

**District of Columbia College Access  
Program, Inc.**

**Financial Statements**

**As of and For the Years Ended June 30, 2019 and  
2018 and Report Thereon**

**District of Columbia College Access Program, Inc.**

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**For the Years Ended June 30, 2019 and 2018**

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## Report of the 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, 2019 and 2018, 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.

### ***Auditors' 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 the Endowment Corporation'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 Endowment Corporation'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, 2019 and 2018, 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.



***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the Company changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

*PricewaterhouseCoopers LLP*

Baltimore, Maryland  
December 13, 2019

**District of Columbia College Access Program, Inc.**  
**Statements of Financial Position**  
**Years Ended June 30, 2019 and 2018**

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	<b>2019</b>	<b>2018</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 10,696,320	\$ 6,683,282
Accounts receivable	108,205	124,442
Short-term pledges receivable, net	2,760,000	2,595,500
Short-term investments	1,247,979	1,104,849
Prepaid expenses and other assets	174,946	567,472
Total current assets	<u>14,987,450</u>	<u>11,075,545</u>
Fixed assets, net of accumulated depreciation and amortization	274,507	230,491
Long-term pledges receivable, net	6,327,791	8,050,108
Long-term investments	<u>74,563,747</u>	<u>77,152,491</u>
Total assets	<u>\$ 96,153,495</u>	<u>\$ 96,508,635</u>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 736,232	\$ 679,342
Total liabilities	<u>736,232</u>	<u>679,342</u>
<b>Net assets:</b>		
Without donor restrictions	68,622,026	68,054,337
With donor restrictions	<u>26,795,237</u>	<u>27,774,956</u>
Total net assets	<u>95,417,263</u>	<u>95,829,293</u>
Total liabilities and net assets	<u>\$ 96,153,495</u>	<u>\$ 96,508,635</u>

*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, 2019 and 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue</b>						
Contributions and grants	\$ 314,710	\$ 1,352,683	\$ 1,667,393	\$ 896,045	\$ 1,682,845	\$ 2,578,890
Special events revenue	816,535	-	816,535	513,095	-	513,095
Contributed services	209,452	-	209,452	223,932	-	223,932
Net assets released from restriction	3,671,831	(3,671,831)	-	3,455,711	(3,455,711)	-
Total revenues, gains and other support	5,012,528	(2,319,148)	2,693,380	5,088,783	(1,772,866)	3,315,917
<b>Operating Expenses:</b>						
Salaries and benefits	4,180,681	-	4,180,681	3,516,795	-	3,516,795
Office and administrative	1,612,122	-	1,612,122	1,920,257	-	1,920,257
Scholarship awards	2,635,849	-	2,635,849	2,184,803	-	2,184,803
Events and meetings	781,855	-	781,855	948,709	-	948,709
Rent and storage expense	454,742	-	454,742	263,144	-	263,144
Depreciation and amortization	18,302	-	18,302	51,096	-	51,096
Total expenses	9,683,551	-	9,683,551	8,884,804	-	8,884,804
<b>Operating Change in net assets</b>	(4,671,023)	(2,319,148)	(6,990,171)	(3,796,021)	(1,772,866)	(5,568,887)
Investments return	5,238,712	1,339,429	6,578,141	8,511,870	2,020,250	10,532,120
<b>Change in net assets</b>	567,689	(979,719)	(412,030)	4,715,849	247,384	4,963,233
<b>Net assets, beginning of year</b>	68,054,337	27,774,956	95,829,293	63,338,488	27,527,572	90,866,060
<b>Net assets, end of year</b>	\$ 68,622,026	\$ 26,795,237	\$ 95,417,263	\$ 68,054,337	\$ 27,774,956	\$ 95,829,293

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

**District of Columbia College Access Program, Inc.**  
**Statement of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

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	2019	2018
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (412,030)	\$ 4,963,233
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net (gains) on investments	(6,591,841)	(10,506,498)
Amortization of discount on pledges receivable	(137,683)	(137,601)
Depreciation and amortization	18,302	51,096
Loss on disposal of fixed assets	-	49,402
Changes in assets and liabilities:		
Decrease / (increase) in accounts receivable	16,237	(5,762)
Decrease in short-term and long-term pledges receivable	1,695,500	1,077,999
Decrease / (increase) in prepaid expenses	392,526	(445,118)
Increase in accounts payable and accrued liabilities	56,890	150,347
<b>Net cash used in operating activities</b>	<u>(4,962,099)</u>	<u>(4,802,902)</u>
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(62,318)	(70,209)
Purchases of investments	(14,632,015)	(28,784,040)
Proceeds from sales or maturities of investments	23,669,470	33,163,875
<b>Net cash provided by / (used in) investing activities</b>	<u>8,975,137</u>	<u>4,309,626</u>
<b>Decrease in cash and cash equivalents</b>	4,013,038	(493,276)
<b>Cash and cash equivalents, beginning of year</b>	<u>6,683,282</u>	<u>7,176,558</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$10,696,320</u>	<u>\$ 6,683,282</u>

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

**District of Columbia College Access Program, Inc.**  
**Notes to Financial Statements**  
**For the Years Ended June 30, 2019 and 2018**

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**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)**. Services include motivating students to prepare, apply, gain acceptance to, 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. 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 offer workshops, meetings, and trainings for members of the community including parents, teachers, and individuals involved with students in the D.C. area and who are not currently served by DC-CAP.

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. Each student may receive up to \$2,000 per year for up to 5 years. As of June 30, 2019, no future commitments have been made. Payment of future funds is contingent upon continued college enrollment and financial need. Grants are recorded when contingencies are substantially fulfilled.

***Alpha Leadership Project***

The Alpha Leadership Project (ALP) is a program within DC-CAP for young men of color in DC public and public charter schools. ALP assists and empowers students through the educational process to improve academic achievement, increase the possibility that they graduate from high school, and be socially and academically prepared to enroll and graduate from college. The core components of the program are personal development, positive peer pressure and parent training.

***STEM (Science, Technology, Engineering and Math) Initiative***

The STEM Incentive and Scholarship Program (SISP) is designed to establish a culture of STEM achievement among DC high school students and aims to increase the number of graduates who are motivated and prepared to earn STEM and STEM-supported college degrees.



**District of Columbia College Access Program, Inc.**  
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**For the Years Ended June 30, 2019 and 2018**

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***Ward 7 & 8 Scholars Program***

The Ward 7 & 8 Scholars Program provides student support services and scholarship funding to help increase high school and graduation rates in Wards 7 & 8 in Washington, D.C. The program provides high intensive support services for grades 11 and 12, and annual scholarships, for up to five years, per student.

**Basis of Financial Statement Presentation**

DC-CAP follows Accounting Standards Codification (ASC) *Not-for-Profit Entities* (Topic 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 without donor-imposed restrictions or with donor-imposed restrictions, based on the existence or absence of donor-imposed restrictions. The financial statements have been prepared using the accrual basis of accounting.

**Adoption of New Accounting Standard**

Effective July 1, 2018, DC-CAP adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

**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

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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 2016-15, *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 changes in the combined total cash and cash equivalent balances with donor restrictions and without donor restrictions 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 exchange transactions 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 Statements 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, 2019 and 2018, cash and cash equivalents of \$10,696,320 and \$6,683,282, respectively were invested in highly liquid

**District of Columbia College Access Program, Inc.**  
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money market funds and U.S. Treasury bills which were not insured. As of June 30, 2019 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 consist 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 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.

**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 Statements 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 Statements of Activities. Dividends and interest income are recorded using the accrual basis of accounting.

DC-CAP's investments in securities are classified into two categories; Trading securities and held to maturity.

Long-term investments are those considered to mature more than one year from date of purchase and short-term investments are considered to mature within one year.

**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**

Contributions without donor restrictions are recognized as revenue in the year pledged or received from the donor. Grant revenue determined to be exchange transactions is recorded as costs are incurred and/or activities have occurred.

Contributions of cash and other assets are reported as with donor restrictions if they are received with donor-imposed 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported

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**Notes to Financial Statements**  
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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.

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

- **Net Assets without donor restrictions** – Net Assets without donor restrictions 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.
- **Net Assets with donor restrictions** – Net Assets with donor restrictions include contributions and other inflows of assets whose use by DC-CAP is limited by donor-imposed stipulations that the resources must either be maintained permanently by DC-CAP or expire by passage of time or can be fulfilled and removed by actions of DC-CAP, such as usage for a specific purpose. The donors of the assets where the resources must be held in perpetuity permit DC-CAP to use all or part of the income earned on related investments for general or specific purposes.

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 \$72,878,405 and \$70,488,388 as of June 30, 2019 and 2018, respectively.

#### **Contributed Services**

Contributed services are reported in the Statements 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, 2019 and 2018, DC-CAP received contributions of legal, administrative and accounting services which are classified as office and administrative expenses of approximately \$209,452 and \$223,932 respectively.

#### **Special Events**

One special event was held during 2019, the DC-CAP Gala. Special event revenue is reported gross on the Statements of Activities. Expenses amount to \$512,407 and \$479,262 for the years ended June 30, 2019 and 2018 respectively.

The expenses related to the special event are reported on the Statements of Activities and Statement of Functional Expenses as Events and Meetings, Rent and Storage expenses and Office and Administrative expenses.

#### **Function Allocation of Expenses**

The costs of providing program and supporting services have been summarized on a functional basis in the Statement of Functional Expenses. DC-CAP incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. DC-CAP also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited based on either financial or nonfinancial data, such as level of direct cost or time and effort incurred by personnel. The expenses that are allocated include salaries and related employee benefit expenses, professional services, the pre-college conference, travel and meetings, rent and occupancy costs, IT Services, computer supplies and equipment, office expenses and project supplies, equipment rental,

**District of Columbia College Access Program, Inc.**  
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dues and subscriptions, insurance and depreciation. The expenses that are not allocated and remain in the general and administrative classification are accounting and audit fees, investment fees, services fees and contributed services.

**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, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
U.S. Government obligations	\$ 5,264,308	\$ 4,460,859
Fixed income investments	6,918,913	6,945,205
Equity securities	63,628,505	66,851,277
Total Investments	<u>\$ 75,811,726</u>	<u>\$ 78,257,341</u>

Investment return consisted of the following for the years ended June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Dividends and interest	\$ 795,328	\$ 802,051
Net unrealized gains / (losses)	(1,014,235)	632,391
Net realized gains	7,606,075	9,874,106
Investment fees	(809,027)	(776,429)
Total Investment Return, Net	<u>\$ 6,578,141</u>	<u>\$ 10,532,119</u>

**3. Pledges Receivable**

Pledges receivable consisted of the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
<b>Amounts due in:</b>		
Less than one year	\$ 2,760,000	\$ 2,595,500
One to five years	6,450,000	8,310,000
	<u>9,210,000</u>	<u>10,905,500</u>
Less: discount on pledges receivable	(122,209)	(259,892)
Pledges Receivable, net	<u>\$ 9,087,791</u>	<u>\$ 10,645,608</u>

**District of Columbia College Access Program, Inc.**  
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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 2019 were market rates commensurate with the term of the individual pledges.

**4. Fixed Assets**

Fixed assets consisted of the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Computer hardware and software	\$ 479,187	\$ 416,869
Furniture and fixtures	48,296	48,296
	<u>527,483</u>	<u>465,165</u>
Less: accumulated depreciation and amortization	<u>(252,976)</u>	<u>(234,674)</u>
Fixed assets, net	<u>\$ 274,507</u>	<u>\$ 230,491</u>

Depreciation expense was \$18,302 and \$51,096 for the years ended June 30, 2019 and 2018, respectively.

**5. Net Assets With Donor Restrictions**

Net Assets with donor restrictions is comprised of temporarily restricted net assets and permanently restricted net assets.

The temporarily restricted net assets are 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 purpose restricted net assets are also time restricted.

DC-CAP has permanently restricted net assets of \$8,250,000 as of June 30, 2019 and 2018, which consists of the Endowment Grant from the Gates Foundation. The Gates Foundation made an initial endowment grant during the fiscal year ended June 30, 2003 of \$2,000,000 and then a \$6,250,000 challenge grant during the fiscal year ended June 30, 2008. The purpose of the challenge grant is to build DC-CAP's capacity 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.

**District of Columbia College Access Program, Inc.**  
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DC-CAP's net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Time restrictions	\$ 1,285,479	\$ 1,883,796
Unappropriated earnings on endowment	7,839,768	7,144,284
Purpose restrictions:		
Scholarships	368,000	467,000
STEM Program	600,000	600,000
Alpha Leadership program	375,000	-
Development and Database Design	-	24,055
Ward 7&8 Scholars	8,076,990	9,405,821
Total temporarily restricted net assets	<u>18,545,237</u>	<u>19,524,956</u>
Gates Endowment Grant	<u>8,250,000</u>	<u>8,250,000</u>
Total permanently restricted net assets	<u>8,250,000</u>	<u>8,250,000</u>
Total net assets with donor restrictions	<u>\$ 26,795,237</u>	<u>\$ 27,774,956</u>

**6. Net Assets Released From Donor Restriction**

Net assets were released from restriction by the expiration of time or expenditures satisfying the following purposes at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Expiration of time restrictions	\$ 736,000	\$1,436,000
Appropriations on endowment	628,650	556,875
Program Releases:		
STEM Incentive program	485,000	-
Alpha Leadership program	125,000	25,000
Ward 7&8 Scholars program	1,344,126	598,092
Other	-	282,500
Database and development upgrade	24,055	8,000
Scholarships	329,000	549,244
Total net assets released from restriction	<u>\$3,671,831</u>	<u>\$3,455,711</u>

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**7. 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, 2019 and 2018 was \$454,742 and \$263,144, respectively.

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

Fiscal years ending June 30,

2020	\$ 425,212
2021	435,843
2022	446,739
2023	457,907
2024	469,355
From 2025 and thereafter	1,996,260
	<u>\$ 4,231,316</u>

**8. Functional Expenses**

Expenses by functional classification and natural classification for program services the year ended June 30, 2019 consisted of the following:

	<u>Program Services</u>						
	<u>Alpha Leadership</u>	<u>Charter School</u>	<u>Core Program</u>	<u>Retention</u>	<u>STEM</u>	<u>Ward 7 &amp; 8 scholars</u>	<u>Total program services</u>
Salaries and benefits	\$ 325,696	\$ 601,978	\$ 1,109,435	\$ 701,872	\$ 487,570	\$ 357,735	\$ 3,584,286
Office and administrative	49,469	69,091	167,030	124,790	128,496	113,659	652,535
Scholarship awards	98,000	-	2,117,849	-	-	420,000	2,635,849
Events and meetings	27,901	10,381	35,500	11,029	22,631	413,293	520,735
Rent and storage expense	34,808	64,335	120,087	75,011	52,108	38,232	384,581
Depreciation and amortization	1,099	2,031	3,742	2,368	1,645	1,207	12,092
Total expenses	<u>\$ 536,973</u>	<u>\$ 747,816</u>	<u>\$ 3,553,643</u>	<u>\$ 915,070</u>	<u>\$ 692,450</u>	<u>\$ 1,344,126</u>	<u>\$ 7,790,078</u>



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Expenses by functional classification and natural classification for development and general and administrative services the year ended June 30, 2019 consisted of the following:

	<u>Development</u>				
	Gala	Fundraising	Total Development	General and Administrative	Total expenses
Salaries and benefits	\$ -	\$ 278,354	\$ 278,354	\$ 318,041	\$ 4,180,681
Office and administrative	261,078	203,942	465,020	494,567	1,612,122
Scholarship awards	-	-	-	-	2,635,849
Events and meetings	248,869	7,984	256,853	4,267	781,855
Rent and storage expense	2,460	33,711	36,171	33,990	454,742
Depreciation and amortization	-	939	939	5,271	18,302
Total expenses	<u>\$ 512,407</u>	<u>\$ 524,930</u>	<u>\$ 1,037,337</u>	<u>\$ 856,136</u>	<u>\$ 9,683,551</u>

Expenses by functional classification for the year ended June 30, 2018 consisted of the following:

Program:	
Counseling	\$ 5,446,887
Scholarship awards	<u>2,184,803</u>
Total programs	7,631,690
Cost of direct benefits to donors	104,047
Fund-raising	960,013
General and administrative	<u>189,055</u>
Total Expenses	<u>\$ 8,884,805</u>

**9. Related Party Transactions**

A significant portion of the funds received or pledged during the years ended June 30, 2019 and 2018, has come from individual members of the Board of Directors or organizations affiliated with Board Members. Related party revenue totaled \$1,068,784 and \$2,058,815 which is 42% and 88% of combined contribution and gross special events revenue in fiscal years 2019 and 2018, respectively. Undiscounted related party receivables totaled \$1,700,000 and \$1,730,744 which is 18% and 17% of gross pledges receivable at June 30, 2019 and 2018, respectively. The Organization receives administrative support from individuals employed by the Graham Holdings Company and records such support as contributed services revenue and expenses.

**10. Long-term Bonus Plan**

On September 1, 2017 and April 1, 2019 DC-CAP executed a long-term bonus plan agreement with select employees. Annual bonuses are accrued in accordance with each individual's agreement. Contributions for the employee are to be made on September 1, 2019 and April 1, 2020. Accrued contributions related to this agreement for the year ended June 30, 2019 and 2018 were \$40,000 and \$70,000, respectively.

**11. 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

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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. There were no assets or liabilities valued using Level 3 inputs as of June 30, 2019 and 2018.

The following table summarizes the assets measured at fair value on a recurring basis as of June 30, 2019 and 2018:

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	<b>2019</b>		
	<b>Fair Value</b>	<b>Quote Prices in Active Markets for Identical Assets/Liabilities (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
<b>Assets:</b>			
Money market funds	\$10,495,038	\$ 10,495,038	\$ -
U.S. Government obligations	5,264,308	-	5,264,308
Fixed income investments	6,918,913	-	6,918,913
<b>Equity securities</b>			
Consumer discretionary	23,896,988	23,896,988	-
Energy	-	-	-
Financial	13,302,013	13,302,013	-
Health care	1,318,231	1,318,231	-
Industrials	7,039,625	7,039,625	-
Information technology	18,071,648	18,071,648	-
Total assets	<u>\$86,306,764</u>	<u>\$ 74,123,543</u>	<u>\$ 12,183,221</u>

	<b>2018</b>		
	<b>Fair Value</b>	<b>Quote Prices in Active Markets for Identical Assets/Liabilities (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
<b>Assets:</b>			
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
<b>Equity securities</b>			
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	18,737,072	18,737,072	-
Total assets	<u>\$85,043,732</u>	<u>\$ 73,637,668</u>	<u>\$ 11,406,064</u>

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 number of shares outstanding. The net asset value is a quoted price in an active market and classified as Level 1 of the hierarchy.

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*U.S. Government obligations and fixed income investments* – These instruments, which are based on quoted prices for similar assets, are classified as 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 classified as Level 1 of the hierarchy.

## **12. 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 Gates Foundation. The board-designated endowment fund consists of cash and stock gifts that are not restricted by the donors for purpose or use but provided for long-term investing under the management of the Board. As of June 30, 2019 and 2018, the endowment fund balance was \$88,968,174 and \$85,882,673 respectively.

### **Interpretation of Relevant Law**

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 net assets with donor restrictions (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 net assets with donor restrictions 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 endowment funds with donor restrictions:

- The duration and preservation of the fund
- The purpose 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

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- 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 endowment funds with donor restrictions 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. As of June 30, 2019, there were no underwater endowment funds.

**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 of Directors, is to allow transfer of 7.5% per year from the endowment for operational use. This amount is adjusted over time to account for cost of living increases. 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 asset composition by fund type was as follows as of June 30, 2019 and 2018:

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	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor–restricted endowment funds	\$ -	\$ 16,089,769	\$ 16,089,769
Board-designated endowment funds	72,878,405	-	70,878,405
Total endowment net assets	<u>\$ 72,878,405</u>	<u>\$16,089,769</u>	<u>\$88,968,174</u>

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor–restricted endowment funds	\$ -	\$15,394,285	\$15,394,285
Board-designated endowment funds	70,488,388	-	70,488,388
Total endowment net assets	<u>\$ 70,488,388</u>	<u>\$15,394,285</u>	<u>\$85,882,673</u>

For the year ended June 30, 2019 changes in endowment net assets were as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 70,488,388	\$ 15,394,285	\$85,882,673
Investment return:			
Investment income	652,766	142,561	795,327
Net depreciation (realized and unrealized)	5,410,267	1,181,573	6,591,840
Investment return	6,063,033	1,324,134	7,387,167
Contributions	124,000	-	124,000
Appropriations for Expenditure	(3,797,016)	(628,650)	(4,425,666)
Endowment net assets, end of year	<u>\$ 72,878,405</u>	<u>\$ 16,089,769</u>	<u>\$88,968,174</u>

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 64,188,859	\$13,934,149	\$ 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	<u>\$ 70,488,388</u>	<u>\$15,394,285</u>	<u>\$ 85,882,673</u>

For the years ended June 30, 2019 and 2018, \$8,250,000 was classified as net assets with donor restrictions (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.

**13. 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 \$65,643 and \$49,752 for the years ended June 30, 2019 and 2018, respectively.

**14. Liquidity and Availability**

The following reflects DC-CAP's short-term financial assets as of June 30, 2019, reduced by amounts not available for general use within one year of June 30, 2019 due to donor-imposed and board restrictions.

Financial Assets	
Cash and cash equivalents	\$ 10,696,320
Accounts Receivable	108,205
Short-Term Pledges receivable	2,760,000
Short-Term investments	1,247,979
Total	<u>14,812,504</u>
Less: Donor restricted pledge receivables	(2,149,000)
Less: Portion of endowment to be retained in perpetuity based on board and donor restriction	(11,743,017)
Total	<u>\$ 920,487</u>

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As part of DC-CAP's liquidity management, the organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. DC-CAP received a gift to establish an endowment that will exist in perpetuity. Additionally, DC-CAP's board determined that any additional donor gifts whether restricted for time or purpose, or for general operating use will be added to the endowment. The income generated from donor restricted endowments may be donor-restricted or unrestricted as to use.

Investment income without donor restrictions, earnings appropriated from endowments with donor restrictions and board designated endowments (quasi-endowments), contributions without donor restrictions and contributions with donor restrictions for use in current activities and programs are considered to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during, and included in the budget for, a fiscal year.

DC-CAP manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability;
- Maintaining a sufficient level of asset liquidity; and
- Monitoring and maintaining reserves to provide reasonable assurance that scholarship and programmatic commitments and other obligations related to endowments with donor restrictions and quasi endowments will continue to be met.

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. This amount is adjusted over time to account for cost of living increases.

**15. Subsequent Events**

Management has evaluated subsequent events through December 13, 2019 which is the date the financial statements were issued.