KIPP DC and Affiliates

Consolidated Financial Report
June 30, 2015

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
KIPP DC
Washington, D.C.

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, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of KIPP DC as of June 30, 2015 and 2014, 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.

RSM US LLP

Washington, D.C.
October 28, 2015

KIPP DC and Affiliates

Consolidated Balance Sheets
June 30, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents (Note 1)	**$ 12,922,289**	$ 7,333,854
Investments (Note 5)	**51,470,640**	55,534,468
Receivables	**2,868,581**	2,574,492
Prepaid expenses	**953,999**	907,664
Promises to give, net	**1,987,496**	613,900
Total current assets	**70,203,005**	66,964,378
Promises to Give, Net of Discount and Current Portion	**4,538,044**	1,782,700
Restricted Cash	**2,075,512**	5,923,276
Restricted Investments	**6,774,552**	10,450,640
Deferred Rental Income	**77,907**	54,840
Note Receivable, Net	**17,705,702**	18,179,707
Property and Equipment, Net	**152,272,533**	120,540,964
Interest Rate Cap	**160**	3,047
Debt Issuance Costs, Net	**4,175,053**	2,764,789
Sinking Fund	**748,627**	499,085
Deposits	**275,208**	218,897
	$ 258,846,303	$ 227,382,323
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	**$ 9,978,927**	$ 8,284,219
Refundable advances	**30,781**	-
Current portion of capital lease obligations	**96,000**	90,000
Current portion of notes payable	**17,583,726**	5,625,000
Deferred revenue	**5,296**	3,608,745
Total current liabilities	**27,694,730**	17,607,964
Deferred Rent	**1,910,402**	544,210
Capital Lease Obligations	**1,281,944**	1,267,790
Interest Rate Swap Obligation	**1,357,155**	-
Notes Payable, Net of Discount and Current Portion	**124,943,818**	111,178,220
	157,188,049	130,598,184
Commitments and Contingencies (Note 13)		
Net Assets		
Unrestricted	**94,771,180**	91,394,389
Temporarily restricted	**6,887,074**	5,389,750
	101,658,254	96,784,139
	$ 258,846,303	$ 227,382,323

See Notes to Consolidated Financial Statements.

KIPP DC and Affiliates

Consolidated Statements of Activities
Years Ended June 30, 2015 and 2014

	2015			2014		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Pupil allocation	**$ 81,483,545**	**$ -**	**$ 81,483,545**	$ 59,693,092	$ -	$ 59,693,092
Contributions, grants and events	**4,979,230**	**5,915,984**	**10,895,214**	4,072,421	5,436,357	9,508,778
Contribution received in acquisition of ATA	**-**	**-**	**-**	6,968,117	402,905	7,371,022
Contributed services	**1,600,000**	**-**	**1,600,000**	-	-	-
Federal awards	**12,642,493**	**-**	**12,642,493**	10,168,718	-	10,168,718
Investment income	**70,515**	**-**	**70,515**	96,151	-	96,151
Interest income	**233,886**	**-**	**233,886**	234,053	-	234,053
Sublease rental income	**363,749**	**-**	**363,749**	134,994	-	134,994
Loss on interest rate swap	**(1,357,155)**	**-**	**(1,357,155)**	-	-	-
Loss on interest rate caps	**(2,887)**	**-**	**(2,887)**	(14,034)	-	(14,034)
Other	**432,335**	**-**	**432,335**	379,786	-	379,786
Net assets released from restrictions	**4,418,660**	**(4,418,660)**	**-**	1,506,673	(1,506,673)	-
Total support and revenue	**104,864,371**	**1,497,324**	**106,361,695**	83,239,971	4,332,589	87,572,560
Expenses						
Program	**77,440,437**	**-**	**77,440,437**	57,432,209	-	57,432,209
General and administrative	**10,878,010**	**-**	**10,878,010**	7,144,245	-	7,144,245
Fundraising	**820,821**	**-**	**820,821**	612,014	-	612,014
Total expenses	**89,139,268**	**-**	**89,139,268**	65,188,468	-	65,188,468
Change in net assets from operations	**15,725,103**	**1,497,324**	**17,222,427**	18,051,503	4,332,589	22,384,092
Related party contribution	**12,348,312**	**-**	**12,348,312**	-	-	-
Change in net assets after related party contribution	**3,376,791**	**1,497,324**	**4,874,115**	18,051,503	4,332,589	22,384,092
Net Assets						
Beginning	**91,394,389**	**5,389,750**	**96,784,139**	73,342,886	1,057,161	74,400,047
Ending	**$ 94,771,180**	**$ 6,887,074**	**$ 101,658,254**	$ 91,394,389	$ 5,389,750	$ 96,784,139

See Notes to Consolidated Financial Statements.

KIPP DC and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	**$ 4,874,115**	$ 22,384,092
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**5,379,326**	2,980,541
Debt issuance costs write off	**-**	562,398
Loss on interest rate swap	**1,357,155**	-
Loss on interest rate caps	**2,887**	14,034
Realized and unrealized loss (gain) on investments	**1,150**	(13,738)
Loss on disposal of property and equipment	**2,699**	21,011
Interest expense in excess of capital lease payments	**20,154**	18,642
Discount on promises to give	**2,656**	95,100
Discount on notes payable	**(30,873)**	1,626
Contribution from acquisition of ATA	**-**	(7,371,022)
ATA acquisition component included in promises to give	**-**	402,905
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(294,089)**	462,751
Prepaid expenses	**(46,335)**	101,925
Promises to give	**(4,131,596)**	(2,838,905)
Deferred rental income	**(23,067)**	(172)
Deposits	**(56,311)**	(21,186)
Increase (decrease) in:		
Accounts payable and accrued expenses	**342,291**	2,738,783
Refundable advances	**30,781**	(60,000)
Deferred revenue	**(3,603,449)**	467,332
Deferred rent	**1,366,192**	136,396
Net cash provided by operating activities	**5,193,686**	20,082,513
Cash Flows From Investing Activities		
Purchases of property and equipment	**(35,581,953)**	(32,521,180)
Proceeds from note receivable	**474,005**	-
ATA acquisition costs	**-**	(6,883)
Purchase of investments	**(8,937,818)**	(12,799,225)
Sales of investments	**13,000,496**	7,966,390
Increases (decrease) in restricted investments	**3,676,088**	(9,210,872)
(Increase) decrease in restricted cash	**3,847,764**	(3,742,404)
Net cash used in investing activities	**(23,521,418)**	(50,314,174)
Cash Flows From Financing Activities		
Principal payments on long-term debt	**(5,625,000)**	(34,386,294)
Proceeds from long-term debt	**31,380,197**	68,695,000
Increase in sinking fund	**(249,542)**	(211,178)
Debt issuance costs	**(1,589,488)**	(1,869,367)
Net cash provided by financing activities	**23,916,167**	32,228,161
Net increase in cash and cash equivalents	**5,588,435**	1,996,500

(Continued)

KIPP DC and Affiliates

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2015 and 2014

		2015		2014
Cash and Cash Equivalents				
Beginning	**$**	**7,333,854**	$	5,337,354
Ending	**$**	**12,922,289**	$	7,333,854
Supplemental Disclosure of Cash Flow Information				
Cash payments for interest, net of interest capitalized of (2015 – $164,122; 2014 – $747,060)	**$**	**3,322,393**	$	2,424,400
Supplemental Schedule of Noncash Investing and Financing Activities				
Property and equipment included in accounts payable and accrued expenses	**$**	**5,309,931**	$	3,957,514

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 15 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); four middle schools (KEY Academy, AIM Academy, WILL Academy and Northeast 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 the company 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 KIPP DC – Douglass QALICB, Inc. (Douglass QALICB) to meet the necessary structuring requirements to qualify for the NMTC. Douglass QALICB is a non-profit 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 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 KIPP DC – Shaw QALICB, Inc. (Shaw QALICB) to meet the necessary structuring requirements to qualify for the NMTC. Shaw QALICB is a not-for-profit 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 Internal Revenue Code, 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, 2015. 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 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 Accounting Standards Codification, *Financial Statements of Not-for-Profit Organizations*, KIPP DC is required to report information regarding its 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, 2015 and 2014.

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

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 professional managed portfolio that contains money market funds and certificates of deposit. 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 financial statements.

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

Receivables: Receivables are carried at original invoice 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 believes that an allowance was not required based on its evaluation of collectability of receivables at June 30, 2015 and 2014.

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 receivables are fully collectible, and there was no allowance for doubtful receivables at June 30, 2015. The provision for an allowance for doubtful accounts as of June 30, 2014 was $71,100.

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.

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 Accounting Standards Codification 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 agreement: 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 agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

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.

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

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 statement of financial position 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, 2015 and 2014, 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, 2015 and 2014, 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 received is recorded as deferred revenue.

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 revenue received 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.

Contributed services: KIPP DC receives contributions of services toward the fulfillment of program objectives and general operations. Those services, which meet the criteria for recognition, have been included in revenue and expense categories.

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.

Fair value of financial instruments: The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate fair value because of the short-term maturity of these instruments. The carrying amount of variable rate long-term debt approximates fair value, because the interest rates on these instruments fluctuate with market interest rates offered to KIPP DC for debt with similar terms and maturities. For fixed rate long-term debt, fair value is based on quoted market prices or dealer quotes for the identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data. The carrying amount of fixed rate long-term debt approximates fair value. Investments, the interest rate swap and the interest rate cap are carried at fair value.

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

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, 2015 and 2014. Douglass QALICB is a District of Columbia non-stock, non-profit organization. Shaw QALICB is a District of Columbia non-stock, non-profit organization. Douglass QALICB may file for tax-exempt status under Section 501(c)(2).

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 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 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, 2015, 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 2012.

Use of estimates: The preparation of 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 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, 2014, summarized comparative financial information have been reclassified to conform to the June 30, 2015, financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Pending 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 balance sheet 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.

Subsequent events: Subsequent events have been evaluated through October 28, 2015, 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 are restricted for specific purposes.

At June 30, 2015 and 2014, $2,075,512 and $5,923,276 in cash, and $6,774,552 and $10,450,640 in investments, were restricted for these purposes, respectively.

Note 2. Restricted Cash and Investments (Continued)

During the year end June 30, 2014, KIPP DC entered into a loan agreement with PNC bank in connection with the ATA acquisition (see Note 3). The loan term required KIPP DC to maintain a deposit account with the bank in an amount at no time to be less than the principal amount of the loan outstanding. At June 30, 2015 and 2014, the cash amount of $8,102 and $5,625,123 was restricted for this purpose. In addition, restricted cash included $230,323 and $298,153 at June 30, 2015 and 2014, respectively, related to the KIPP DC – Shaw QALICB, Inc. City First Capital XX, LLC note payable. The other restricted cash balances at June 30, 2015, of $1,837,087 relate to restricted amounts pertaining to loans acquired for the Hamilton campus project.

Restricted investments of $6,324,387 and $10,450,640 at June 30, 2015 and 2014, 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. Other restricted investments of $450,165 at June 30, 2015, were due to requirements of the D.C Variable Rate Revenue Bonds Series 2014 bonds.

Note 3. Acquisition

On June 11, 2014, KIPP DC acquired the asset of Arts and Technology Academy (ATA), a former District of Columbia non-profit corporation and public charter school. KIPP DC was authorized by the Public Charter School Board (PCSB) to become replacement operator at the former ATA campus starting in academic year 2014-2015.

On June 27, 2014, KIPP DC entered into a loan agreement with PNC bank to obtain financing for the acquisition of assets and repayment of loan obligations of ATA. In conjunction with the acquisition, fair value of assets and a non-cash contribution were received from ATA as follows:

Fair value of property acquired	$	12,600,000
Cash paid in conjunction with ATA acquisition		(6,883)
Cash transfer to ATA (paid off balance at ATA bank loan)		(5,625,000)
Promise to give, net, from ATA		402,905
Contribution received in acquisition of ATA	$	7,371,022

Note 4. Promises to Give

Promises to give at June 30, 2015 and 2014, consist of the following:

		2015		2014
One year or less	$	1,987,496	$	685,000
One to five years		4,638,000		1,880,000
		6,625,496		2,565,000
Less discount on promises to give		(99,956)		(97,300)
Less allowance		-		(71,100)
	$	6,525,540	$	2,396,600

In addition, KIPP DC has conditional promises to give of a maximum of $2,852,000. 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 5. Investments

Investments and restricted investments at June 30, 2015 and 2014, consist of the following:

	2015	2014
Money market funds - U.S. Treasury securities	$ 43,145,192	$ 36,540,002
Certificates of deposit	15,100,000	29,345,850
Equities	-	99,256
	$ 58,245,192	$ 65,985,108

The end of year unrestricted investment balance was approximately $51.5 million. This consists of four primary components: 1) approximately $27 million (or 120 days cash on hand) required as part of the KIPP DC Master Trust Indenture and other debt covenants related to the Series 2013 and Series 2014 bonds, 2) approximately $17.6 million which management anticipates using to pay off outstanding debt related to the Douglass campus in the spring of 2016, 3) approximately $4 million anticipated to be used in FY16 as the equity contribution for the Blaine/Smilow campus renovation, and 4) approximately $2.9 million held as capital improvement reserves for all existing campuses.

Although these investments are considered unrestricted for accounting purposes, management considers the full investment balance as required to meet the KIPP DC Master Trust Indenture and other debt covenants, responsibly pay down debt, and make necessary capital improvements.

Investment income for the years ended June 30, 2015 and 2014, consists of the following:

	2015	2014
Interest and dividends	$ 71,665	$ 82,413
Realized and unrealized (loss) gain	(1,150)	13,738
	$ 70,515	$ 96,151

Note 6. Property and Equipment

Property and equipment at June 30, 2015, 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	–	$ 8,900,235	$ -	$ 8,900,235	$ -
Building and improvements	28 to 40 years	41,373,600	6,574,070	34,799,530	1,218,026
Computer equipment	3 years	518,167	385,051	133,116	99,787
Furniture and equipment	5 years	308,624	258,437	50,187	20,709
Leasehold improvements	Life of lease (a)	81,102,707	8,952,726	72,149,981	3,861,580
Construction-in-process	–	36,239,484	-	36,239,484	-
		$ 168,442,817	$ 16,170,284	$ 152,272,533	$ 5,200,102

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

Note 6. Property and Equipment (Continued)

Property and equipment at June 30, 2014, 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	41,249,030	5,356,044	35,892,986	945,708
Computer equipment	3 years	450,940	285,264	165,676	93,183
Furniture and equipment	5 years	304,829	250,810	54,019	31,538
Leasehold improvements	Life of lease (a)	68,808,154	5,091,146	63,717,008	1,792,882
Construction-in-process	–	11,811,040	-	11,811,040	-
		$ 131,524,228	$ 10,983,264	$ 120,540,964	$ 2,863,311

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

Note 7. 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 and accumulated depreciation at June 30, 2015 and 2014, were $2,998,853 and $3,116,476, respectively.

Future minimum lease payments remaining are as follows:

Years Ending June 30,	
2016	$ 96,000
2017	96,000
2018	96,000
2019	96,000
2020	96,000
Thereafter	2,726,108
	3,206,108
Less amount representing interest	(1,828,164)
	$ 1,377,944

Note 8. Notes Payable

Long-term debt at June 30, 2015 and 2014, consists of the following:

	2015	2014
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
Short-term bridge loan from PNC Bank due on June 27, 2015. This term loan has an interest rate of 0.5% above 30-day LIBOR, adjusting daily.	-	5,625,000
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.	13,991,197	-
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	-
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	-
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	-
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	-
KIPP DC – Douglass QALICB, Inc.:		
New Markets Investment 40, LLC promissory note, fixed interest at 4.8095%, payable monthly on the first banking day of each month. Balance due in full on May 9, 2044. Per the promissory note, in May 2016, the lender has the option to require prepayment in the amount of $7,583,726 and thereby, relieve KIPP DC of the remaining balance due.	13,859,486	13,859,486
Bank of America CDE I, LLC loan, fixed interest at 6.110%, payable monthly on the first banking day of each month. Balance due in full on May 9, 2016.	10,000,000	10,000,000

(Continued)

Note 8. Notes Payable (Continued)

	2015	2014
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
	141,829,683	116,074,486
Plus premium on note payable	697,861	728,734
	$142,527,544	$116,803,220

These notes payable are collateralized by cash, pledges on 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 these notes payable at June 30, 2015, are due in future years as follows:

Years Ending June 30,	
2016	$ 17,583,726
2017	1,460,000
2018	1,660,797
2019	2,465,730
2020	2,536,922
Thereafter	116,122,509
	141,829,684
Premium on note payable	697,860
	$ 142,527,544

Interest capitalized on these notes payable was $164,122 and $747,060 for the years ended June 30, 2015 and 2014, respectively. Interest expense was $5,216,556 and $4,214,875 for the years ended June 30, 2015 and 2014, respectively.

Note 8. Notes Payable (Continued)

In order to mitigate the risk of a floating interest rate on the Variable Rate Demand Revenue Bonds, KIPP DC entered into an interest rate cap agreement during the year ended June 30, 2008. The original notional value of this cap was $28,225,000 and the cost of the cap was $616,500. In exchange, KIPP DC has received rate protection not to exceed 4% through the end of the agreement, which expired on May 1, 2015. As a separate financial interest, 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, 2015 and 2014, the value of the cap was $0. The notional value of the cap was $26,435,000 as of June 30, 2014.

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, 2015 and 2014, the value of the cap was $160 and $3,047, respectively. The notional value of the cap was $3,479,000 as of June 30, 2015.

For the years ended June 30, 2015 and 2014, (losses) on the caps were ($2,887) and ($14,034), 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 (the Bank) during the year ended June 30, 2015. The original notional value of this cap was $14,700,000. KIPP DC agrees to pay the Bank 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 LIBOR (the LIBOR rate was 0.19% at June 30, 2015). 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 $1,357,155 in the statement of financial position and the related unrealized loss of $1,357,155 as a component of change in net assets in the statement of activities for the year ended June 30, 2015.

Note 9. 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, 2015 and 2014, was $233,886 and $234,053, respectively.

As part of the acquisition agreement with ATA (Note 3), KIPP DC entered into a promissory note agreement with ATA which agrees to pay KIPP DC $474,005 on or before November 1, 2014. The outstanding balance on the note receivable was paid during the year ended June 30, 2015.

Note 10. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets, by purpose, during the years ended June 30, 2015, and 2014 were as follows:

	Balance June 30, 2014	Additions	Released From Restrictions	Balance June 30, 2015
Purpose restricted				
Elementary school development	$ 25,371	$ 282,774	$ 308,145	$ -
Teacher training	50,000	67,795	117,795	-
College access	400,000	551,181	667,279	283,902
Other academic support	166,500	246,530	388,030	25,000
Facilities	250,000	-	250,000	-
Growth	1,627,274	209,360	1,784,002	52,632
Time restricted	2,870,605	4,558,344	903,409	6,525,540
	$ 5,389,750	$ 5,915,984	$ 4,418,660	$ 6,887,074

Changes in temporarily restricted net assets, by purpose, during the year ended June 30, 2014, were as follows:

	Balance June 30, 2013	Additions	Released From Restrictions	Balance June 30, 2014
Purpose restricted				
Elementary school development	$ 529,000	$ 174,678	$ 678,307	$ 25,371
Teacher training	25,000	35,000	10,000	50,000
College access	112,000	627,386	339,386	400,000
Other academic support	265,413	204,860	303,773	166,500
Facilities	-	250,000	-	250,000
Growth	-	1,627,274	-	1,627,274
Time restricted	125,748	2,920,064	175,207	2,870,605
	$ 1,057,161	$ 5,839,262	$ 1,506,673	$ 5,389,750

Note 11. Pupil Allocation

KIPP DC received $81,483,545 and $59,693,092 in fiscal years 2015 and 2014, respectively, in local per pupil funding. These amounts included $13,943,808 and $10,917,000 in facilities per pupil allocations.

Note 12. 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 $2,430,114 and $1,643,601 for the years ended June 30, 2015 and 2014, respectively. Of the amount paid at June 30, 2015 and 2014, $305,008 and $208,131 were paid from forfeited funds on KIPP DC’s 403(b) Plan balance sheet.

Note 13. Commitments and Contingencies

Lease obligations: KIPP DC has 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.

Note 13. Commitments and Contingencies (Continued)

In July 2010, KIPP DC entered into an operating lease with an unrelated commercial entity for its headquarter space through December 2017. During the year ended June 30, 2013, KIPP DC amended this lease for additional space of three office suites. During the year ended June 30, 2015, KIPP DC sublet 3,427 square feet of its K Street headquarters office space to an unrelated third party. Subsequent to year-end, KIPP DC terminated a portion of its K Street headquarters space operating lease.

In December 2014, KIPP DC entered into a 10-year operating lease with an unrelated commercial entity for KIPP DC's headquarter space at Watergate, 2600 Virginia Avenue NW, Washington DC. KIPP DC took occupancy in April 2015. The lease calls for monthly base rent payments commencing in August 2015.

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 a credit against the annual base rent in an amount equal to KIPP DC's actual construction costs. For the year ended June 30, 2015, the construction costs related to the Webb Campus were approximately $21.9 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 payment. 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 a credit against the annual base rent in an amount equal to KIPP DC's actual construction costs. For the year ended June 30, 2015, the construction costs related to the Hamilton Campus were approximately $35.4 million.

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, 2015, net of lease credits noted above, are as follows:

Years Ending June 30,	
2016	$ 1,867,287
2017	1,910,139
2018	1,673,846
2019	1,454,835
2020	1,471,591
Thereafter	27,101,707
	$ 35,479,405

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.

Note 13. Commitments and Contingencies (Continued)

Construction contracts: In June 2014, KIPP DC entered in an agreement with a construction company to renovate its Hamilton Campus. In addition, during September 2014, KIPP DC added approximately $26.5 million in scope to the contract with a construction company for the Hamilton Campus. As of June 30, 2015, the contract value was approximately $43.3 million. The remaining value of the contract is approximately $13.6 million.

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". KIPP DC has determined that this agreement meets the definition of an operating lease. 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 14. Fair Value Measurements

KIPP DC follows the Fair Value Measurement Topic of the FASB Accounting Standards Codification, 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, 2015 and 2014.

KIPP DC holds money market funds that are publicly traded on a stock exchange and are considered Level 1 items. Corporate certificates of deposit 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.

Note 14. Fair Value Measurements (Continued)

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

	2015			
	Total	Level 1	Level 2	Level 3
Money market funds				
U.S. Treasury bonds	$ 43,145,192	$ 43,145,192	$ -	$ -
Interest rate cap	160	-	160	-
Total assets	$ 43,145,352	$ 43,145,192	$ 160	$ -
Interest rate swap	$ 1,357,155	$ -	$ 1,357,155	$ -
Total liabilities	$ 1,357,155	$ -	$ 1,357,155	$ -

	2014			
	Total	Level 1	Level 2	Level 3
Money market funds				
U.S. Treasury bonds	$ 36,540,002	$ 36,540,002	$ -	$ -
Corporate certificate of deposit	14,895,850	-	14,895,850	-
Equities	99,256	99,256	-	-
Interest rate cap	3,047	-	3,047	-
Total assets	$ 51,538,155	$ 36,639,258	$ 14,898,897	$ -

The table below reconciles total investments per Note 14 above:

	2015	2014
Fair value measurements	$ 43,145,352	$ 51,538,155
Interest rate cap	(160)	(3,047)
Non-negotiable certificates of deposit	15,100,000	14,450,000
	$ 58,245,192	$ 65,985,108

Note 15. Subsequent Events

Subsequent to the year ended June 30, 2015, KIPP DC entered into a credit agreement with Compass Mortgage Corporation on August 1, 2015, for the direct purchase of up to $20,000,000 tax-exempt draw down bonds issued by the District of Columbia (Series 2015), the proceeds of which will be used to provide financing related to the acquisition, development, construction and renovation of the facility at 5300 Blaine Street, NE, Washington, D.C. (Facility).

In conjunction with the Series 2015 bonds, KIPP DC entered into an interest rate swap agreement with Compass Mortgage Corporation on August 1, 2015, which effectively converts $20,000,000 of the variable rate Series 2015 bonds to a fixed rate of 1.822%. The swap period begins on September 1, 2015, and the notional amount swapped to a fixed rate decreases as the bonds are expected to be drawn down. The agreement terminates on October 1, 2026.

Note 16. Related Party Transactions

KIPP DC made a voluntary general contribution, as voted on by the Board of Directors, of $12,348,318 to KIPP DC SC during the year ended June 30, 2015.

RSM

RSM US LLP

Independent Auditor's Report
on the Supplementary Information

To the Board of Directors
KIPP DC
Washington, D.C.

We have audited the consolidated financial statements of KIPP DC and Affiliates (KIPP DC) as of and for the year ended June 30, 2015, 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 28, 2015

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KIPP DC and Affiliates

Consolidating Balance Sheet
June 30, 2015

	KIPP DC/ Woodrock	KIPP DC – Douglass QALICB, Inc.	KIPP DC – Shaw QALICB, Inc.	Eliminations	Total
Assets					
Current Assets					
Cash and cash equivalents (Note 1)	$ 12,530,110	$ 363,441	$ 28,738	$ -	$ 12,922,289
Investments (Note 5)	51,470,640	-	-	-	51,470,640
Receivables	4,393,741	-	-	(1,525,160)	2,868,581
Prepaid expenses	1,110,401	22,950	5,625	(184,977)	953,999
Promises to give, net	1,987,496	-	-	-	1,987,496
Total current assets	71,492,388	386,391	34,363	(1,710,137)	70,203,005
Promises to Give, Net of Discount and Current Portion	4,538,044	-	-	-	4,538,044
Restricted Cash	1,845,189	-	230,323	-	2,075,512
Restricted Investments	6,774,552	-	-		6,774,552
Deferred Rental Income	77,907	2,813,370	3,243,726	(6,057,096)	77,907
Note Receivable, Net	17,705,702	-	-	-	17,705,702
Property and Equipment, Net	109,697,731	22,086,308	20,488,494	-	152,272,533
Interest Rate Cap	160	-	-	-	160
Debt Issuance Costs, Net	3,398,216	425,563	351,274	-	4,175,053
Sinking Fund	-	748,627	-	-	748,627
Deposits	275,208	-	-	-	275,208
	144,312,709	26,073,868	24,313,817	(6,057,096)	188,643,298
	$ 215,805,097	$ 26,460,259	$ 24,348,180	$ (7,767,233)	$ 258,846,303
Liabilities and Net Assets					
Current Liabilities					
Accounts payable and accrued expenses	$ 9,853,495	$ 1,632,035	$ 18,557	$ (1,525,160)	$ 9,978,927
Refundable advances	30,781	-	-	-	30,781
Current portion of capital lease obligations	96,000	-	-	-	96,000
Current portion of notes payable	17,583,726	-	-	-	17,583,726
Deferred revenue	5,296	159,500	25,477	(184,977)	5,296
Total current liabilities	27,569,298	1,791,535	44,034	(1,710,137)	27,694,730
Deferred Rent	7,531,054	132,373	304,071	(6,057,096)	1,910,402
Capital Lease Obligations, Net of Current Portion	1,281,944	-	-	-	1,281,944
Interest Rate Swap Obligation	1,357,155	-	-	-	1,357,155
Notes Payable, Net of Discount and Current Portion	77,564,332	23,859,486	23,520,000	-	124,943,818
	115,303,783	25,783,394	23,868,105	(7,767,233)	157,188,049
Net Assets					
Unrestricted	93,614,240	676,865	480,075	-	94,771,180
Temporarily restricted	6,887,074	-	-	-	6,887,074
	100,501,314	676,865	480,075	-	101,658,254
	$ 215,805,097	$ 26,460,259	$ 24,348,180	$ (7,767,233)	$ 258,846,303

KIPP DC and Affiliates

Consolidating Statement of Activities
Year Ended June 30, 2015

	KIPP DC/ Woodrock	KIPP DC – Douglass QALICB, Inc.	KIPP DC – Shaw QALICB, Inc.	Eliminations	Total
Support and Revenue					
Pupil allocation	$ 81,483,545	$ -	$ -	$ -	$ 81,483,545
Contributions, grants and events	10,895,214	-	-	-	10,895,214
Contribution received in acquisition of ATA	-	-	-	-	-
Contributed services	1,600,000	-	-	-	1,600,000
Federal awards	12,642,493	-	-	-	12,642,493
Investment income	70,515	-	-	-	70,515
Interest income	233,715	-	171	-	233,886
Sublease rental income	363,749	2,210,909	1,101,244	(3,312,153)	363,749
Loss on interest rate swap	(1,357,155)				(1,357,155)
Loss on interest rate caps	(2,887)	-	-	-	(2,887)
Other	432,335	-	-	-	432,335
Total support and revenue	106,361,524	2,210,909	1,101,415	(3,312,153)	106,361,695
Expenses					
Program	77,176,171	2,471,964	1,104,455	(3,312,153)	77,440,437
General and administrative	10,871,511	3,055	3,444	-	10,878,010
Fundraising	820,821	-	-	-	820,821
Total expenses	88,868,503	2,475,019	1,107,899	(3,312,153)	89,139,268
Change in net assets from operations	17,493,021	(264,110)	(6,484)	-	17,222,427
Related party contribution	12,348,312	-	-	-	12,348,312
Change in net assets after related party contribution	5,144,709	(264,110)	(6,484)	-	4,874,115
Net Assets					
Beginning	95,356,605	940,975	486,559	-	96,784,139
Ending	$ 100,501,314	$ 676,865	$ 480,075	$ -	$ 101,658,254

KIPP DC and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2015

	Program	General and Administrative	Fundraising	Total
Salaries	$ 37,805,409	$ 4,168,695	$ 492,431	$ 42,466,535
Direct Student Expense	10,651,802	-	-	10,651,802
Payroll Taxes and Employee Benefits	6,982,949	769,990	90,956	7,843,895
Occupancy Costs	7,081,338	488,354	-	7,569,692
Depreciation and Amortization	5,328,874	50,452	-	5,379,326
Interest Expense	5,216,556	-	-	5,216,556
Office Expense	2,384,886	987,698	21,068	3,393,652
Professional Services and Other Fees	295,946	1,461,657	35,906	1,793,509
Staff Development and Staff Events	1,316,252	432,975	4,508	1,753,735
Contributed services	-	1,600,000	-	1,600,000
Travel, Outreach, Insurance, Subgrants and Licenses	376,425	918,189	175,952	1,470,566
	$ 77,440,437	$ 10,878,010	$ 820,821	$ 89,139,268