KIPP DC pursuant to these stipulations. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. Temporarily restricted net assets were released from restrictions during the years ended June 30, 2017 and 2016, for various purposes, including elementary school development, teacher training, new school start-up, college access programs, other academic support, facilities and growth. At June 30, 2017 and 2016, temporarily restricted net assets represented amounts restricted for specific education-related expenses and future periods.

Per pupil allocation: KIPP DC receives a per student allocation from the District of Columbia to cover the cost of academic and facilities expenses. Pupil allocation revenue is recognized in the period when it is earned, which is the school year for which the allocation is made. Unearned pupil allocation collections are recorded as deferred revenue.

Contributions: Contributions are recognized when the donor makes a promise to give to KIPP DC that is, in substance, unconditional. Donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. However, if a restriction is fulfilled in the same time period in which the contribution is received, KIPP DC reports the support as unrestricted. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Grants: KIPP DC receives grants from federal agencies and private grantors for various purposes. Receivables related to grant awards are recorded to the extent unreimbursed expenditures have been incurred for the purposes specified by an approved grant or award. KIPP DC defers grant collections under approved awards from grantors to the extent amounts received exceed expenditures incurred for the purposes specified under the grant restrictions. These deferred grants are recorded as refundable advances.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Sublease rental income: Sublease rental income is being recognized on a straight-line basis based on the aggregate minimum rental payments called for in the lease agreements over the applicable lease terms.

Tax status: KIPP DC is a tax-exempt organization under Section 501(c)(3) of the IRC and is not considered to be a private foundation. KIPP DC is exempt from federal taxes on income other than unrelated business income. KIPP DC did not have any net unrelated business income for the years ended June 30, 2017 and 2016. Douglass QALICB is a District of Columbia non-stock, nonprofit organization. Shaw QALICB is a District of Columbia non-stock, nonprofit organization. Douglass QALICB may file for tax-exempt status under Section 501(c)(2). Douglass QALICB was dissolved during July 2016.

KIPP DC follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, KIPP DC may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of activities.

KIPP DC files income tax returns in the U.S. federal jurisdiction. As of June 30, 2017, there were no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, KIPP DC is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2014.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain items in the June 30, 2016, consolidated financial statements have been reclassified to conform to the June 30, 2017, consolidated financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Adopted accounting pronouncement: In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented on the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective for KIPP DC for the year ending June 30, 2017, but early adoption is permissible. KIPP DC adopted this pronouncement during the year ended June 30, 2017, and applied the change retrospectively to 2016.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Pending accounting pronouncements: In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU No. 2016-18 will be effective for KIPP DC for the year ending on June 30, 2020. KIPP DC is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The ASU will be effective for KIPP DC for the year ending June 30, 2019. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated balance sheets for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of activities. The new standard is effective for KIPP DC for the fiscal year ending June 30, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. KIPP DC is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for KIPP DC for the fiscal year ending June 30, 2019. Management has not evaluated the impact of this ASU on the consolidated financial statements.

Subsequent events: Subsequent events have been evaluated through October 31, 2017, which is the date the consolidated financial statements were issued.

Note 2. Restricted Cash and Investments

Under the terms of certain notes payable and construction agreements, KIPP DC is required to maintain minimum balances with financial institutions. In addition, unspent proceeds from notes payable and a restricted private contribution are restricted for specific purposes.

Note 2. Restricted Cash and Investments (Continued)

At June 30, 2017 and 2016, $550,578 and $1,915,015 in cash, respectively, and $15,971,485 and $20,225,056 in investments, respectively, were restricted for these purposes.

Restricted cash included $94,881 and $162,611 at June 30, 2017 and 2016, respectively, related to the KIPP DC – Shaw QALICB, Inc. City First Capital XX, LLC note payable. The other restricted cash balances at June 30, 2017 and 2016, of $455,697 and $1,752,404, respectively, relate to restricted amounts pertaining to loans required for the Hamilton campus project.

Restricted investments of $7,169,633 and $6,356,102 at June 30, 2017 and 2016, respectively, were due to requirements of the D.C. Revenue Bonds, KIPP DC Issue, Series 2013A. The investment is restricted for bond project fund, debt service fund and debt service reserve. In addition, restricted investments of $863,534 and $4,309,428 at June 30, 2017 and 2016, respectively, were due to requirements of the D.C. Variable Rate Revenue Bonds Series 2014 bonds. The investment is restricted for bond project fund, debt service fund and debt service reserve. Other restricted investments at June 30, 2017 and 2016, include an investment of $257,136 and $210,091, respectively, related to requirements of the D.C. Revenue Bonds, KIPP DC Issue, Series 2015 and $7,681,182 and $9,349,435, respectively, in proceeds from a restricted contribution received in fiscal year ending June 30, 2016.

Note 3. Promises to Give

Promises to give at June 30, 2017 and 2016, consist of the following:

	2017	2016
One year or less	$ 430,711	$ 3,248,113
One to five years	1,085,000	1,360,000
	1,515,711	4,608,113
Less discount on promises to give	(87,826)	(82,409)
	$ 1,427,885	$ 4,525,704

In addition, KIPP DC has conditional promises to give of a maximum of $902,000. Future payments are contingent upon KIPP DC meeting certain milestones documented in the pledge agreement. No amounts for conditional promises to give have been recorded in the consolidated financial statements.

Note 4. Investments

Investments and restricted investments at June 30, 2017 and 2016, consist of the following:

	2017	2016
Money market funds – U.S. Treasury securities	$ 8,376,154	$ 33,220,173
Certificates of deposit	18,019,925	16,999,846
Fixed income – Corporate bonds and U.S. Treasury securities	32,442,024	21,571,377
	$ 58,838,103	$ 71,791,396

Note 4. Investments (Continued)

Investment income for the years ended June 30, 2017 and 2016, consists of the following:

	2017	2016
Interest and dividends	$ 376,465	$ 95,700
Realized and unrealized gain (loss)	3,823	(9,626)
	$ 380,288	$ 86,074

Note 5. Property and Equipment

Property and equipment at June 30, 2017, and depreciation expense for the year then ended consist of the following:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net Value	Depreciation Expense
Land	–	$ 9,694,981	$ -	$ 9,694,981	$ -
Building and improvements	28 to 40 years	65,921,595	9,697,510	56,224,085	1,901,167
Computer equipment	3 years	612,727	497,806	114,921	44,559
Furniture and equipment	5 years	373,562	303,207	70,355	23,301
Leasehold improvements	Life of lease (a)	129,612,117	16,024,983	113,587,134	4,351,014
		$206,214,982	$ 26,523,506	$179,691,476	$ 6,320,041

(a) Shorter of the estimated useful life of the asset or lease term.

Property and equipment at June 30, 2016, and depreciation expense for the year then ended consisted of the following:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net Value	Depreciation Expense
Land	–	$ 8,900,235	$ -	$ 8,900,235	$ -
Building and improvements	28 to 40 years	41,391,055	7,796,345	33,594,710	1,222,277
Computer equipment	3 years	546,396	453,247	93,149	68,197
Furniture and equipment	5 years	357,483	279,906	77,577	21,470
Leasehold improvements	Life of lease (a)	125,833,384	11,673,969	114,159,415	4,054,121
Construction-in-process	–	18,843,662	-	18,843,662	-
		$195,872,215	$ 20,203,467	$175,668,748	$ 5,366,065

(a) Shorter of the estimated useful life of the asset or lease term.

Note 6. Capital Lease Obligation

KIPP DC leases space from an unrelated nonprofit entity under the provisions of a capital lease. The lease expires on January 31, 2035. The terms of the capital lease provide for monthly payments of $7,500 per month through August 31, 2015, with escalated payments for the remainder of the lease. The carrying value of the leased asset net of accumulated depreciation at June 30, 2017 and 2016, was $2,665,992 and $2,832,423, respectively.

Note 6. Capital Lease Obligation (Continued)

Future minimum lease payments remaining are as follows:

Years ending June 30:		
2018	$	96,000
2019		96,000
2020		96,000
2021		151,716
2022		156,264
Thereafter		2,418,128
		3,014,108
Less amount representing interest		(1,596,818)
	$	1,417,290

Note 7. Notes Payable

Long-term debt at June 30, 2017 and 2016, consists of the following:

	2017	2016
Principal amount	$ 175,247,000	$ 163,559,651
Plus premium on note payable	636,116	666,988
Less unamortized debt issuance costs	(3,739,759)	(4,048,446)
	$ 172,143,357	$ 160,178,193

Principal amounts of notes payable at June 30, 2017 and 2016, consist of the following:

	2017	2016
KIPP DC:		
District of Columbia Revenue Bonds (KIPP DC Issue – Series 2013A); fixed semi-annual interest and annual principal payments until July 2048 when the bonds mature.	$ 63,070,000	$ 63,070,000
District of Columbia Revenue Bonds (KIPP DC Issue – Series 2014); maximum loan amount $38 million; monthly interest-only payments through July 1, 2016; interest rate variable (70% LIBOR + 1.15%); maturity date of June 1, 2046.	33,268,000	27,373,601
Note payable due to Compass Bank; monthly interest-only payments; interest rate variable (one-month LIBOR + 1.30%); balance due in full on October 1, 2026 (maturity date). Per the note, the lender has the option to require prepayment in full of all outstanding and interest on May 1, 2018 (mandatory put date).	18,000,000	18,000,000
District of Columbia Revenue Bonds (KIPP DC Issue – Series 2015); maximum loan amount $20 million; monthly interest-only payments through July 1, 2016; interest rate variable (65.01% LIBOR + 1.14%); maturity date of June 1, 2046.	20,000,000	14,207,050

(Continued)

Note 7. Notes Payable (Continued)

	2017	2016
KIPP DC (Continued):		
Note payable due to Community Urban Revitalization Enterprises V, LLC; semi-annual interest payments due for the first seven years; interest rate of 1.344%; amortization of principal begins on December 1, 2022; and loan matures on December 1, 2049.	$ 7,469,000	$ 7,469,000
Note payable due to Civic Builders Sub-CDE V, LLC; annual interest payments due for the first seven years; interest rate of 1%; amortization of principal begins on December 1, 2022; and loan matures on December 1, 2049.	6,370,000	6,370,000
Note payable due to PNC CDE 55, LP; semi-annual interest payments due for the first seven years; interest rate of 1.344%; amortization of principal begins on December 1, 2022; and loan matures on December 1, 2049.	1,925,000	1,925,000
Note payable due to PNC CDE 43, LP; annual interest payments due for the first seven years; interest rate of 1%; amortization of principal begins on December 1, 2022; and loan matures on December 1, 2049.	1,625,000	1,625,000
KIPP DC – Shaw QALICB, Inc.:		
City First Capital XX, LLC note payable agreement entered on October 4, 2011. Advances under this note shall bear interest from the date of this note until paid at the rate of 1.00% per annum. Interest payable in equal quarterly installments on the 15th of March, June, September and December of each year. Commencing on December 15, 2018, and continuing on the 15th of March, June, September and December thereafter until maturity on October 4, 2041, equal quarterly payments of principal and interest shall be paid.	17,705,702	17,705,702
City First Capital XX, LLC note payable agreement entered on October 4, 2011. Advances under this note shall bear interest from the date of this note until paid at the rate of 1.00% per annum. Interest payable in equal quarterly installments on the 15th of March, June, September and December of each year. Commencing on December 15, 2018, and continuing on the 15th of March, June, September and December thereafter until maturity on October 4, 2041, equal quarterly payments of principal and interest shall be paid.	5,814,298	5,814,298
	$175,247,000	$163,559,651

These notes payable are collateralized by cash, pledges of per pupil funding, liens on net revenues, deeds of trust on land and improvements, deeds of trust on ground leases and leasehold improvements and guarantees from KIPP DC. Inter-creditor agreements govern the allocation of this collateral.

In connection with the various debt agreements, KIPP DC has agreed, among other things, to (1) maintain debt service coverage of not less than 1.10 to 1.00, and (2) maintain a minimum liquidity ratio.

Note 7. Notes Payable (Continued)

Annual principal payments on these notes payable at June 30, 2017, are due in future years as follows:

Years ending June 30:	
2018	$ 20,034,000
2019	2,699,519
2020	3,084,314
2021	3,164,552
2022	3,256,882
Thereafter	143,007,733
	$ 175,247,000

Interest capitalized on these notes payable was $13,737 and $144,090 for the years ended June 30, 2017 and 2016, respectively. Interest expense was $6,064,487 and $6,108,346 for the years ended June 30, 2017 and 2016, respectively.

Amortization expense and write-off of debt issuance costs was $308,687 and $657,428 for the years ended June 30, 2017 and 2016, respectively.

In order to mitigate the risk of a floating interest rate on the M&T Bank term loan, KIPP DC entered into an interest rate cap agreement for the notional amount of $5,465,000 on September 27, 2011. The cost of the cap was $93,750. In exchange, KIPP DC has received rate protection not to exceed 5% through June 1, 2015, and 7.5% from June 1, 2015 through September 1, 2018. KIPP DC carries the cap as an asset in the consolidated balance sheets at fair value. During the year ended June 30, 2014, KIPP DC paid off the entire outstanding balance of this loan. At June 30, 2017 and 2016, the value of the cap was $0 and $2, respectively. The notional value of the cap was $1,599,000 as of June 30, 2017.

For the years ended June 30, 2017 and 2016, losses on the cap were $(2) and ($158), respectively.

In order to mitigate the risk of a floating interest rate on the District of Columbia Variable Rate Revenue Bonds Series 2014 bonds, KIPP DC entered into an interest rate swap agreement with PNC Bank, National Association (PNC) during the year ended June 30, 2015. The original notional value of this swap was $14,700,000. The current notional value of this swap was $33,315,000 at June 30, 2017. KIPP DC agrees to pay PNC a fixed rate of 2.068% on the principal balance of the bonds payable, in exchange for the receipt of floating rate interest payment based on 70% of the 30-day average London InterBank Offered Rate (LIBOR) (The LIBOR rate was 1.22% at June 30, 2017). This agreement has been designated as a hedging transaction to limit the KIPP DC’s exposure to fluctuating interest payments due on its bonds and continues in effect until October 1, 2026. KIPP DC has recognized a liability of $1,538,411 and $3,548,838, respectively in the consolidated balance sheets and the related unrealized gain (loss) of $2,010,427 and ($2,191,683) as a component of change in net assets in the consolidated statements of activities for the years ended June 30, 2017 and 2016, respectively.

Note 7. Notes Payable (Continued)

In order to mitigate the risk of a floating interest rate on the District of Columbia Variable Rate Revenue Bonds Series 2015 bonds, KIPP DC entered into an interest rate swap agreement with Compass Mortgage Corporation (CMC) on August 1, 2015, with an effective date of September 1, 2015. The original notional value of this cap was $600,000. The current notional value of this swap was $15,000,000 at June 30, 2017. KIPP DC agrees to pay CMC a fixed rate of 1.822% on the principal balance of the bonds payable, in exchange for the receipt of floating rate interest payment based on 65% of the 30-day average LIBOR (The LIBOR rate was 1.22% at June 30, 2017). This agreement has been designated as a hedging transaction to limit the KIPP DC's exposure to fluctuating interest payments due on its bonds and continues in effect until October 1, 2026. KIPP DC has recognized a liability of $532,824 and $1,344,894, respectively in the consolidated balance sheets and the related unrealized gain (loss) of $812,070 and ($1,344,894) as a component of change in net assets in the consolidated statements of activities for the years ended June 30, 2017 and 2016, respectively.

Note 8. Note Receivable

On October 4, 2011, KIPP DC loaned $17,705,702 to Chase NMTC KIPP DC Investment Fund, LLC. This was made to qualify for the NMTC transaction related to the Shaw Campus. This note bears an interest rate of 1.32% per annum. The note requires payment of interest only until December 25, 2018, and quarterly payments of $283,692 until maturity on October 4, 2041. Interest charged for the years ended June 30, 2017 and 2016, was $233,985 and $234,003, respectively.

Note 9. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets by purpose during the year ended June 30, 2017, were as follows:

	Balance June 30, 2016	Additions	Released From Restrictions	Balance June 30, 2017
Purpose restricted:				
College access	$ 204,893	$ 654,558	$ 203,280	$ 656,171
Other academic support	1,524,587	339,000	661,345	1,202,242
Facilities	5,000,000	-	-	5,000,000
Growth	450,702	200,000	630,637	20,065
Time restricted	7,624,904	77,913	4,304,931	3,397,886
	$ 14,805,086	$ 1,271,471	$ 5,800,193	$ 10,276,364

Changes in temporarily restricted net assets by purpose during the year ended June 30, 2016, were as follows:

	Balance June 30, 2015	Additions	Released From Restrictions	Balance June 30, 2016
Purpose restricted:				
College access	$ 283,902	$ 573,263	$ 652,272	$ 204,893
Other academic support	25,000	1,840,364	340,777	1,524,587
Facilities	-	5,000,000	-	5,000,000
Growth	52,632	450,702	52,632	450,702
Time restricted	6,525,540	4,517,547	3,418,183	7,624,904
	$ 6,887,074	$ 12,381,876	$ 4,463,864	$ 14,805,086

Note 10. Pupil Allocation

KIPP DC received $104,651,639 and $90,655,801 in fiscal years 2017 and 2016, respectively, in local per pupil funding. These amounts included $18,066,092 and $16,232,302 in facilities per pupil allocations, respectively.

Note 11. Pension Plan

KIPP DC maintains a defined contribution retirement plan (the Plan) that operates under Section 403(b) of the IRC. Employees are eligible to participate in the Plan on the first day of employment. KIPP DC determines the amount of employer contributions to be made to the Plan each year. Expenses incurred under the Plan were $3,276,694 and $2,898,275 for the years ended June 30, 2017 and 2016, respectively.

Note 12. Commitments and Contingencies

Lease obligations: In March 2009, KIPP DC entered into a 35-year ground lease agreement with the D.C. government for its Douglass Campus. This lease calls for monthly base rent payments and includes scheduled rent increases over the course of the lease term. The agreement also provides KIPP DC an option to renew the lease for an additional 15 years. In the event that KIPP DC exercises the renewal option, the base rent shall be based on 90% of the fair market rental value of the property's use as a charter school.

In August 2011, KIPP DC entered into a 35-year ground lease with the D.C. government for its Shaw Campus. This lease calls for monthly base rent payments. The agreement also provides KIPP DC an option to renew the lease for an additional 15 years. In the event that KIPP DC exercises the renewal option, the base rent shall be based on the fair market rental value of the property's use as a charter school.

In June 2013, KIPP DC entered into a 30-year ground lease with the D.C. government for its Webb Campus. This lease calls for monthly base rent payments. The agreement also provides KIPP DC an option to renew the lease for an additional 25 years. Under the lease, KIPP DC is entitled to lease credits against the annual base rent in an amount equal to KIPP DC's actual construction costs. Through the year ended June 30, 2017, the construction costs related to the Webb Campus were approximately $29.3 million.

In May 2014, KIPP DC entered into a 30-year ground lease with the D.C. government for its Hamilton Campus. The lease calls for monthly base rent payments. The agreement also provides KIPP DC an option to renew the lease for an additional 25 years. Under the lease, KIPP DC is entitled to lease credits against the annual base rent in an amount equal to KIPP DC's actual construction costs. Through the year ended June 30, 2017, the construction costs related to the Hamilton Campus were approximately $48.7 million.

In December 2014, KIPP DC entered into a ten-year operating lease with an unrelated commercial entity for KIPP DC's headquarter space at Watergate, 2600 Virginia Avenue NW, Washington D.C. KIPP DC took occupancy in April 2015. The lease calls for monthly base rent payments commencing in August 2015.

Note 12. Commitments and Contingencies (Continued)

In addition, KIPP DC leases office equipment under operating leases for its headquarters and various school locations. The estimated future minimum lease payments at June 30, 2017, net of lease credits noted above, are as follows:

Years ending June 30:		
2018	$	1,152,701
2019		1,087,154
2020		1,052,139
2021		1,063,491
2022		1,103,968
Thereafter		24,934,248
	$	30,393,701

For the years ended June 30, 2017 and 2016, total rental expense was $1,610,301 and $1,695,995, respectively.

Federal grants: KIPP DC participates in federally assisted grant programs, which are subject to financial and compliance audits by the grantors or their representative. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

Legal matters: In the normal course of business, KIPP DC is subject to certain claims and assessments that arise in the ordinary course of business. KIPP DC records a liability when management believes that it is both probable that a loss has been incurred and that the amount can be reasonably estimated. Significant judgement is required to determine the outcome and the estimated amounts of a loss related to such matters. Management believes that there are no claims or assessments outstanding that would materially affect the activities or financial position of KIPP DC.

Put/call agreement: Pursuant to a put/call option agreement KIPP DC entered into on October 4, 2011, KIPP DC has the ability via either a put option being exercised by the owner or by exercising its own call option to purchase the membership interest in the legal entity that controls the loans to Shaw QALICB. KIPP DC anticipates purchasing those membership interests in October 2018 and dissolving all related legal entities and associated loans.

Solar agreement: In March 2013, KIPP DC entered into a solar purchase agreement for a period of 20 years with an option for an additional 5 years. The agreement calls for the solar provider to construct a 225kw solar facility at KIPP DC's Douglass campus. KIPP DC is required to purchase the actual output from the solar facility at a stated contract price with an annual escalator of 2.5%. KIPP DC has a purchase option starting year six of the agreement and at the end of contract term based on a fair market value. Expense under the agreement will be recorded as power is consumed at rates in effect as straight-line treatment is not possible due to unknown output over the term of the agreement.

In July 2015, KIPP DC entered into a solar purchase agreement for a period of 20 years with two options for additional 5-year renewals. The agreement calls for the solar provider to construct a 282kw solar facility at KIPP DC's Webb campus. KIPP DC is required to purchase the actual output from the solar facility at a stated contract price with no annual escalator.

KIPP DC has a purchase option starting year five of the agreement and at the end of contract term based on a fair market value. Expense under the agreement will be recorded as power is consumed at rates in effect as straight-line treatment is not possible due to unknown output over the term of the agreement.

Note 13. Fair Value Measurements

KIPP DC follows the Fair Value Measurement Topic of the FASB ASC, which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data.

Level 3: Unobservable inputs not corroborated by market data.

In determining the appropriate levels, KIPP DC performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by KIPP DC at June 30, 2017 and 2016.

KIPP DC holds money market funds that are publicly traded on a stock exchange and are considered Level 1 items. Certificates of deposit, corporate and government bonds are priced based on their stated interest rates and quality ratings. The interest and quality ratings are observable at commonly quoted intervals for the full-term of the instruments and are, therefore, considered Level 2 items.

The fair value of an interest rate cap is generally determined using models with forward-looking assumptions of interest rates and the effects on the underlying cash flows of the interest rate cap based on current market rates. KIPP DC's swap agreement is valued based on quoted values stated by the bank's mark-to-market estimate using stated fixed rates and USD-LIBOR-BBA ratings. The interest rates are observable at commonly quoted intervals for the full term of the instrument and are, therefore, considered Level 2 items.

The table below presents the balances of the assets measured at fair value at June 30, 2017, on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Money market funds:				
U.S. Treasury bonds	$ 8,376,154	$ 8,376,154	$ -	$ -
Fixed income:				
Certificate of deposits	18,019,925	-	18,019,925	-
Corporate bonds	12,305,350	-	12,305,350	-
U.S. Treasury bonds	20,136,674	-	20,136,674	-
Total assets	$ 58,838,103	$ 8,376,154	$ 50,461,949	$ -
Interest rate swap	$ 2,071,235	$ -	$ 2,071,235	$ -
Total liabilities	$ 2,071,235	$ -	$ 2,071,235	$ -

Note 13. Fair Value Measurements (Continued)

The table below presents the balances of the assets measured at fair value at June 30, 2016, on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Money market funds:				
U.S. Treasury bonds	$ 33,220,173	$ 33,220,173	$ -	$ -
Fixed income:				
Certificate of deposits	16,999,846	-	16,999,846	-
U.S. Treasury bonds	21,571,377	-	21,571,377	-
Interest rate cap	2	-	2	-
Total assets	$ 71,791,398	$ 33,220,173	$ 38,571,225	$ -
Interest rate swap	$ 4,893,732	$ -	$ 4,893,732	$ -
Total liabilities	$ 4,893,732	$ -	$ 4,893,732	$ -

Note 14. Related Party Transactions

KIPP DC made a voluntary general contribution, as voted on by the Board of Directors, of $1,250,000 to KIPP DC SC during the year ended June 30, 2017. No contributions were made to KIPP DC SC during the year ended June 30, 2016. KIPP DC provides administrative services to KIPP DC SC. Amounts due from KIPP DC SC were $11,346 and 15,741 at June 30, 2017 and June 30, 2016, respectively.

RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
KIPP DC

We have audited the consolidated financial statements of KIPP DC and Affiliates (KIPP DC) as of and for the year ended June 30, 2017, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position and results of activities of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Washington D.C.
October 31, 2017

KIPP DC and Affiliates

Consolidating Balance Sheet
June 30, 2017

	KIPP DC/ Woodrock	KIPP DC – Shaw QALICB, Inc.	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 58,692,597	$ 34,441	$ -	$ 58,727,038
Investments	42,866,618	-	-	42,866,618
Receivables, net	3,442,851	-	(18,842)	3,424,009
Prepaid expenses	1,883,678	5,625	(25,477)	1,863,826
Promises to give, net	430,711	-	-	430,711
Total current assets	107,316,455	40,066	(44,319)	107,312,202
Promises to give, net of discount and current portion	997,174	-	-	997,174
Restricted cash	455,697	94,881	-	550,578
Restricted investments	15,971,485	-	-	15,971,485
Deferred rental income	56,342	4,834,766	(4,834,766)	56,342
Note receivable, net	17,705,702	-	-	17,705,702
Property and equipment, net	160,547,001	19,144,475	-	179,691,476
Deposits	241,113	-	-	241,113
	195,974,514	24,074,122	(4,834,766)	215,213,870
	$ 303,290,969	$ 24,114,188	$ (4,879,085)	$ 322,526,072
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 4,898,234	$ 18,842	$ (18,842)	$ 4,898,234
Current portion of capital lease obligations	96,000	-	-	96,000
Current portion of notes payable	20,034,000	-	-	20,034,000
Deferred revenue	-	25,477	(25,477)	-
Total current liabilities	25,028,234	44,319	(44,319)	25,028,234
Deferred rent	8,067,286	422,357	(4,834,766)	3,654,877
Capital lease obligations, net of current portion	1,321,290	-	-	1,321,290
Interest rate swap obligations	2,071,235	-	-	2,071,235
Notes payable, net of discount, current portion, and issuance costs	128,934,539	23,174,818	-	152,109,357
	165,422,584	23,641,494	(4,879,085)	184,184,993
Net assets:				
Unrestricted	127,592,021	472,694	-	128,064,715
Temporarily restricted	10,276,364	-	-	10,276,364
	137,868,385	472,694	-	138,341,079
	$ 303,290,969	$ 24,114,188	$ (4,879,085)	$ 322,526,072

KIPP DC and Affiliates

Consolidating Statement of Activities
Year Ended June 30, 2017

	KIPP DC/ Woodrock	KIPP DC – Douglass QALICB, Inc.	KIPP DC – Shaw QALICB, Inc.	Eliminations	Total
Support and revenue:					
Pupil allocation	$ 104,651,639	$ -	$ -	$ -	$ 104,651,639
Contributions, grants and events	4,433,680	37,036	-	(37,036)	4,433,680
Federal awards	13,008,597	-	-	-	13,008,597
Investment income	380,288	-	-	-	380,288
Interest income	233,715	-	270	-	233,985
Sublease rental income	693,527	-	1,101,244	(1,101,244)	693,527
Unrealized loss on interest rate swaps	2,822,497	-	-	-	2,822,497
Unrealized loss on interest rate cap	(2)	-	-	-	(2)
Other	563,683	-	-	-	563,683
Total support and revenue	126,787,624	37,036	1,101,514	(1,138,280)	126,787,894
Expenses:					
Program	101,012,130	-	1,104,678	(1,138,280)	100,978,528
General and administrative	13,064,726	-	345	-	13,065,071
Fundraising	934,751	-	-	-	934,751
Total expenses	115,011,607	-	1,105,023	(1,138,280)	114,978,350
Change in net assets	11,776,017	37,036	(3,509)	-	11,809,544
Net assets:					
Beginning	126,092,368	(37,036)	476,203	-	126,531,535
Ending	$ 137,868,385	$ -	$ 472,694	$ -	$ 138,341,079

KIPP DC and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2017

	Program	General and Administrative	Fundraising	Total
ORDINARY EXPENSE				
Personnel Salaries and Benefits				
Principal/Administrative Salary	$ 10,192,808	$ 5,995,952	$ 519,875	$ 16,708,635
Teachers Salaries	27,324,247	-	-	27,324,247
Teacher Aides/Assistants Salaries	6,716,182	-	-	6,716,182
Other Education Professionals Salaries	5,359,778	48,359	-	5,408,137
Other Staff Salaries	2,239,630	16,000	-	2,255,630
Employee Benefits and Payroll Taxes	9,418,556	1,106,082	94,547	10,619,185
Contracted Staff	44,663	31,977	891	77,531
Staff Development Expense	1,452,034	527,842	5,111	1,984,987
Subtotal: Personnel Expense	62,747,898	7,726,212	620,424	71,094,534
Direct Student Expense				
Student Supplies and Materials	4,794,067	-	-	4,794,067
Contracted Student Services	1,190,811	-	-	1,190,811
Food Service	5,644,268	-	-	5,644,268
Miscellaneous Student Expense	1,339,996	-	-	1,339,996
Subtotal: Direct Student Expense	12,969,142	-	-	12,969,142
Occupancy Expenses				
Rent	956,023	654,278	-	1,610,301
Building Maintenance and Repairs	774,113	708	-	774,821
Utilities	1,868,885	-	-	1,868,885
Janitorial Supplies	137,019	-	-	137,019
Contracted Building Services	4,652,281	76,342	594	4,729,217
Other Occupancy Expense	177,625	2,750	-	180,375
Subtotal: Occupancy Expenses	8,565,946	734,078	594	9,300,618
Office Expenses				
Office Supplies and Materials	855,562	597,903	931	1,454,396
Telephone/Telecommunications	654,445	100,662	-	755,107
Legal, Accounting, Technology, and Payroll Services	1,528,980	686,093	16,545	2,231,618
Printing and Copying	597,841	19,998	21,396	639,235
Postage and Shipping	21,191	7,541	3,649	32,381
Other	310,492	80,443	8,238	399,173
Subtotal: Office Expenses	3,968,511	1,492,640	50,759	5,511,910
General Expenses				
Insurance	9,315	488,256	-	497,571
Transportation	52,005	23,551	2,938	78,494
Administrative Fee (to PCSB)	-	1,202,642	-	1,202,642
Interest Expense and Amortization	6,373,174	-	-	6,373,174
Other General Expense	132,395	1,237,793	260,036	1,630,224
Subtotal: General Expenses	6,566,889	2,952,242	262,974	9,782,105
TOTAL ORDINARY EXPENSES	94,818,386	12,905,172	934,751	108,658,309
Depreciation	6,160,142	159,899	-	6,320,041
TOTAL EXPENSE	$ 100,978,528	$ 13,065,071	$ 934,751	$ 114,978,350