KIPP DC and Affiliates

Consolidated Financial Report
June 30, 2016

Contents

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, 2016 and 2015, and 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. 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, 2016 and 2015, 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 26, 2016

KIPP DC and Affiliates

Consolidated Balance Sheets
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 28,979,894**	$ 12,922,289
Investments	**51,566,340**	51,470,640
Receivables	**5,144,874**	2,868,581
Prepaid expenses	**553,900**	953,999
Promises to give, net	**3,248,113**	1,987,496
Total current assets	**89,493,121**	70,203,005
Promises to give, net of discount and current portion	**1,277,591**	4,538,044
Restricted cash	**1,915,015**	2,075,512
Restricted investments	**20,225,056**	6,774,552
Deferred rental income	**76,531**	77,907
Note receivable, net	**17,705,702**	17,705,702
Property and equipment, net	**175,668,748**	152,272,533
Interest rate cap	**2**	160
Debt issuance costs, net	**4,048,446**	4,175,053
Sinking fund	**-**	748,627
Deposits	**262,999**	275,208
	$ 310,673,211	$ 258,846,303
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 10,387,018**	$ 9,978,927
Refundable advances	**-**	30,781
Current portion of capital lease obligations	**96,000**	96,000
Current portion of notes payable	**1,460,000**	17,583,726
Deferred revenue	**-**	5,296
Total current liabilities	**11,943,018**	27,694,730
Deferred rent	**3,234,554**	1,910,402
Capital lease obligations, net of current portion	**1,303,733**	1,281,944
Interest rate swap obligations	**4,893,732**	1,357,155
Notes payable, net of discount and current portion	**162,766,639**	124,943,818
	184,141,676	157,188,049
Commitments and contingencies (Note 12)		
Net assets:		
Unrestricted	**111,726,449**	94,771,180
Temporarily restricted	**14,805,086**	6,887,074
	126,531,535	101,658,254
	$ 310,673,211	$ 258,846,303

See notes to consolidated financial statements.

KIPP DC and Affiliates

Consolidated Statements of Activities
Years Ended June 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Pupil allocation	$ 90,655,801	$ -	$ 90,655,801	$ 81,483,545	$ -	$ 81,483,545
Contributions, grants and events	3,878,066	12,381,876	16,259,942	4,979,230	5,915,984	10,895,214
Contributed services	-	-	-	1,600,000	-	1,600,000
Federal awards	14,184,564	-	14,184,564	12,642,493	-	12,642,493
Investment income	86,074	-	86,074	70,515	-	70,515
Interest income	234,003	-	234,003	233,886	-	233,886
Sublease rental income	583,027	-	583,027	363,749	-	363,749
Unrealized loss on interest rate swaps	(3,536,577)	-	(3,536,577)	(1,357,155)	-	(1,357,155)
Unrealized loss on interest rate caps	(158)	-	(158)	(2,887)	-	(2,887)
Other	419,788	-	419,788	432,335	-	432,335
Net assets released from restrictions	4,463,864	(4,463,864)	-	4,418,660	(4,418,660)	-
Total support and revenue	110,968,452	7,918,012	118,886,464	104,864,371	1,497,324	106,361,695
Expenses:						
Program	88,871,430	-	88,871,430	77,440,437	-	77,440,437
General and administrative	10,348,708	-	10,348,708	10,878,010	-	10,878,010
Fundraising	1,006,047	-	1,006,047	820,821	-	820,821
Total expenses	100,226,185	-	100,226,185	89,139,268	-	89,139,268
Change in net assets before other gains (losses)	10,742,267	7,918,012	18,660,279	15,725,103	1,497,324	17,222,427
Other gains (losses):						
Related party contribution	-	-	-	(12,348,312)	-	(12,348,312)
Gain on NMTC transaction unwind	6,213,002	-	6,213,002	-	-	-
	6,213,002	-	6,213,002	(12,348,312)	-	(12,348,312)
Change in net assets after other gains (losses)	16,955,269	7,918,012	24,873,281	3,376,791	1,497,324	4,874,115
Net assets:						
Beginning	94,771,180	6,887,074	101,658,254	91,394,389	5,389,750	96,784,139
Ending	$ 111,726,449	$ 14,805,086	$ 126,531,535	$ 94,771,180	$ 6,887,074	$ 101,658,254

See notes to consolidated financial statements.

KIPP DC and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ 24,873,281**	$ 4,874,115
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**5,366,065**	5,200,102
Amortization	**276,251**	179,224
Debt issuance costs write off	**381,177**	-
Unrealized loss on interest rate swap	**3,536,577**	1,357,155
Unrealized loss on interest rate caps	**158**	2,887
Gain on debt forgiveness	**(6,213,002)**	-
Realized and unrealized loss on investments	**9,626**	1,150
Loss on disposal of property and equipment	**1,717**	2,699
Interest expense in excess of capital lease payments	**21,789**	20,154
Discount on promises to give	**(17,547)**	2,656
Discount on notes payable	**(30,873)**	(30,873)
Contributions restricted for capital improvements	**(5,000,000)**	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(2,276,293)**	(294,089)
Prepaid expenses	**400,099**	(46,335)
Promises to give	**2,017,383**	(4,131,596)
Deferred rental income	**1,376**	(23,067)
Deposits	**12,209**	(56,311)
Increase (decrease) in:		
Accounts payable and accrued expenses	**218,956**	342,291
Refundable advances	**(30,781)**	30,781
Deferred revenue	**(5,296)**	(3,603,449)
Deferred rent	**1,324,152**	1,366,192
Net cash provided by operating activities	**24,867,024**	5,193,686
Cash flows from investing activities:		
Purchases of property and equipment	**(28,574,862)**	(35,581,953)
Proceeds from note receivable	**-**	474,005
Purchase of investments	**(3,847,307)**	(8,937,818)
Sales of investments	**3,741,981**	13,000,496
(Increase) decrease in restricted investments	**(13,450,504)**	3,676,088
Decrease in restricted cash	**160,497**	3,847,764
Net cash used in investing activities	**(41,970,195)**	(23,521,418)
Cash flows from financing activities:		
Principal payments on long-term debt	**(17,646,483)**	(5,625,000)
Proceeds from long-term debt	**45,589,453**	31,380,197
Decrease (increase) in sinking fund	**748,627**	(249,542)
Debt issuance costs	**(530,821)**	(1,589,488)
Contributions restricted for capital improvements	**5,000,000**	-
Net cash provided by financing activities	**33,160,776**	23,916,167
Net increase in cash and cash equivalents	**16,057,605**	5,588,435

(Continued)

KIPP DC and Affiliates

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

	2016	2015
Cash and cash equivalents:		
Beginning	**$ 12,922,289**	$ 7,333,854
Ending	**$ 28,979,894**	$ 12,922,289
Supplemental disclosure of cash flow information:		
Cash payments for interest, net of interest capitalized (2016 – $144,090; 2015 – $164,122)	**$ 6,115,862**	$ 3,322,393
Supplemental schedule of noncash investing and financing activities:		
Property and equipment included in accounts payable and accrued expenses	**$ 5,499,066**	$ 5,309,931

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

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

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

On September 6, 2006, KIPP DC purchased 100% of the interest in Woodrock LLC (Woodrock). Woodrock holds the lease for the property and improvements at 421 Alabama Avenue, SE in Washington, D.C.; this lease is Woodrock's only activity. KIPP DC is the sole member of Woodrock, and 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 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 May 9, 2016, the School, after a series of transactions, was able to unwind its existing financing arrangements related to the development of its Douglass Road campus. As part of the unwind transaction, the parties eliminated the long-term leases between them through an inter-company purchase agreement; the debt facilities were paid off; and new obligations were obtained through bond/bank financing. The School subsequently liquidated the Douglass QALICB in July 2016.

On October 4, 2011, KIPP DC entered into a credit agreement in the principal amount of $23,520,000 as part of the transaction structured to qualify for the NMTC, as outlined in IRC Section 45D. As part of the transaction, KIPP DC formed Shaw QALICB to meet the necessary structuring requirements to qualify for the NMTC. Shaw QALICB is a non-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 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, 2016. 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 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, 2016 and 2015.

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 (DCPCSB). 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. On November 16, 2015, KIPP DC renewed the 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 professional 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.

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

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

Receivables: Receivables are carried at original invoice 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, 2016 and 2015.

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, 2016 and 2015.

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

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

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

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 consolidated balance sheets represents the cumulative difference between the monthly rent expense and rent paid.

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

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

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of KIPP DC pursuant to these stipulations. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. Temporarily restricted net assets were released from restrictions during the years ended June 30, 2016 and 2015, 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, 2016 and 2015, temporarily restricted net assets represented amounts restricted for specific education-related expenses and future periods.

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

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

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

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.

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, 2016 and 2015. 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 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, 2016, 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 2013.

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 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, 2015, summarized comparative financial information have been reclassified to conform to the June 30, 2016, consolidated 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 consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective for KIPP DC for the year ending June 30, 2017, but early adoption is permissible.

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 beginning July 1, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Kipp DC is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

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

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 consolidated financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Early 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 has not yet evaluated the impact of this ASU on the consolidated financial statements.

Subsequent events: Subsequent events have been evaluated through October 26, 2016, which is the date the consolidated financial statements were available to be issued.

Note 2. Restricted Cash and Investments

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

At June 30, 2016 and 2015, $1,915,015 and $2,075,512 in cash, respectively, and $20,225,056 and $6,774,552 in investments, respectively, were restricted for these purposes.

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. During the year end June 30, 2014, KIPP DC entered into a loan agreement with PNC bank in connection with the ATA acquisition. 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, 2016 and 2015, the cash amount of $0 and $8,102, respectively, was restricted for this purpose. In addition, restricted cash included $162,611 and $230,323 at June 30, 2016 and 2015, respectively, related to the KIPP DC – Shaw QALICB, Inc. City First Capital XX, LLC note payable. The other restricted cash balances at June 30, 2016 and 2015, of $1,752,404 and $1,837,087, respectively, relate to restricted amounts pertaining to loans required for the Hamilton campus project.

Restricted investments of $6,356,102 and $6,324,387 at June 30, 2016 and 2015, respectively, were due to requirements of the D.C. Revenue Bonds, KIPP DC Issue, Series 2013A. The investment is restricted for bond project fund, debt service fund and debt service reserve. In addition, restricted investments of $4,309,428 and $450,165 at June 30, 2016 and 2015, respectively, were due to requirements of the D.C. Variable Rate Revenue Bonds Series 2014 bonds. The investment is restricted for bond project fund, debt service fund and debt service reserve. Other restricted investments at June 30, 2016, include an investment of $210,091 related to requirements of the D.C. Revenue Bonds, KIPP DC issue Series 2015 and $9,349,435 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, 2016 and 2015, consist of the following:

	2016	2015
One year or less	$ 3,248,113	$ 1,987,496
One to five years	1,360,000	4,638,000
	4,608,113	6,625,496
Less discount on promises to give	(82,409)	(99,956)
	$ 4,525,704	$ 6,525,540

In addition, KIPP DC has conditional promises to give of a maximum of $1,802,000. 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, 2016 and 2015, consist of the following:

	2016	2015
Money market funds – U.S. Treasury securities	$ 33,220,173	$ 43,145,192
Certificates of deposit	16,999,846	15,100,000
Fixed income – U.S. Treasury securities	21,571,377	-
	$ 71,791,396	$ 58,245,192

The end of year unrestricted investment balance was approximately $51.6 million. This consists of three primary components: (1) approximately $31.0 million (of 120 days cash on hand) required as part of the KIPP DC Master Trust Indenture and other debt covenants related to the Series 2013 Series 2014, Series 2015, and Series 2016 bonds, (2) approximately $15.5 million to be in line with our Board approved cash management policy, and (3) approximately $4.1 million held as capital improvement reserves for all existing campuses. Although these investments are considered unrestricted for accounting purposes, management considers these requirements to meet the KIPP DC Master Trust Indenture and other debt covenants, ensure appropriate liquidity for a growing organization, and make necessary capital improvements.

The additional amount of approximately $1 million is considered working capital and growth capital, along with our cash and cash equivalent balance.

Note 4. Investments (Continued)

Investment income for the years ended June 30, 2016 and 2015, consists of the following:

	2016	2015
Interest and dividends	$ 95,700	$ 71,665
Realized and unrealized loss	(9,626)	(1,150)
	$ 86,074	$ 70,515

Note 5. Property and Equipment

Property and equipment at June 30, 2016, 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	41,391,055	7,796,345	33,594,710	1,222,277
Computer equipment	3 years	546,396	453,247	93,149	68,197
Furniture and equipment	5 years	357,483	279,906	77,577	21,470
Leasehold improvements	Life of lease (a)	125,833,384	11,673,969	114,159,415	4,054,121
Construction-in-process	–	18,843,662	-	18,843,662	-
		$ 195,872,215	$ 20,203,467	$ 175,668,748	$ 5,366,065

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

Property and equipment at June 30, 2015, 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	41,373,600	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. Capital Lease Obligation

KIPP DC leases space from an unrelated non-profit 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, 2016 and 2015, was $2,832,423 and $2,998,853, respectively.

Note 6. Capital Lease Obligation (Continued)

Future minimum lease payments remaining are as follows:

Years ending June 30:	
2017	$ 96,000
2018	96,000
2019	96,000
2020	96,000
2021	151,716
Thereafter	2,574,392
	3,110,108
Less amount representing interest	(1,710,375)
	$ 1,399,733

Note 7. Notes Payable

Long-term debt at June 30, 2016 and 2015, consists of the following:

	2016	2015
KIPP DC:		
District of Columbia Revenue Bonds (KIPP DC Issue – Series 2013A); fixed semi-annual interest and annual principal payments until July 2048, when the bonds mature.	$ 63,070,000	$ 63,070,000
District of Columbia Revenue Bonds (KIPP DC Issue – Series 2014); maximum loan amount $38 million; monthly interest-only payments through July 1, 2016; interest rate variable (70% LIBOR + 1.15%); maturity date of June 1, 2046.	27,373,601	13,991,197
Note payable due to Compass Bank; monthly interest-only payments; interest rate variable (one-month LIBOR + 1.30%); balance due in full on October 1, 2026 (maturity date). Per the note the lender has the option to require prepayment in full of all outstanding and interest on May 1, 2018 (mandatory put date).	18,000,000	-
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.	14,207,050	-
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

(Continued)

Note 7. Notes Payable (Continued)

	2016	2015
KIPP DC (Continued):		
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 – 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. This loan was fully repaid on May 9, 2016.	-	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. This loan was fully repaid on May 9, 2016.	-	10,000,000
KIPP DC – Shaw QALICB, Inc.:		
City First Capital XX, LLC note payable agreement entered on October 4, 2011. Advances under this note shall bear interest from the date of this note until paid at the rate of 1.00% per annum. Interest payable in equal quarterly installments on the 15th of March, June, September and December of each year. Commencing on December 15, 2018, and continuing on the 15th of March, June, September and December thereafter until maturity on October 4, 2041, equal quarterly payments of principal and interest shall be paid.	17,705,702	17,705,702
City First Capital XX, LLC note payable agreement entered on October 4, 2011. Advances under this note shall bear interest from the date of this note until paid at the rate of 1.00% per annum. Interest payable in equal quarterly installments on the 15th of March, June, September and December of each year. Commencing on December 15, 2018, and continuing on the 15th of March, June, September and December thereafter until maturity on October 4, 2041, equal quarterly payments of principal and interest shall be paid.	5,814,298	5,814,298
	163,559,651	141,829,683
Plus premium on note payable	666,988	697,861
	$ 164,226,639	$ 142,527,544

Note 7. Notes Payable (Continued)

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 these notes payable at June 30, 2016, are due in future years as follows:

Years ending June 30:		
2017	$	1,460,000
2018		20,210,797
2019		3,031,730
2020		3,118,922
2021		3,209,205
Thereafter		132,528,997
		163,559,651
Premium on note payable		666,988
	$	164,226,639

Interest capitalized on these notes payable was $144,090 and $164,122 for the years ended June 30, 2016 and 2015, respectively. Interest expense was $6,108,346 and $5,216,556 for the years ended June 30, 2016 and 2015, respectively.

In order to mitigate the risk of a floating interest rate on the M&T Bank term loan, KIPP DC entered into an interest rate cap agreement for the notional amount of $5,465,000 on September 27, 2011. The cost of the cap was $93,750. In exchange, KIPP DC has received rate protection not to exceed 5% through June 1, 2015, and 7.5% from June 1, 2015, through September 1, 2018. KIPP DC carries the cap as an asset in the consolidated balance sheets at fair value. During the year ended June 30, 2014, KIPP DC paid off the entire outstanding balance of this loan. At June 30, 2016 and 2015, the value of the cap was $2 and $160, respectively. The notional value of the cap was $2,643,000 as of June 30, 2016.

For the years ended June 30, 2016 and 2015, losses on the cap were ($158) and ($2,887), respectively.

In order to mitigate the risk of a floating interest rate on the District of Columbia Variable Rate Revenue Bonds Series 2014 bonds, KIPP DC entered into an interest rate swap agreement with PNC Bank, National Association (PNC) during the year ended June 30, 2015. The original notional value of this swap was $14,700,000. The current notional value of this swap was $34,000,000 at June 30, 2016. KIPP DC agrees to pay PNC a fixed rate of 2.068% on the principal balance of the bonds payable, in exchange for the receipt of floating rate interest payment based on 70% of the 30-day average London InterBank Offered Rate (LIBOR) (the LIBOR rate was .47% at June 30, 2016). 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 $3,548,838 and $1,357,155, respectively in the consolidated balance sheets and the related unrealized loss of $2,191,683 and $1,357,155 as a component of change in net assets in the consolidated statements of activities for the years ended June 30, 2016 and 2015, respectively.

Note 7. Notes Payable (Continued)

In order to mitigate the risk of a floating interest rate on the District of Columbia Variable Rate Revenue Bonds Series 2015 bonds, KIPP DC entered into an interest rate swap agreement with Compass Mortgage Corporation (CMC) on August 1, 2015, with an effective date of September 1, 2015. The original notional value of this cap was $600,000. The current notional value of this swap was $15,000,000 at June 30, 2016. KIPP DC agrees to pay CMC a fixed rate of 1.822% on the principal balance of the bonds payable, in exchange for the receipt of floating rate interest payment based on 65% of the 30-day average LIBOR (the LIBOR rate was .47% at June 30, 2016). 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 $1,344,894 in the consolidated balance sheets and the related unrealized loss of $1,344,894 as a component of change in net assets in the consolidated statements of activities for the year ended June 30, 2016.

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, 2016 and 2015, was $234,003 and $233,886, respectively.

Note 9. Temporarily Restricted Net Assets

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

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

Changes in temporarily restricted net assets, by purpose, during the year ended June 30, 2015, 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

Note 10. Pupil Allocation

KIPP DC received $90,655,801 and $81,483,545 in fiscal years 2016 and 2015, respectively, in local per pupil funding. These amounts included $16,232,302 and $13,943,808 in facilities per pupil allocations, respectively.

Note 11. Pension Plan

KIPP DC maintains a defined contribution retirement plan (the Plan) that operates under Section 403(b) of the IRC. Employees are eligible to participate in the Plan on the first day of employment. KIPP DC determines the amount of employer contributions to be made to the Plan each year. Expenses incurred under the Plan were $2,898,275 and $2,430,114 for the years ended June 30, 2016 and 2015, respectively.

Note 12. 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.

In July 2010, KIPP DC entered into an operating lease with an unrelated commercial entity for its headquarters 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. During the year ended June 30, 2016, 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. Through the year ended June 30, 2016, 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 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. Through the year ended June 30, 2016, the construction costs related to the Hamilton Campus were approximately $46 million.

Note 12. Commitments and Contingencies (Continued)

In addition, KIPP DC leases office equipment under operating leases for its headquarters and various school locations. The estimated future minimum lease payments at June 30, 2016, net of lease credits noted above, are as follows:

Years ending June 30:	
2017	$ 1,498,143
2018	1,256,346
2019	1,030,694
2020	1,045,939
2021	1,063,491
Thereafter	26,038,216
	$ 31,932,829

For the years ended June 30, 2016 and 2015, total rental expense was $1,695,995 and $1,366,558, 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.

Construction contracts: In September 2014, KIPP DC entered in an agreement with a construction company to complete construction on the Hamilton Campus. The remaining construction cost are related to the Hamilton field. As of June 30, 2016, contract value was approximately $50.5 million. The remaining value of the contract is approximately $4.5 million.

In October 2015, KIPP DC entered in an agreement with a construction company to renovate its Smilow Campus. As of June 30, 2016, the contract value was approximately $24 million. The remaining value of the contract is approximately $4.4 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 five 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 five-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.

Note 12. Commitments and Contingencies (Continued)

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, 2016 and 2015.

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.

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

	2016			
	Total	Level 1	Level 2	Level 3
Money market funds				
U.S. Treasury bonds	$ 33,220,173	$ 33,220,173	$ -	$ -
Fixed income				
U.S. Treasury bonds	21,571,377	21,571,377	-	-
Interest rate cap	2	-	2	-
Total assets	$ 54,791,552	$ 54,791,550	$ 2	$ -
Interest rate swap	$ 4,893,732	$ -	$ 4,893,732	$ -
Total liabilities	$ 4,893,732	$ -	$ 4,893,732	$ -

Note 13. Fair Value Measurements (Continued)

The table below presents the balances of the assets measured at fair value at June 30, 2015, 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	$ -

The table below reconciles total investments per the fair value tables above:

	2016	2015
Fair value measurements	$ 54,791,552	$ 43,145,352
Interest rate cap	(2)	(160)
Non-negotiable certificates of deposit	16,999,846	15,100,000
	$ 71,791,396	$ 58,245,192

Note 14. Related Party Transactions

KIPP DC made a voluntary general contribution, as voted on by the Board of Directors, of $12,348,312 to KIPP DC SC during the year ended June 30, 2015. No contributions were made to KIPP DC SC during the year ended June 30, 2016. KIPP DC provides administrative services to KIPP DC SC. Amounts due from KIPP DC SC were $15,741 at June 30, 2016. There were no amounts due from KIPP DC SC at June 30, 2015.

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, 2016, 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.
Ocotber 26, 2017

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KIPP DC and Affiliates

Consolidating Balance Sheet
June 30, 2016

	KIPP DC/ Woodrock	KIPP DC – Douglass QALICB, Inc.	KIPP DC – Shaw QALICB, Inc.	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 28,923,132	$ 25,000	$ 31,762	$ -	$ 28,979,894
Investments	51,566,340	-	-	-	51,566,340
Receivables	5,225,753	-	-	(80,879)	5,144,874
Prepaid expenses	573,752	-	5,625	(25,477)	553,900
Promises to give, net	3,248,113	-	-	-	3,248,113
Total current assets	89,537,090	25,000	37,387	(106,356)	89,493,121
Promises to give, net of discount and current portion	1,277,591	-	-	-	1,277,591
Restricted cash	1,752,404	-	162,611	-	1,915,015
Restricted investments	20,225,056	-	-		20,225,056
Deferred rental income	76,531	-	4,039,246	(4,039,246)	76,531
Note receivable, net	17,705,702	-	-	-	17,705,702
Property and equipment, net	155,852,485	-	19,816,263	-	175,668,748
Interest rate cap	2	-	-	-	2
Debt issuance costs, net	3,700,218	-	348,228	-	4,048,446
Sinking fund	-	-	-	-	-
Deposits	262,999	-	-	-	262,999
	200,852,988	-	24,366,348	(4,039,246)	221,180,090
	$ 290,390,078	$ 25,000	$ 24,403,735	$ (4,145,602)	$ 310,673,211
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	$ 10,387,020	$ 62,036	$ 18,841	$ (80,879)	$ 10,387,018
Refundable advances	-	-	-	-	-
Current portion of capital lease obligations	96,000	-	-	-	96,000
Current portion of notes payable	1,460,000	-	-	-	1,460,000
Deferred revenue	-	-	25,477	(25,477)	-
Total current liabilities	11,943,020	62,036	44,318	(106,356)	11,943,018
Deferred rent	6,910,586	-	363,214	(4,039,246)	3,234,554
Capital lease obligations, net of current portion	1,303,733	-	-	-	1,303,733
Interest rate swap obligations	4,893,732	-	-	-	4,893,732
Notes payable, net of discount and current portion	139,246,639	-	23,520,000	-	162,766,639
	164,297,710	62,036	23,927,532	(4,145,602)	184,141,676
Net assets:					
Unrestricted	111,287,282	(37,036)	476,203	-	111,726,449
Temporarily restricted	14,805,086	-	-	-	14,805,086
	126,092,368	(37,036)	476,203	-	126,531,535
	$ 290,390,078	$ 25,000	$ 24,403,735	$ (4,145,602)	$ 310,673,211

KIPP DC and Affiliates

Consolidating Statement of Activities
Year Ended June 30, 2016

	KIPP DC/ Woodrock	KIPP DC – Douglass QALICB, Inc.	KIPP DC – Shaw QALICB, Inc.	Eliminations	Total
Support and revenue:					
Pupil allocation	$ 90,655,801	$ -	$ -	$ -	$ 90,655,801
Contributions, grants and events	16,259,942	-	-	-	16,259,942
Federal awards	14,184,564	-	-	-	14,184,564
Investment income	86,074	-	-	-	86,074
Interest income	233,715	-	288	-	234,003
Sublease rental income	583,027	1,842,424	1,101,244	(2,943,668)	583,027
Unrealized loss on interest rate swaps	(3,536,577)	-	-	-	(3,536,577)
Unrealized loss on interest rate caps	(158)	-	-	-	(158)
Other	419,788	-	-	-	419,788
Total support and revenue	118,886,176	1,842,424	1,101,532	(2,943,668)	118,886,464
Expenses:					
Program	88,187,394	2,522,584	1,105,120	(2,943,668)	88,871,430
General and administrative	10,348,271	153	284	-	10,348,708
Fundraising	1,006,047	-	-	-	1,006,047
Total expenses	99,541,712	2,522,737	1,105,404	(2,943,668)	100,226,185
Change in net assets before other gains (losses)	19,344,464	(680,313)	(3,872)	-	18,660,279
Other gains (losses):					
Gain (loss) on NMTC transaction unwind	6,246,590	(33,588)	-	-	6,213,002
Change in net assets after other gains (losses)	25,591,054	(713,901)	(3,872)	-	24,873,281
Net assets:					
Beginning	100,501,314	676,865	480,075	-	101,658,254
Ending	$ 126,092,368	$ (37,036)	$ 476,203	$ -	$ 126,531,535

KIPP DC and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2016

	Program	General and Administrative	Fundraising	Total
ORDINARY EXPENSE				
Personnel Salaries and Benefits				
Principal/Administrative Salary	$ 9,129,224	$ 4,900,871	$ 534,976	$ 14,565,071
Teachers Salaries	24,247,809	-	-	24,247,809
Teacher Aides/Assistants Salaries	5,577,909	-	-	5,577,909
Other Education Professionals Salaries	4,359,610	-	-	4,359,610
Other Staff Salaries	1,825,101	69,200	2,500	1,896,801
Employee Benefits and Payroll Taxes	8,223,114	905,933	97,780	9,226,827
Contracted Staff	61,291	9,676	-	70,967
Staff Development Expense	968,170	523,681	3,355	1,495,206
Subtotal: Personnel Expense	54,392,228	6,409,361	638,611	61,440,200
Direct Student Expense				
Student Supplies and Materials	4,735,416	-	-	4,735,416
Contracted Student Services	590,737	-	-	590,737
Food Service	5,150,611	-	-	5,150,611
Miscellaneous Student Expense	1,110,365	-	-	1,110,365
Subtotal: Direct Student Expense	11,587,129	-	-	11,587,129
Occupancy Expenses				
Rent	941,618	754,377	-	1,695,995
Building Maintenance and Repairs	415,613	1,541	-	417,154
Utilities	1,609,829	-	-	1,609,829
Janitorial Supplies	157,086	-	-	157,086
Contracted Building Services	3,922,790	69,127	-	3,991,917
Other Occupancy Expense	375,404	16,467	-	391,871
Subtotal: Occupancy Expenses	7,422,340	841,512	-	8,263,852
Office Expenses				
Office Supplies and Materials	546,179	523,159	5,097	1,074,435
Telephone/Telecommunications	600,257	126,328	-	726,585
Legal, Accounting, Technology, and Payroll Services	1,312,143	633,877	8,768	1,954,788
Printing and Copying	585,353	74,132	13,952	673,437
Postage and Shipping	17,318	8,072	2,922	28,312
Other	263,469	47,546	3,449	314,464
Subtotal: Office Expenses	3,324,719	1,413,114	34,188	4,772,021
General Expenses				
Insurance	-	454,567	-	454,567
Transportation	58,640	16,107	2,451	77,198
Administrative Fee (to PCSB)	-	1,016,444	-	1,016,444
Interest Expense	6,108,346	-	-	6,108,346
Other General Expense	117,314	34,824	330,797	482,935
Subtotal: General Expenses	6,284,300	1,521,942	333,248	8,139,490
TOTAL ORDINARY EXPENSES	83,010,716	10,185,929	1,006,047	94,202,692
Depreciation and Amortization	5,860,714	162,779	-	6,023,493
TOTAL EXPENSE	$ 88,871,430	$ 10,348,708	$ 1,006,047	$ 100,226,185