KIPP DC Public Charter Schools and Affiliates (formerly KIPP DC and Affiliates)

Consolidated Financial Report
June 30, 2018

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
KIPP DC Public Charter Schools

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of KIPP DC Public Charter Schools and Affiliates (formerly KIPP DC and Affiliates) (KIPP DC), which comprise the consolidated balance sheets as of June 30, 2018 and 2017; 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, 2018 and 2017, 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 25, 2018 and October 31, 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 and grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KIPP DC's 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 25, 2018

KIPP DC Public Charter Schools and Affiliates
(formerly KIPP DC and Affiliates)

Consolidated Balance Sheets
June 30, 2018 and 2017

		2018		2017
Assets				
Current assets:				
Cash and cash equivalents	**$**	**63,160,911**	$	58,727,038
Investments		**47,057,614**		42,866,618
Receivables, net		**2,971,383**		3,424,009
Prepaid expenses		**1,789,604**		1,863,826
Promises to give, net		**200,711**		430,711
Total current assets		**115,180,223**		107,312,202
Promises to give, net of discount and current portion		**759,156**		997,174
Restricted cash		**390,701**		550,578
Restricted investments		**16,574,866**		15,971,485
Deferred rental income		**7,494**		56,342
Note receivable, net		**17,705,702**		17,705,702
Property and equipment, net		**177,956,500**		179,691,476
Deposits		**225,925**		241,113
	$	**328,800,567**	$	322,526,072
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	**$**	**7,307,445**	$	4,898,234
Current portion of capital lease obligations		**96,000**		96,000
Current portion of notes payable		**1,563,901**		20,034,000
Total current liabilities		**8,967,346**		25,028,234
Deferred rent		**4,377,871**		3,654,877
Capital lease obligations, net of current portion		**1,340,271**		1,321,290
Interest rate swap obligations		**-**		2,071,235
Notes payable, net of discount, current portion and issuance costs		**180,736,765**		152,109,357
		195,422,253		184,184,993
Commitments and contingencies (Note 12)				
Net assets:				
Unrestricted		**124,000,360**		128,064,715
Temporarily restricted		**9,377,954**		10,276,364
		133,378,314		138,341,079
	$	**328,800,567**	$	322,526,072

See notes to consolidated financial statements.

KIPP DC Public Charter Schools and Affiliates
(formerly KIPP DC and Affiliates)

Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Pupil allocation	$ 117,830,732	$ -	$ 117,830,732	$ 104,651,639	$ -	$ 104,651,639
Contributions, grants and events	4,034,735	739,132	4,773,867	3,162,209	1,271,471	4,433,680
Federal awards	11,239,849	-	11,239,849	13,008,597	-	13,008,597
Investment income	1,327,758	-	1,327,758	380,286	-	380,286
Interest income	214,431	-	214,431	233,985	-	233,985
Sublease rental income	504,855	-	504,855	693,527	-	693,527
Unrealized gain on interest rate swaps	553,731	-	553,731	2,822,497	-	2,822,497
Other	690,864	-	690,864	563,683	-	563,683
Net assets released from restrictions	1,637,542	(1,637,542)	-	5,800,193	(5,800,193)	-
Total support and revenue	138,034,497	(898,410)	137,136,087	131,316,616	(4,528,722)	126,787,894
Expenses:						
Program	113,788,831	-	113,788,831	100,978,528	-	100,978,528
General and administrative	14,000,988	-	14,000,988	13,065,071	-	13,065,071
Fundraising	972,644	-	972,644	934,751	-	934,751
Total expenses	128,762,463	-	128,762,463	114,978,350	-	114,978,350
Change in net assets before other losses	9,272,034	(898,410)	8,373,624	16,338,266	(4,528,722)	11,809,544
Other losses:						
Loss on debt extinguishment	(13,336,389)	-	(13,336,389)	-	-	-
	(13,336,389)	-	(13,336,389)	-	-	-
Change in net assets	(4,064,355)	(898,410)	(4,962,765)	16,338,266	(4,528,722)	11,809,544
Net assets:						
Beginning	128,064,715	10,276,364	138,341,079	111,726,449	14,805,086	126,531,535
Ending	$ 124,000,360	$ 9,377,954	$ 133,378,314	$ 128,064,715	$ 10,276,364	$ 138,341,079

See notes to consolidated financial statements.

KIPP DC Public Charter Schools and Affiliates
(formerly KIPP DC and Affiliates)

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ (4,962,765)**	$ 11,809,544
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**6,669,722**	6,320,041
Amortization of debt issuance costs	**182,269**	308,687
Write-off of debt issuance costs	**2,564,305**	-
Unrealized gain on interest rate swap	**(553,731)**	(2,822,497)
Cash paid to settle swap transactions	**(1,517,504)**	-
Realized and unrealized loss (gain) on investments	**108,003**	(3,821)
Interest expense in excess of capital lease payments	**18,981**	17,557
Provision for allowance on doubtful accounts	**127,693**	109,400
Discount on promises to give	**(16,982)**	5,417
Amortization and write-off of debt premium	**(906,097)**	(30,872)
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	**324,933**	1,611,465
Prepaid expenses	**74,222**	(1,309,926)
Promises to give	**485,000**	3,092,402
Deferred rental income	**48,848**	20,189
Deposits	**15,188**	21,886
Increase (decrease) in:		
Accounts payable and accrued expenses	**1,254,109**	(315,275)
Deferred rent	**722,994**	420,323
Net cash provided by operating activities	**4,639,188**	19,254,520
Cash flows from investing activities:		
Purchases of property and equipment	**(3,779,644)**	(15,516,278)
Purchase of investments	**33,770,149**	(101,242,928)
Sales of investments	**(38,069,148)**	109,946,473
(Increase) decrease in restricted investments	**(603,381)**	4,253,571
Decrease in restricted cash	**159,877**	1,364,437
Net cash used in investing activities	**(8,522,147)**	(1,194,725)
Cash flows from financing activities:		
Principal payments on long-term debt	**(134,338,000)**	(732,000)
Proceeds from long-term debt	**144,670,244**	12,419,349
Debt issuance costs	**(2,015,412)**	-
Net cash provided by financing activities	**8,316,832**	11,687,349
Net increase in cash and cash equivalents	**4,433,873**	29,747,144

(Continued)

KIPP DC Public Charter Schools and Affiliates
(formerly KIPP DC and Affiliates)

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Cash and cash equivalents:		
Beginning	**$ 58,727,038**	$ 28,979,894
Ending	**$ 63,160,911**	$ 58,727,038
Supplemental disclosure of cash flow information:		
Cash payments for interest, net of interest capitalized (2018 – $0; 2017 – $13,737)	**$ 4,852,686**	$ 6,062,738
Supplemental schedule of noncash investing and financing activities:		
Property and equipment included in accounts payable and accrued expenses	**$ 1,480,659**	$ 325,557

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: KIPP DC Public Charter School and Affiliates is comprised of three entities: KIPP DC Public Charter School (KIPP DC), Woodrock LLC 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.

Effective September 14, 2017, KIPP DC legally changed its name from KIPP DC to KIPP DC Public Charter 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 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 New Markets Tax Credits (NMTC), as outlined in Internal Revenue Code (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. Subsequent to year-end, the parties agreed to unwind the existing financing transactions arrangements related to the development of its Shaw campus (see Note 16).

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, 2018. 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 Public Charter School and Affiliates are collectively referred to as KIPP DC.

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

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 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, 2018 and 2017.

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.

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, including restricted 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.

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

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 $237,093 and $109,400 at June 30, 2018 and 2017, respectively.

Promises to give: Contributions are recognized when the donor makes a gift or 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, 2018 and 2017.

Property and equipment: Property and equipment are recorded at cost, less accumulated depreciation. 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.

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 income or expense. The deferred rent asset and liability on the accompanying consolidated balance sheets represents the cumulative difference between the monthly rent income or expense and rent paid.

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

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, 2018 and 2017, 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, 2018 and 2017, 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 gift or 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.

Unconditional promises to give that are expected to be collected within one year are recorded at their net present realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as contributions until the conditions are met.

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.

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.

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

Tax status: KIPP DC Public Charter Schools is a tax-exempt organization under Section 501(c)(3) of the IRC and is not considered to be a private foundation. KIPP DC Public Charter Schools is exempt from federal taxes on income other than unrelated business income. KIPP DC Public Charter Schools did not have any net unrelated business income for the years ended June 30, 2018 and 2017. Shaw QALICB is a District of Columbia non-stock, nonprofit organization.

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, 2018, 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 2015.

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, 2017, financial statements have been reclassified to conform to the June 30, 2018, consolidated financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Pending accounting pronouncements: In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after June 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2018. KIPP DC is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

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

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 pending adoption of the new standard 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. KIPP DC is currently evaluating the impact of the pending adoption of the new standard on its 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 consolidated financial statements with certain practical expedients available. KIPP DC is currently evaluating the impact of the pending adoption of the new standard on its 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. KIPP DC is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

Subsequent events: Subsequent events have been evaluated through October 25, 2018, which is the date the consolidated financial statements were issued.

Note 2. Restricted Cash and Investments

Under the terms of certain notes payable, 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.

At June 30, 2018 and 2017, $390,701 and $550,578 in cash, respectively, and $16,574,866 and $15,971,485 in investments, respectively, were restricted for these purposes.

Note 2. Restricted Cash and Investments (Continued)

Restricted cash included $27,073 and $94,881 at June 30, 2018 and 2017, respectively, related to the KIPP DC – Shaw QALICB, Inc. City First Capital XX, LLC note payable. The other restricted cash balances at June 30, 2018 and 2017, of $363,628 and $455,697, respectively, related to restricted amounts pertaining to loans required for the Hamilton campus project.

Restricted investments of $8,786,473 at June 30, 2018, were due to requirements of the D.C. Revenue Bonds, KIPP DC Issue, Series 2017A and Series 2017B. The investment is restricted for bond project fund, debt service fund and debt service reserve. Restricted investments of $7,169,633 at June 30, 2017, 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. The Series 2013A bond was refinanced during the year ended June 30, 2018. In addition, restricted investments of $863,534 at June 30, 2017, 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. The Series 2014 bond was refinanced during the year ended June 30, 2018.

Other restricted investments at June 30, 2017, include an investment of $257,136 related to requirements of the D.C. Revenue Bonds, KIPP DC Issue, Series 2015. The Series 2015 bond was refinanced during the year ended June 30, 2018.

Lastly, at June 30, 2018 and 2017, KIPP DC holds $7,788,393 and $7,681,182, 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, 2018 and 2017, consist of the following:

	2018	2017
One year or less	$ 200,711	$ 430,711
One to five years	830,000	1,085,000
	1,030,711	1,515,711
Less discount on promises to give	(70,844)	(87,826)
	$ 959,867	$ 1,427,885

In addition, KIPP DC has conditional promises to give of a maximum of $202,000. 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, 2018 and 2017, consist of the following:

	2018	2017
Money market funds – U.S. Treasury securities	$ 4,627,147	$ 8,376,154
Certificates of deposit	20,526,481	18,019,925
Fixed income – Corporate bonds and U.S. Treasury securities	38,478,852	32,442,024
	$ 63,632,480	$ 58,838,103

Note 4. Investments (Continued)

Investment income for the years ended June 30, 2018 and 2017, consists of the following:

	2018	2017
Interest and dividends	$ 1,435,761	$ 376,465
Realized and unrealized (loss) gain	(108,003)	3,821
	$ 1,327,758	$ 380,286

Note 5. Property and Equipment

Property and equipment at June 30, 2018, 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	67,472,071	11,791,378	55,680,693	2,093,868
Computer equipment	3 years	1,095,600	565,046	530,554	67,240
Furniture and equipment	5 years	373,562	322,993	50,569	19,786
Leasehold improvements	Life of lease (a)	130,327,303	20,513,811	109,813,492	4,488,828
Construction-in-process	–	2,186,211	-	2,186,211	-
		$ 211,149,728	$ 33,193,228	$ 177,956,500	$ 6,669,722

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

Property and equipment at June 30, 2017, 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	–	$ 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.

Note 6. Capital Lease

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, 2018 and 2017, was $2,510,122 and $2,665,992, respectively.

Note 6. Capital Lease (Continued)

Future minimum lease payments remaining are as follows:

Years ending June 30:	
2019	$ 96,000
2020	96,000
2021	151,716
2022	156,264
2023	160,956
Thereafter	2,257,172
	2,918,108
Less amount representing interest	(1,481,837)
	$ 1,436,271

Note 7. Notes Payable

Long-term debt at June 30, 2018 and 2017, consists of the following:

	2018	2017
Principal amount	$ 169,439,000	$ 175,247,000
Plus premium on note payable	15,870,263	636,116
Less unamortized debt issuance costs	(3,008,597)	(3,739,759)
	$ 182,300,666	$ 172,143,357

Principal amounts of notes payable at June 30, 2018 and 2017, consist of the following:

	2018	2017
KIPP DC:		
District of Columbia Revenue Bonds (KIPP DC Issue – Series 2017A and Series 2017B); fixed semi-annual interest and annual principal payments maturity date of July 1, 2048.	$ 128,530,000	$ -
District of Columbia Revenue Bonds (KIPP DC Issue – Series 2013A); fixed semi-annual interest and annual principal payments until July 2048. The loan was legally defeased on December 28, 2017. The outstanding principal payments were deposited in escrow with a trustee.	-	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. The loan was fully repaid on December 28, 2017.	-	33,268,000

(Continued)

Note 7. Notes Payable (Continued)

		2018		2017
KIPP DC (Continued):				
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). The loan was fully repaid on December 28, 2017.	$	-	$	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. The loan was fully repaid on December 28, 2017.		-		20,000,000
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

(Continued)

Note 7. Notes Payable (Continued)

		2018		2017
KIPP DC – Shaw QALICB, Inc. (Continued):				
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
	$	169,439,000	$	175,247,000

On December 28, 2017, KIPP DC, through the District of Columbia, issued $128,530,000 of District of Columbia Revenue Bonds (KIPP DC Issue – Series 2017A and Series 2017B) (see Note 15). The proceeds were fully used in the transaction to legally defease the KIPP DC Issue – Series 2013, refinance the KIPP DC Issue – Series 2014, refinance the KIPP DC Issue – Series 2015 and refinance the note payable due to Compass Bank. The interest rate is fixed. The effective interest rate of the debt is approximately 3.9%. The loan calls for monthly payments of principal and interest through July 1, 2048.

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.

Annual principal payments on notes payable at June 30, 2018, are due in future years as follows:

Years ending June 30:		
2019	$	1,563,901
2020		2,915,314
2021		2,979,552
2022		3,073,882
2023		3,960,729
Thereafter		154,945,622
	$	169,439,000

Interest capitalized on these notes payable was $13,737 for the year ended June 30, 2017. There was no interest capitalized during the year ended June 30, 2018. Interest expense and amortization of the bond premium was $6,267,088 and $6,064,487 for the years ended June 30, 2018 and 2017, respectively.

Amortization expense was $182,269 and $308,687 for the years ended June 30, 2018 and 2017, respectively. During the year ended June 30, 2018, KIPP DC wrote off debt issuance costs of $2,564,303.

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 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. KIPP DC agreed 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) (1.22% at June 30, 2017). This agreement was designated as a hedging transaction to limit the KIPP DC's exposure to fluctuating interest payments due on its bonds. KIPP DC recognized a liability of $1,538,411 in the consolidated balance sheets at June 30, 2017. On December 28, 2017, KIPP DC settled this transaction for $1,156,504. During the years ended June 30, 2018 and 2017, KIPP DC recognized an unrealized gain of $381,907 and $2,010,427 as a component of change in net assets in the consolidated statements of activities for the years ended June 30, 2018 and 2017, respectively.

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 swap was $600,000. KIPP DC agreed 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 (1.22% at June 30, 2017). This agreement was designated as a hedging transaction to limit the KIPP DC's exposure to fluctuating interest payments due on its bonds. KIPP DC recognized a liability of $532,824 in the consolidated balance sheets at June 30, 2017. On December 28, 2017, KIPP DC settled this transaction for $361,000. During the years ended June 30, 2018 and 2017, KIPP DC recognized an unrealized gain of $171,824 and $812,070 as a component of change in net assets in the consolidated statements of activities for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, was $214,431 and $233,985, respectively.

Note 9. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets by purpose during the year ended June 30, 2018, were as follows:

	Balance June 30, 2017	Additions	Released From Restrictions	Balance June 30, 2018
Purpose restricted:				
College access	$ 656,171	$ 406,732	$ 389,987	$ 672,916
Other academic support	1,202,242	284,258	786,394	700,106
Facilities	5,000,000	-	-	5,000,000
Growth	20,065	-	-	20,065
Time restricted	3,397,886	48,142	461,161	2,984,867
	$ 10,276,364	$ 739,132	$ 1,637,542	$ 9,377,954

Note 9. Temporarily Restricted Net Assets (Continued)

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

Note 10. Pupil Allocation

KIPP DC's local per pupil allocation for the years ended June 30, 2018 and 2017, are as follows:

	2018	2017
General education	$ 72,457,262	$ 62,964,133
Categorical enhancements (SPED, At-risk, etc.)	25,849,939	23,621,414
Facilities	19,523,531	18,066,092
	$ 117,830,732	$ 104,651,639

Note 11. Retirement 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 $3,976,896 and $3,276,694 for the years ended June 30, 2018 and 2017, 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.

Note 12. Commitments and Contingencies (Continued)

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, 2018, 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, 2018, 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. During September 2017, KIPP DC amended the lease to provide for additional supplemental space.

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, 2018, net of lease credits noted above, are as follows:

Years ending June 30:	
2019	$ 1,373,809
2020	1,353,212
2021	1,322,938
2022	1,329,514
2023	1,353,555
Thereafter	24,353,456
	$ 31,086,484

For the years ended June 30, 2018 and 2017, total rent expense was $1,701,978 and $1,601,301, 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.

Note 12. Commitments and Contingencies (Continued)

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. Subsequent to year-end, the owner exercised its put option to sell its membership interest to KIPP DC (see Note 16).

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, 2018 and 2017.

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.

Note 13. Fair Value Measurements (Continued)

KIPP DC's swap agreements are 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, 2018, on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Money market funds:				
U.S. Treasury bonds	$ 4,627,147	$ 4,627,147	$ -	$ -
Fixed income:				
Certificate of deposits	20,526,481	-	20,526,481	-
Corporate bonds	18,342,178	-	18,342,178	-
U.S. Treasury bonds	20,136,674	-	20,136,674	-
Total assets	$ 63,632,480	$ 4,627,147	$ 59,005,333	$ -

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 swaps	$ 2,071,235	$ -	$ 2,071,235	$ -
Total liabilities	$ 2,071,235	$ -	$ 2,071,235	$ -

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, 2018. KIPP DC provides administrative services to KIPP DC SC. Amounts due from KIPP DC SC were $84,311 and $11,346 at June 30, 2018 and June 30, 2017, respectively.

Note 15. Major Transaction

As part of the December 28, 2017 bond transaction disclosed in Note 7, KIPP DC recognized a loss on the debt extinguishment due to the legal defeasance of the KIPP DC Issue – Series 2013 bond and the write-off of existing debt issuance costs. KIPP DC recognized a loss of $13,336,389 on the transaction.

Note 16. Subsequent Events

As discussed in Note 1, after the conclusion of the NMTC compliance period, the parties to KIPP DC's 2011 NMTC loan structure agreed to unwind the existing financing transactions arrangements related to the development of its Shaw campus; this unwind closed on October 5, 2018. One provision of the transaction called for the exercise of a put option between KIPP DC and the legal entity that controls the loans to Shaw QALICB at the option of the Investor entity. As part of the unwind transaction, Shaw QALICB assigned its interest in the ground lease to KIPP DC and the parties terminated the existing sublease and the debt facilities were extinguished. In effect, the notes payable to City First Capital XX, LLC (see Note 7), were settled with the note receivable from Chase NMTC KIPP DC Investment Fund, LLC, resulting in a gain for KIPP DC. KIPP DC intends to liquidate Shaw QALICB during the year ended June 30, 2019.

During August 2018, Woodrock entered into a sublease agreement with a third party for property and improvements at 421 Alabama Avenue, SE in Washington, D.C. with an expiration of January 30, 2035. Under terms of the agreement, Woodrock has agreed to a rent abatement of $1,800,000 as a mechanism to fund alterations of the lease property.

RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
KIPP DC Public Charter Schools

We have audited the consolidated financial statements of KIPP DC Public Charter Schools and Affiliates (formerly KIPP DC and Affiliates) (KIPP DC) as of and for the year ended June 30, 2018, 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 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 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 25, 2018

KIPP DC Public Charter Schools and Affiliates
(formerly KIPP DC and Affiliates)

Consolidating Balance Sheet
June 30, 2018

	KIPP DC/ Woodrock	KIPP DC – Shaw QALICB, Inc.	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 63,123,446	$ 37,465	$ -	$ 63,160,911
Investments	47,057,614	-	-	47,057,614
Receivables, net	2,990,583	-	(19,200)	2,971,383
Prepaid expenses	1,809,456	5,625	(25,477)	1,789,604
Promises to give, net	200,711	-	-	200,711
Total current assets	115,181,810	43,090	(44,677)	115,180,223
Promises to give, net of discount and current portion	759,156	-	-	759,156
Restricted cash	363,628	27,073	-	390,701
Restricted investments	16,574,866	-	-	16,574,866
Deferred rental income	7,494	5,630,287	(5,630,287)	7,494
Note receivable, net of current portion	17,705,702	-	-	17,705,702
Property and equipment, net	159,483,169	18,473,331	-	177,956,500
Deposits	225,925	-	-	225,925
	195,119,940	24,130,691	(5,630,287)	213,620,344
	$ 310,301,750	$ 24,173,781	$ (5,674,964)	$ 328,800,567
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 7,307,445	$ 19,200	$ (19,200)	$ 7,307,445
Current portion of capital lease obligations	96,000	-	-	96,000
Current portion of notes payable	955,000	608,901	-	1,563,901
Deferred revenue	-	25,477	(25,477)	-
Total current liabilities	8,358,445	653,578	(44,677)	8,967,346
Deferred rent	9,526,658	481,500	(5,630,287)	4,377,871
Capital lease obligations, net of current portion	1,340,271	-	-	1,340,271
Notes payable, net of discount, current portion, and issuance costs	158,166,933	22,569,832	-	180,736,765
	177,392,307	23,704,910	(5,674,964)	195,422,253
Net assets:				
Unrestricted	123,531,489	468,871	-	124,000,360
Temporarily restricted	9,377,954	-	-	9,377,954
	132,909,443	468,871	-	133,378,314
	$ 310,301,750	$ 24,173,781	$ (5,674,964)	$ 328,800,567

KIPP DC Public Charter Schools and Affiliates
(formerly KIPP DC and Affiliates)

Consolidating Statement of Activities
Year Ended June 30, 2018

	KIPP DC/ Woodrock	KIPP DC – Shaw QALICB, Inc.	Eliminations	Total
Support and revenue:				
Pupil allocation	$ 117,830,732	$ -	$ -	$ 117,830,732
Contributions, grants and events	4,773,867	-	-	4,773,867
Federal awards	11,239,849	-	-	11,239,849
Investment income	1,327,758	-	-	1,327,758
Interest income	214,239	192	-	214,431
Sublease rental income	504,855	1,101,244	(1,101,244)	504,855
Unrealized gain on interest rate swaps	553,731	-	-	553,731
Other	690,864	-	-	690,864
Total support and revenue	137,135,895	1,101,436	(1,101,244)	137,136,087
Expenses:				
Program	113,785,174	1,104,901	(1,101,244)	113,788,831
General and administrative	14,000,630	358	-	14,000,988
Fundraising	972,644	-	-	972,644
Total expenses	128,758,448	1,105,259	(1,101,244)	128,762,463
Change in net assets before other losses	8,377,447	(3,823)	-	8,373,624
Other losses:				
Loss on debt extinguishment	(13,336,389)	-	-	(13,336,389)
Change in net assets after other losses	(4,958,942)	(3,823)	-	(4,962,765)
Net assets:				
Beginning	137,868,385	472,694	-	138,341,079
Ending	$ 132,909,443	$ 468,871	$ -	$ 133,378,314

KIPP DC Public Charter Schools and Affiliates
(formerly KIPP DC and Affiliates)

Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Program	General and Administrative	Fundraising	Total
ORDINARY EXPENSE				
Personnel Salaries and Benefits				
Principal/Administrative Salary	$ 13,062,310	$ 6,437,624	$ 483,532	$ 19,983,466
Teachers Salaries	31,535,927	(8,882)	-	31,527,045
Teacher Aides/Assistants Salaries	6,120,764	10,860	-	6,131,624
Other Education Professionals Salaries	6,508,125	1,861	-	6,509,986
Other Staff Salaries	3,905,624	98,250	8,400	4,012,274
Employee Benefits and Payroll Taxes	11,031,578	1,200,105	88,694	12,320,377
Contracted Staff	52,394	116,506	-	168,900
Staff Development Expense	1,512,285	455,240	21,410	1,988,935
Subtotal: Personnel Expense	73,729,007	8,311,564	602,036	82,642,607
Direct Student Expense				
Student Supplies and Materials	5,637,826	-	-	5,637,826
Contracted Student Services	1,428,351	-	-	1,428,351
Food Service	5,497,480	-	-	5,497,480
Miscellaneous Student Expense	1,651,265	-	-	1,651,265
Subtotal: Direct Student Expense	14,214,922	-	-	14,214,922
Occupancy Expenses				
Rent	1,046,403	655,575	-	1,701,978
Building Maintenance and Repairs	998,719	4,665	-	1,003,384
Utilities	1,940,019	-	-	1,940,019
Janitorial Supplies	143,304	-	-	143,304
Contracted Building Services	4,682,293	106,703	-	4,788,996
Other Occupancy Expense	149,000	16,000	-	165,000
Subtotal: Occupancy Expenses	8,959,738	782,943	-	9,742,681
Office Expenses				
Office Supplies and Materials	1,016,906	979,148	1,064	1,997,118
Telephone/Telecommunications	643,036	117,626	305	760,967
Legal, Accounting, Technology and Payroll Services	1,152,594	910,296	45,727	2,108,617
Printing and Copying	601,374	22,403	30,881	654,658
Postage and Shipping	19,256	6,255	559	26,070
Other	333,212	96,793	29,382	459,387
Subtotal: Office Expenses	3,766,378	2,132,521	107,918	6,006,817
General Expenses				
Insurance	2,315	481,181	-	483,496
Transportation	48,570	29,448	2,893	80,911
Administrative Fee (to PCSB)	-	1,153,181	-	1,153,181
Interest Expense and Amortization	6,440,685	8,672	-	6,449,357
Other General Expense	155,351	903,621	259,797	1,318,769
Subtotal: General Expenses	6,646,921	2,576,103	262,690	9,485,714
TOTAL ORDINARY EXPENSES	107,316,966	13,803,131	972,644	122,092,741
Depreciation	6,471,865	197,857	-	6,669,722
TOTAL EXPENSE	$ 113,788,831	$ 14,000,988	$ 972,644	$ 128,762,463