District of Columbia College Access Program, Inc.

Financial Statements
As of and For the Years Ended June 30, 2018 and 2017 and Report Thereon

District of Columbia College Access Program, Inc.
Table of Contents
For the Years Ended June 30, 2018 and 2017

Page(s)

Report of Independent Auditors

To the Board of Directors
of the District of Columbia College Access Program, Inc.:

We have audited the accompanying financial statements of the District of Columbia College Access Program, Inc. ("DC CAP"), which comprise the statements of financial position as of June 30, 2018 and June 30, 2017, and the related statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 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 the 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 our 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, we consider internal control relevant to DC CAP'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 DC CAP'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 the District of Columbia College Access Program, Inc. as of June 30, 2018 and June 30, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

December 14, 2018

District of Columbia College Access Program, Inc.
Statements of Financial Position
Years Ended June 30, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	$ 6,683,282	$ 7,176,558
Accounts receivable	124,442	118,680
Short-term pledges receivable, net	2,595,500	2,413,500
Short-term investments	1,104,849	1,391,397
Prepaid expenses and other assets	567,472	122,354
Total current assets	11,075,545	11,222,489
Fixed assets, net of accumulated depreciation and amortization	230,491	260,780
Long-term pledges receivable, net	8,050,108	9,172,506
Long-term investments	77,152,491	70,739,280
Total assets	$ 96,508,635	$ 91,395,055
Liabilities:		
Accounts payable and accrued liabilities	679,342	528,995
Total liabilities	679,342	528,995
Net assets:		
Unrestricted	68,054,337	63,338,488
Temporarily restricted	19,524,956	19,277,572
Permanently restricted	8,250,000	8,250,000
Total net assets	95,829,293	90,866,060
Total liabilities and net assets	$ 96,508,635	$ 91,395,055

The accompanying notes are an integral part of these financial statements.

District of Columbia College Access Program, Inc.
Statements of Activities
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue								
Contributions and grants	$ 896,045	$ 1,682,845	$ -	$ 2,578,890	$ 756,157	$13,298,677	$ -	$14,054,834
Special events revenue	513,095	-	-	513,095	730,181	-	-	730,181
Contributed services	223,932	-	-	223,932	262,293	-	-	262,293
Net assets released from restriction	3,455,711	(3,455,711)	-	-	2,809,698	(2,809,698)	-	-
Total revenues, gains and other support	5,088,783	(1,772,866)	-	3,315,917	4,558,329	10,488,979	-	15,047,308
Operating Expenses:								
Salaries and benefits	3,516,795	-	-	3,516,795	2,945,210	-	-	2,945,210
Office and administrative	1,920,257	-	-	1,920,257	1,441,341	-	-	1,441,341
Scholarship awards	2,184,803	-	-	2,184,803	2,152,499	-	-	2,152,499
Events and meetings	948,709	-	-	948,709	338,133	-	-	338,133
Rent and storage expense	263,144	-	-	263,144	247,372	-	-	247,372
Depreciation and amortization	51,096	-	-	51,096	63,113	-	-	63,113
Total expenses	8,884,804	-	-	8,884,804	7,187,668	-	-	7,187,668
Operating Change in net assets	(3,796,021)	(1,772,866)	-	(5,568,887)	(2,629,339)	10,488,979	-	7,859,640
Investments return	8,511,870	2,020,250	-	10,532,120	7,493,780	1,771,658	-	9,265,438
Change in net assets	4,715,849	247,384	-	4,963,233	4,864,441	12,260,637	-	17,125,078
Net assets, beginning of year	63,338,488	19,277,572	8,250,000	90,866,060	58,474,047	7,016,935	8,250,000	73,740,982
Net assets, end of year	$68,054,337	$19,524,956	$ 8,250,000	$95,829,293	$63,338,488	$19,277,572	$ 8,250,000	$90,866,060

The accompanying notes are an integral part of these financial statements.

District of Columbia College Access Program, Inc.
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 4,963,233	$ 17,125,078
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net (gains) on investments	(10,506,498)	(9,193,300)
Amortization of discount on pledges receivable	(137,601)	391,323
Write-off of receivables	-	2,500
Depreciation and amortization	51,096	63,113
Loss on disposal of fixed assets	49,402	-
Changes in assets and liabilities:		
Increase in accounts receivable	(5,762)	(10,640)
Decrease / (increase) in short-term and long-term pledges receivable	1,077,999	(11,106,500)
(Increase) / decrease in prepaid expenses	(445,118)	9,622
Increase / (decrease) in accounts payable and accrued liabilities	150,347	(76,078)
Net cash used in operating activities	(4,802,902)	(2,794,882)
Cash flows from investing activities:		
Purchases of fixed assets	(70,209)	(127,736)
Purchases of investments	(28,784,040)	(27,174,597)
Proceeds from sales or maturities of investments	33,163,875	21,928,760
Net cash provided by / (used in) investing activities	4,309,626	(5,373,573)
Decrease in cash and cash equivalents	(493,276)	(8,168,455)
Cash and cash equivalents, beginning of year	7,176,558	15,345,013
Cash and cash equivalents, end of year	$ 6,683,282	$ 7,176,558

The accompanying notes are an integral part of these financial statements.

1. Significant Accounting Policies

Organization

The District of Columbia College Access Program, Inc. (DC-CAP) is a not-for-profit organization incorporated under the laws of the District of Columbia (D.C.) on November 30, 1998.

The purpose of DC-CAP is to encourage and enable at-risk D.C. public and charter high school students to enter and graduate from college. DC-CAP principally derives its revenues from contributions and investment income.

Programs

Counseling

DC-CAP's primary mission is to provide counseling services to high school students in the District of Columbia Public School System (DCPS). These services include motivating students to prepare, apply, gain acceptance, and graduate from college. Counselors assist with the financial aid process by identifying scholarships and other funding sources to create a financial aid package for each student. Counselors also work with parents of students to gather all necessary documentation and information to advance the process. In addition, DC-CAP has expanded counseling services to Charter Schools.

Once a student has entered college, DC-CAP provides college retention counseling to guide students with any difficulties they may encounter academically or personally. DC-CAP is not only committed to college acceptance but to ongoing success and graduation from college.

DC-CAP counselors also offer workshops, meetings, and trainings for members of the community which includes parents, teachers, and individuals involved with students in the D.C. area and who are not currently served by DC-CAP.

Scholarship Awards

DC-CAP provides students with “Last Dollar” awards which bridge the gap between financial packages, the family contribution, and college tuition costs. DC-CAP makes two annual disbursements for scholarship awards which coincide with the school year. The first disbursement is made during the Fall Semester, and the second disbursement is made during the Spring Semester. As of June 30, 2018, no commitments were yet made to students, who may each receive up to $2,000 per year for up to the next five years. The payment of future funds is contingent upon continued college enrollment and financial need. Such grants will be recorded when these contingencies are substantially fulfilled.

Basis of Financial Statement Presentation

DC-CAP follows Accounting Standards Codification Topic 958, *Not-for-Profit Entities* ASC 958. ASC 958 specifies that financial statements provided by not-for-profit organizations include statements of financial position, statements of activities, and statements of cash flows. ASC 958 further provides that net assets be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. The financial statements have been prepared on the accrual basis of accounting.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2018. DC CAP is evaluating the impact this will have on the financial statements beginning in fiscal year 2020.

In February 2016, the FASB issued ASU 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet 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 income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption permitted. 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. DC CAP is evaluating the impact this standard will have on the financial statements and disclosures beginning in fiscal year 2021.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The new guidance requires improved presentation and disclosures to help not-for profits provide more relevant information about their resources to donors, grantor, creditors and other users. The standard is effective for fiscal years beginning after December 15, 2017. DC CAP is evaluating the impact of this standard on the combined financial statements beginning in fiscal year 2019.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,* which adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent to alleviate diversity in practice. The update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. DC CAP is currently evaluating the impact of this update on the Statements of Cash Flows beginning in fiscal year 2020.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which clarifies the classification and presentation of changes in restricted cash in the statement of cash flows. The guidance requires reporting entities to explain the changes in the combined total of restricted and unrestricted cash and cash equivalent balances in the statement of cash flows. The update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. DC CAP is currently evaluating the impact of this update on the Statements of Cash Flows beginning in fiscal year 2020.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as an exchange transaction subject to ASU 2014-09 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. The update is effective for fiscal years beginning after December 31, 2018, with early adoption permitted. DC CAP is evaluating the impact of this standard on the financial statements beginning in fiscal year 2020.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially.

Risks and Uncertainties

DC-CAP holds various investments in securities. Investment securities are exposed to various risks, such as interest, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the Statement of Financial Position.

DC-CAP's cash and cash equivalents are comprised of amounts in accounts at two financial institutions. While the amounts at times exceed the amount guaranteed by federal agencies and bear some risk, DC-CAP has not experienced any losses on its funds. As of June 30, 2018 and 2017, cash and cash equivalents of $6,683,282 and $7,176,558 were invested in highly liquid money market funds and U.S. Treasury bills which were not insured. As of June 30, 2018 there was no cash in excess of the Federal Deposit Insurance Corporation (FDIC) maximum insured limit of $250,000.

Cash and Cash Equivalents

DC-CAP considers all highly-liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents consisted of money market mutual funds managed pursuant to SEC Rule 2a-7.

Pledges Receivable

DC-CAP accounts for contributions under Accounting Standards Codification Topic 958, *Not-for-Profit Entities* ASC 958. ASC 958 requires DC-CAP to record a receivable to reflect the promises of donors to make future contributions. Under accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ASC 820, contributions receivable are initially recorded at fair value and are discounted to their net present value using a market rate.

The Bill and Melinda Gates Foundation gave DC-CAP a $10,000,000 Grant Award, from 2017 through 2028. The contribution is to fund the Ward 7 & 8 Scholars Program and to increase college access, retention and graduation rates for students in Wards 7 and 8. Contributions will be paid annually from 2017 through 2020, per payment schedule outlined in the agreement. As of June 30, 2018, 83% of the pledges receivable balance consisted of payments related to this contribution.

Investments

Investments are comprised of fixed income investments, equity securities and U.S. Government obligations and are recorded in the accompanying statements of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded as of the trade dates. Realized gains and losses are reflected in the Statement of Activities.

Net unrealized gains and losses are determined by comparison of cost to fair value at the beginning and end of the reporting period and are reflected in the Statement of Activities. Dividends and interest income are recorded on the accrual basis of accounting.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. DC-CAP recognizes depreciation using the straight-line method over the estimated useful lives of the assets ranging from three to five years. Leasehold improvements are amortized over the lesser of the life of the asset or the remaining term of the lease.

Classification of Net Assets

Unrestricted contributions are recognized as revenue in the year pledged or received from the donor. Grant revenue determined to be exchange transactions are recorded as costs are incurred and/or activities have occurred.

Contributions of cash and other assets are reported as restricted support and are classified either as temporarily restricted or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 are reported in the statements of activities as net assets released from restrictions. Unrealized and realized gains and losses and dividends and interest from investing may be included in any of the net asset classifications depending on donor restrictions, but to date, no such restrictions have occurred.

Unconditional promises to give with payments due in future periods are reported as temporarily restricted support. Amounts due are recorded at the net realizable value of discounted cash flows.

- **Permanently restricted net assets** – Contributions and other inflows of assets whose use by DC-CAP is limited by donor-imposed stipulations that the resources must be maintained permanently by DC-CAP. The donors of these assets permit DC-CAP to use all or part of the income earned on related investments for general or specific purposes.

- **Temporarily restricted net assets** – Contributions and other inflows of assets whose use by DC-CAP is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of DC-CAP, such as usage for a specific purpose.

- **Unrestricted net assets** – Unrestricted net assets result from revenues derived from unrestricted contributions, investment income, and other inflows of assets whose use by DC-CAP is not limited by donor-imposed restrictions.

The Board of Directors of DC-CAP has designated certain unrestricted net assets as intended for long-term investment support. Such unrestricted net assets totaled $70,488,388 and $64,188,860 as of June 30, 2018 and 2017, respectively.

Contributed Services

Contributed services are reported in the consolidated statement of activities at the fair value of the services received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or if the services require specialized skills and would typically need to be purchased if not provided by donation. For the years ended June 30, 2018 and 2017, DC-CAP received contributions of legal, administrative and accounting services which are classified as office and administrative expenses of approximately $223,931 and $262,293 respectively.

Gifts in Kind

Gifts in kind are reported in the statement of activities at the fair value of the goods received. The gifts are recognized if they would need to be purchased if not provided by donation. There were no gifts in kind for the year ended June 30, 2018 and 2017.

Special Events

One special event was held during 2018. Special events revenues are reported gross on the Statement of Activities. Expenses amount to $479,262 and $485,093 for the years ended June 30, 2018 and 2017 respectively.

The expenses related to the special events are reported on the Statement of Activities as Events and Meetings and Office and Administrative expenses.

Income Taxes

DC-CAP is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC), and the Internal Revenue Service has determined that DC-CAP is a publicly-supported organization as described in Section 509(a)(1) of the IRC

2. Investments

Investments, at fair value, consisted of the following at June 30, 2018 and 2017:

	2018	2017
U.S. Government obligations	$ 4,460,859	$ 3,904,919
Fixed income investments	6,945,205	7,951,847
Equity securities	66,851,277	60,273,911
Total Investments	$ 78,257,341	$ 72,130,677

Investment return consisted of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Dividends and interest	$ 802,051	$ 777,037
Net unrealized gains	632,391	3,742,468
Net realized gains	9,874,106	5,450,832
Investment fees	(776,429)	(704,899)
Total Investment Return	$ 10,532,119	$ 9,265,438

3. Pledges Receivable

Pledges receivable consisted of the following at June 30, 2018 and 2017:

	2018	2017
Amounts due in:		
Less than one year	$ 2,595,500	$ 2,413,500
One to five years	8,310,000	9,570,000
	10,905,500	11,983,500
Less: discount on pledges receivable	(259,892)	(397,494)
Pledges Receivable, net	$ 10,645,608	$ 11,586,006

For the promises to give, discount rates ranging from 1.00% to 3.75% were applied based on the date of the gift and the pledge period. The discount rates applied under ASC 820 for fiscal year 2018 were market rates commensurate with the term of the individual pledges.

4. Fixed Assets

Fixed assets consisted of the following at June 30, 2018 and 2017:

	2018	2017
Computer hardware and software	$ 416,869	$ 404,851
Furniture and fixtures	48,296	250,754
Leasehold improvements	-	214,858
	465,165	870,463
Less: accumulated depreciation and amortization	(234,674)	(609,683)
Fixed assets, net	$ 230,491	$ 260,780

Depreciation expense was $51,096 and $63,113 for the years ended June 30, 2018 and 2017, respectively. During 2018 DC-CAP discontinued its lease thus removing the fully depreciated leasehold improvements of $214,858.

5. Temporarily Restricted Net Assets

Contributions and other inflows of assets whose use by DC-CAP is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of DC-CAP, such as usage for a specific purpose. Certain of the purpose restricted net assets are also time restricted. DC-CAP temporarily restricted net assets as of June 30, 2018 and 2017, consisted of contributions or pledges restricted by the donors for the following purposes:

	2018	2017
Time restrictions	$ 1,883,796	$ 2,832,194
Unappropriated earnings on endowment	7,144,284	5,684,148
Purpose restrictions:		
Scholarships	467,000	728,500
STEM Program	600,000	-
Development and Database Design	24,055	32,055
Ward 7&8 Scholars	9,405,821	10,000,675
Total temporarily restricted net assets	$ 19,524,956	$ 19,277,572

6. Net Assets Released From Restriction

Net assets were released from restriction by the expiration of time or expenditures satisfying the following purposes at June 30, 2018 and 2017:

	2018	2017
Expiration of time restrictions	$ 1,436,000	$ 1,705,999
Appropriations on endowment	556,875	488,400
Counseling:		
Alpha leadership program	25,000	10,000
Ward 7&8 Scholars Program	598,092	-
Other	282,500	159,000
Database & Development Upgrade	8,000	80,299
Scholarships	549,244	366,000
Total net assets released from restriction	$ 3,455,711	$ 2,809,698

7. Permanently Restricted Net Assets

DC-CAP has permanently restricted net assets as of $8,250,000 as of June 30, 2018 and 2017, which consisted of the Endowment Grant for the Gates Grants. The Gates Foundation made an initial endowment grant during the fiscal year ended June 30, 2003 of $2,000,000 and the challenge grant during the fiscal year ended June 30, 2008.

The purpose of the challenge grant is to build the capacity of DC-CAP to improve its performance programmatically and operationally, expand into the Charter School system, and to enlarge the high school and college retention services programs. The earnings on the endowment funds are not restricted and may be used for general purposes.

8. Functional Expenses

DC-CAP encourages and enables at-risk D.C. public high school students to gain acceptance to and graduate from college. Expenses related to this mission for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Program:		
Counseling	$5,446,887	$3,774,694
Scholarship awards	2,184,803	2,152,499
Total programs	7,631,690	5,927,193
Special Event Expenses	104,047	91,433
Fundraising	960,013	1,054,250
General and administrative	189,054	114,791
	$8,884,804	$7,187,667

9. Rent Commitments

DC-CAP has an operating lease for its current office located at 1425 K Street, N.W., Washington, D.C. On April 11, 2018 DC-CAP executed a ten year and two months operating lease agreement expiring June 29, 2028 for Suite 200. This lease effectively replaced all previous lease agreements. Under the terms of the lease, DC-CAP is obligated to pay escalation rentals for certain operating expenses and real estate taxes.

The lease agreement included a provision for DC-CAP to perform construction work on the premises in preparation for occupancy incurring costs up to an allowance limit of $103,280.

Rent expense under leases for the years ended June 30, 2018 and 2017 was $263,144 and $247,372, respectively.

The future minimum lease commitments under the operating leases are as follows:

Fiscal years ending June 30,	
2019	$ 401,296
2020	411,668
2021	422,298
2022	433,194
2023	444,362
From 2024 and thereafter	2,260,183
	$ 4,373,001

10. Related Party Transactions

A significant portion of the funds received or pledged during the years ended June 30, 2018 and 2017, has come from individual members of the Board of Directors or organizations affiliated with Board Members. Related party revenue totaled $2,058,815 and $4,447,938 which is 88% and 29% of contribution and gross special events revenue in fiscal years 2018 and 2017, respectively. Undiscounted related party receivables totaled $1,730,744 and $2,833,000 which is 17% and 24% of gross pledges receivable at June 30, 2018 and 2017, respectively. The Organization receives administrative support from individuals employed by the Graham Holdings Company and records such support as contributed services revenue and expenses.

11. Long-term Bonus Plan

On April 1, 2016 DC-CAP executed a long-term bonus plan agreement with a select employees. Annual bonus is accrued in accordance with the individual's agreement. Contributions for the employees are to be made on April 1, 2019. Accrued contributions related to this agreement for the year ended June 30, 2018 and 2017 were $70,000 and $70,000 respectively.

12. Fair Value of Financial Instruments

Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ASC 820, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and, therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

As a basis for considering market participant assumptions in fair value measurements, ASC 820 established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable whereby the market participant assumptions are developed based on market data obtained from independent sources and, unobservable whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

Financial assets and liabilities recorded at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1: Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Financial assets and liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table summarizes the assets measured at fair value on a recurring basis as of June 30, 2018 and 2017:

	2018		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Assets:			
Money market funds	$ 6,786,392	$ 6,786,392	$ -
U.S. Government obligations	4,460,859	-	4,460,859
Fixed income investments	6,945,205	-	6,945,205
Equity securities	-	-	
Consumer discretionary	25,754,554	25,754,554	-
Energy	1,463,380	1,463,380	-
Financial	14,935,096	14,935,096	-
Health care			-
Industrials	5,961,174	5,961,174	-
Information technology	18,737,073	18,737,073	-
Materials	-	-	-
Total assets	$85,043,733	$ 73,637,669	$ 11,406,064

	2017		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Assets:			
Money market funds	$ 7,128,497	$ 7,128,497	$ -
U.S. Government obligations	3,904,919	-	3,904,919
Fixed income investments	7,951,847	-	7,951,847
Equity securities			
Consumer discretionary	20,233,519	20,233,519	-
Consumer staples			-
Financial	17,379,119	17,379,119	-
Health care	6,262,175	6,262,175	-
Industrials	4,704,484	4,704,484	-
Information technology	11,094,615	11,094,615	-
Materials	599,999	599,999	-
Total assets	$79,259,174	$ 67,402,408	$ 11,856,766

Summarized below are the techniques applied in determining the fair values of assets and liabilities.

Money market funds – Money market funds are valued using the net asset value provided by the administrator of the fund. The net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the numbers of shares outstanding. The net asset value is a quoted price in an active market and classified within Level 1 of the hierarchy.

U.S. Government obligations and fixed income investments – These instruments, which are based on quoted prices for similar assets, are classified within Level 2 of the valuation hierarchy and include bonds that are not actively traded.

Equity securities – Equity securities are traded on a major exchange. Accordingly, such investments are disclosed in Level 1 of the hierarchy.

13. Endowment Funds

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* (UPMIFA), *and Enhanced Disclosure for All Endowment Funds*. This FSP provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA of 2006. Effective January 23, 2008, the District of Columbia enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date.

A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The FSP also improves disclosures about an organization's endowed funds (both donor-restricted endowment funds and board-designated endowment funds). DC-CAP adopted the FSP effective July 1, 2008.

DC-CAP's endowment consists of board-designated funds and an endowment established by the Bill & Melinda Gates Foundation. As of June 30, 2018 and 2017, the endowment fund balance was $85,882,673 and $78,123,008 respectively.

<u>Interpretation of Relevant Law</u>

The Officers of the Board of Directors and management have interpreted the District of Columbia UPMIFA as requiring the preservation of the gift in accordance with the donor's stipulation. As a result of this interpretation, DC-CAP classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, DC-CAP considers the following factors in making a determination as to the spending rate for donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions

- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires DC-CAP to retain as a fund for perpetual duration. In accordance with GAAP deficiencies of this nature are reported as a reduction of unrestricted net assets. Management of DC-CAP has continued to follow its existing spending rate policy, rather than reduce the endowment distribution, because it expects that the individual fund values will be restored with future market appreciation.

Return Objectives and Risk Parameters

DC-CAP's investment approach for endowment assets seeks to provide ongoing support for DC-CAP operations while maintaining or increasing the purchasing power of endowment assets for future support.

Management of the endowment assets is designed to ensure a total return (income plus capital change) necessary to preserve and enhance (in real dollar terms) the principal of the fund and at the same time, provide a dependable source of support for current operations and programs. Therefore, DC-CAP's goal for its endowment funds is to preserve and enhance purchasing power after accounting for investment returns, spending, and inflation (but excluding gifts). The return goal is to generate a real return (after inflation) equal or greater to 7% to 8% per year, on average. Actual returns in a given year may vary from this amount.

Strategies Employed for Achieving Objectives

Reasonable diversification is sought at all times. Experience has shown financial markets and inflation rates are cyclical and, therefore, control of volatility will be achieved through diversification of asset classes and selection of managers of diverse investment styles. The Board of Directors examines the correlation of the investment portfolio and has historically had positive returns.

Spending Policy and How the Investment Objectives Relate to Spending Policy

DC-CAP's spending policy, as approved and implemented by the Board, is to allow transfer of 7.5% per year from endowment for operational use. The 7.5% is applied to cumulative cash collected designated as endowment by the board through the end of the prior year in order to determine the appropriation. The spending rate is based on DC-CAP's longstanding view that the endowment will grow on average more than 6% per year.

DC-CAP's endowment net assets composition by fund type was as follows as of June 30, 2018 and 2017:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor–restricted endowment funds	$ -	$ 7,144,285	$ 8,250,000	$ 15,394,285
Board-designated endowment funds	70,488,388	-	-	70,488,388
Total endowment net assets	$70,488,388	$ 7,144,285	$ 8,250,000	$ 85,882,673

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor–restricted endowment funds	$ -	$ 5,684,149	$ 8,250,000	$ 13,934,149
Board-designated endowment funds	64,188,859	-	-	64,188,859
Total endowment net assets	$64,188,859	$ 5,684,149	$ 8,250,000	$ 78,123,008

For the year ended June 30, 2018 changes in endowment net assets were as follows:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, end of year	$64,188,859	$ 5,684,149	$ 8,250,000	$ 78,123,008
Investment return:				
Investment income	658,996	143,055	-	802,051
Net depreciation (realized and unrealized)	8,632,541	1,873,956	-	10,506,497
Investment return	9,291,537	2,017,011	-	11,308,548
Contributions	348,000	-	-	348,000
Appropriations for Expenditure	(3,340,008)	(556,875)	-	(3,896,883)
Endowment net assets, end of year	$70,488,388	$ 7,144,285	$ 8,250,000	$ 85,882,673

For the year ended June 30, 2017, changes in endowment net assets were as follows:

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$58,574,578	$ 4,401,565	$ 8,250,000	$ 71,226,143
Investment return:				
Investment income	639,016	138,021	-	777,037
Net appreciation (realized and unrealized)	7,560,336	1,632,963	-	9,193,299
Investment return	8,199,352	1,770,984	-	9,970,336
Contributions	325,000	-	-	325,000
Appropriations for Expenditure	(2,910,071)	(488,400)	-	(3,398,471)
Endowment net assets, end of year	$64,188,859	$ 5,684,149	$ 8,250,000	$ 78,123,008

For the years ended June 30, 2018 and 2017, $8,250,000 was classified as permanently restricted net assets (endowment only). This represents the portion of perpetual endowment funds that are required to be retained permanently either by explicit donor stipulation or by UPMIFA.

14. Retirement Plans Contributions

DC-CAP has a 3% matching policy on the employee's retirement contributions. Employees are able to contribute to the plan immediately after hire and should be with the organization for a year to be eligible for the match. The pension plan is managed by Lincoln Financial. The CEO receives a separate 457b pension plan with an annual contribution of $13,000. The total expenses for retirement were $ 49,752 and $55,221 for FY 18 and FY 17 respectively.

15. Subsequent Events

Management has evaluated subsequent events through December 14, 2018 which is the date the financial statements were issued.