

KIPP TECH VALLEY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

KIPP TECH VALLEY CHARTER SCHOOL

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To The Board of Trustees of
KIPP Tech Valley Charter School
Albany, New York

Independent Auditors' Report

We have audited the accompanying statements of financial position of KIPP Tech Valley Charter School (a not-for-profit organization) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP Tech Valley Charter School as of June 30, 2009 and 2008, and changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2009, on our consideration of KIPP Tech Valley Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of KIPP Tech Valley Charter School taken as a whole. The supplemental information included in the accompanying Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Teal Becker & Chiaramonte CPAs P.C.

Albany, New York
October 29, 2009

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008**

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash	\$ 4,852	\$ -
Due from school districts, net	236,868	246,792
State and federal aid receivable	222,266	66,076
Prepaid expenses	4,060	9,767
Total Current Assets	<u>468,046</u>	<u>322,635</u>
Plant, Equipment and Textbooks		
Equipment	247,750	239,520
Leasehold improvements	139,386	22,465
Textbooks	51,597	51,597
Total	<u>438,733</u>	<u>313,582</u>
Less accumulated depreciation and amortization	<u>(208,067)</u>	<u>(123,536)</u>
Net Plant, Equipment and Textbooks	<u>230,666</u>	<u>190,046</u>
TOTAL ASSETS	<u><u>\$ 698,712</u></u>	<u><u>\$ 512,681</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 356,748	\$ 435,243
Accrued expenses	90,212	68,359
Bank overdrafts	-	3,676
Note payable	200,000	95,000
Total Current Liabilities	<u>646,960</u>	<u>602,278</u>
Net Assets	<u>51,752</u>	<u>(89,597)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 698,712</u></u>	<u><u>\$ 512,681</u></u>

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Revenue		
Public School Districts		
Resident student enrollment	\$ 3,234,073	\$ 2,299,359
Students with disabilities	90,548	68,563
Grants		
Federal	257,383	62,121
State	-	3,955
Other	-	10,000
Other	27,338	4,466
Total Revenue	<u>3,609,342</u>	<u>2,448,464</u>
Expenses		
Program Services		
Regular education	2,215,259	1,665,928
Special education	98,094	126,894
Other programs	495,936	454,113
Supporting Services		
Management and general	658,704	581,813
Total Expenses	<u>3,467,993</u>	<u>2,828,748</u>
Change in Unrestricted Net Assets	141,349	(380,284)
Net Assets, Beginning of Year	<u>(89,597)</u>	<u>290,687</u>
Net Assets, End of Year	<u><u>\$ 51,752</u></u>	<u><u>\$ (89,597)</u></u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 141,349	\$ (380,284)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	84,531	61,761
Bad debt expense	64,061	12,679
(Increase) decrease in assets:		
Due from school districts	(54,137)	(138,719)
State and federal aid receivable	(156,190)	54,473
Prepaid expenses	5,707	1,405
Increase (decrease) in liabilities:		
Accounts payable	(195,416)	324,841
Accrued expenses	21,853	9,198
Bank overdrafts	(3,676)	3,676
Net Cash Used By Operating Activities	<u>(91,918)</u>	<u>(50,970)</u>
Cash Flows From Investing Activities		
Expenditures for plant, equipment and textbooks	<u>(8,230)</u>	<u>(48,782)</u>
Cash Flows From Financing Activities		
Proceeds from note payable	200,000	380,000
Repayment of note payable	<u>(95,000)</u>	<u>(290,721)</u>
Net Cash Provided by Financing Activities	<u>105,000</u>	<u>89,279</u>
Net Increase (Decrease) in Cash	4,852	(10,473)
Cash, Beginning of Period	<u>-</u>	<u>10,473</u>
Cash, End of Period	<u><u>\$ 4,852</u></u>	<u><u>\$ -</u></u>
Supplemental Disclosures of Cash Flows Information:		
Cash paid for interest	<u><u>\$ 984</u></u>	<u><u>\$ 1,716</u></u>
Supplemental Schedules of Noncash Investing and Financing Activities:		
Purchase of plant, equipment and textbooks	\$ 125,151	\$ 48,782
Less: accounts payable	<u>116,921</u>	<u>-</u>
Expenditures for plant, equipment and textbooks	<u><u>\$ 8,230</u></u>	<u><u>\$ 48,782</u></u>

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

1. ORGANIZATION, GOVERNANCE AND OPERATIONS

Organization

The KIPP Tech Valley Charter School ("the School") was organized in 2004 to operate a charter school pursuant to Article 56 of the New York State Education Law and in accordance with related charter agreements with the Board of Regents of the University of the State of New York ("State University"). The State University granted a provisional charter, valid for a term of five years, to the School in 2004.

During 2008-2009 the School's educational operations serving principally Albany, NY and surrounding areas had an annualized full time enrollment of 288 students in grades 5 through 8. In accordance with the School's charter, the 8th grade was added for the 2009 academic year.

Governance and Operations

The School is governed by Board of Trustees in accordance with the School's by-laws. The School is a member of Knowledge is Power Program (KIPP) a network of nationally recognized private sector schools through a trademark license agreement with the KIPP Foundation. KIPP provides support and member services to the School to assist the School in fulfilling its mission of preparing all students for future opportunities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School prepares its financial statements on the accrual basis of accounting and, accordingly, reflects all significant receivables, payables, and other liabilities, and recognizes revenue when earned and expenses when incurred.

Basis of Presentation

The financial statement presentation follows the recommendations of generally accepted accounting principles. In accordance with generally accepted accounting principles, information regarding financial position and activities are reported according to three classes of net assets: unrestricted, temporarily restricted, or permanently restricted. There were no permanently restricted net assets for the years ended June 30, 2009 and 2008, respectively.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions.

The School reports grants of cash and other assets as restricted support if they are received with stipulations that limit their use. When a restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as Net Assets Released from Restrictions.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions

The School reports restricted grants as unrestricted support whenever the restrictions are met in the same year the grants are received.

Cash

For the purposes of reporting its cash flows, the School considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The School also follows the policy of maintaining its cash balances with high quality financial institutions.

Revenue Recognition

A substantial portion of the School's revenue and related receivables is derived from its arrangement with the Albany City School District, which reimburses the School based on per capita enrollment. These revenues are recognized ratably over the related school year during which they are earned.

Revenue from other governmental sources generally represents entitlements and is recognized as earned as allowable expenditures are incurred.

Bad Debts

An allowance for uncollectible accounts has been provided in amounts considered to be appropriate, based primarily upon the School's past credit loss experience and an evaluation of potential losses in the receivables outstanding. The allowance for uncollectible accounts was \$45,000 and \$0, at June 30, 2009 and 2008, respectively.

Bad debt expense was \$64,061 and \$12,679 for the years ended June 30, 2009 and 2008, respectively.

Plant, Equipment, Textbooks, Depreciation and Amortization

Equipment and textbooks are stated at cost less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations using the straight-line method over the assets estimated useful lives. Leasehold improvements are amortized over the life of the operating lease for the educational facilities. The following are the estimated useful lives used for depreciation and amortization:

	<u>Years</u>
Equipment	3-5
Textbooks	3
Leasehold improvements	7

Depreciation and amortization expense was \$84,531 and \$61,761 for the years ended June 30, 2009 and 2008, respectively.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Plant, Equipment, Textbooks and Depreciation

Maintenance and repairs are charged to operations when incurred. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation accounts are relieved and any gain or loss is included in operations.

Income Taxes

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and the School is also exempt from state income tax.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Allocation of Expenses

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services using specific allocation methods. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the School.

Fair Value of Financial Instruments

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The School's significant financial instruments are cash, accounts receivables and liabilities and approximate fair value because of the short maturity of these instruments. The carrying amount of the note payable approximates fair value due to the interest rates currently available to the School for notes payable with similar terms and maturity.

Public Relations

The School records public relations cost as expenses when they are incurred. Public relations expense was \$11,464 and \$2,184 for the years ended June 30, 2009 and 2008, respectively.

Subsequent Events

The School has evaluated subsequent events through October 29, 2009, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2009, have been incorporated into these financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

3. NOTE PAYABLE

	<u>2009</u>	<u>2008</u>
Brighter Choice Foundation, unsecured, payable upon demand. Interest rate 6.25%.	\$ -	\$95,000
Brighter Choice Foundation, unsecured, payable upon demand. Interest rate 4.25%.	<u>200,000</u>	<u>-</u>
Total Note Payable	<u>\$200,000</u>	<u>\$95,000</u>

4. GRANTS

Grant support and revenue represents the portion of the grants utilized for operations and to acquire equipment and textbooks. The School depends on grants for a portion of its support.

	<u>2009</u>	<u>2008</u>
	<u>Grant Receipts Expended</u>	<u>Grant Receipts Expended</u>
Passed Through New York State Department of Education		
Entitlement Grants – U.S. Department of Education	\$ 157,504	\$ -
Child Nutrition – U.S. Department of Agriculture	99,879	66,076
Private Foundation Grants	<u>-</u>	<u>10,000</u>
Total Grant Support and Revenue	<u>\$ 257,383</u>	<u>\$ 76,076</u>

5. OPERATING LEASE

The School has entered into a lease agreement for the lease of educational facilities under an operating lease that expires on June 30, 2012. Monthly lease payments are \$37,500. In the event that any portion of the premises is leased to a co-tenant, the School shall only be responsible for paying its rent on a pro rata basis, based upon the School's occupied square footage. For the year ended June 30, 2009, 100% of the facility was leased by the School.

The School leases office equipment under non-cancelable operating leases that expire in 2010 and 2011. Monthly lease payments are \$2,066.

Rent expense was \$470,762 and \$ 443,939 for the years ended June 30, 2009 and 2008. The minimum annual lease payments are as follows:

2010	\$ 474,787
2011	470,760
2012	459,060

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

6. PLANT, EQUIPMENT AND TEXTBOOKS

The details of property, equipment and textbooks and accumulated depreciation for the years ended June 30, 2009 and 2008 are as follows:

	<u>2008</u>	<u>2007</u>
Equipment	\$ 247,750	\$ 239,520
Textbooks	51,597	51,597
Leasehold improvements	<u>139,386</u>	<u>22,465</u>
Total Property, Equipment and Textbooks	438,733	313,582
Accumulated depreciation and amortization	<u>(208,067)</u>	<u>(123,536)</u>
Net Property, Equipment and Textbooks	<u><u>\$ 230,666</u></u>	<u><u>\$ 190,046</u></u>

7. EMPLOYEE RETIREMENT PLAN

The School has a 403(b) tax-deferred annuity retirement plan, which is funded by contributions from both the School and its employees. The related expense for the years ended June 30, 2009 and 2008 was \$23,919 and \$22,225, respectively.

SUPPLEMENTAL INFORMATION

**KIPP TECH VALLEY CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)**

	Program Services				Management and General	2009 Totals	2008 Totals
	Regular Education	Special Education	Other Programs				
Functional Expenses							
Personnel service	\$ 1,238,518	\$ 54,000	\$ -	\$ 252,542	\$ 1,545,060	\$ 1,230,070	
Fringe benefits	251,419	10,962	-	51,266	313,647	239,896	
Staff development	1,299	-	-	701	2,000	10,476	
Travel	-	-	-	7,238	7,238	4,166	
Telephone	-	-	-	27,458	27,458	20,878	
Instructional supplies	56,545	2,458	3,549	-	62,552	51,699	
Field trips	-	-	115,598	-	115,598	79,118	
Food program	-	-	161,576	-	161,576	128,448	
Legal	-	-	-	4,398	4,398	2,565	
Accounting	-	-	-	21,454	21,454	27,040	
Consultants	11,140	-	-	32,529	43,669	54,258	
Board expenses	-	-	-	712	712	1,233	
Office supplies and materials	-	-	-	41,113	41,113	22,501	
Depreciation and amortization	70,829	3,375	4,297	6,030	84,531	61,761	
Utilities	57,682	2,749	3,499	4,911	68,841	62,564	
Lease							
Facilities	377,055	17,970	22,875	32,100	450,000	425,311	
Equipment	10,381	-	-	10,381	20,762	18,628	
Repairs and maintenance	94,143	4,487	5,711	12,962	117,303	91,339	
Transportation	-	-	177,645	-	177,645	208,809	
Insurance	19,548	932	1,186	8,320	29,986	26,154	
Interest	-	-	-	984	984	1,716	
Fundraising	-	-	-	5,311	5,311	-	
Miscellaneous equipment	-	-	-	1,137	1,137	4,639	
Recruitment	-	-	-	4,840	4,840	5,522	
Student services	26,700	1,161	-	-	27,861	18,045	
Public relations	-	-	-	11,464	11,464	2,184	
Bad debts	-	-	-	64,061	64,061	12,679	
Fees and licensing	-	-	-	56,792	56,792	17,049	
Total Functional Expenses	\$ 2,215,259	\$ 98,094	\$ 495,936	\$ 658,704	\$ 3,467,993	\$ 2,828,748	