

KIPP TECH VALLEY CHARTER SCHOOL

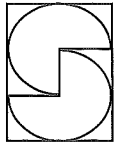
FINANCIAL REPORT

JUNE 30, 2011

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, 2011 and 2010, 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, 2011 and 2010, 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 20, 2011, 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 financial statements as a whole. The schedule of functional expenses on Schedule I is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Albany, New York
October 20, 2011

Teal Becker & Chiaramonte CPAs P.C.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$ 123,291	\$ 91,396
Due from school districts, net	512,828	158,889
State and federal aid receivable	160,384	58,008
Prepaid expenses	4,398	6,044
Total Current Assets	<u>800,901</u>	<u>314,337</u>
Plant, Equipment and Textbooks		
Equipment	264,473	261,623
Leasehold improvements	139,386	139,386
Textbooks	51,597	51,597
Total	<u>455,456</u>	<u>452,606</u>
Less accumulated depreciation and amortization	<u>(355,862)</u>	<u>(285,162)</u>
Net Plant, Equipment and Textbooks	<u>99,594</u>	<u>167,444</u>
TOTAL ASSETS	<u><u>\$ 900,495</u></u>	<u><u>\$ 481,781</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 157,176	\$ 137,951
Accrued expenses	128,164	106,663
Due to funding source	116,921	116,921
Total Current Liabilities	<u>402,261</u>	<u>361,535</u>
Unrestricted Net Assets	<u>498,234</u>	<u>120,246</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 900,495</u></u>	<u><u>\$ 481,781</u></u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Revenue		
Public School Districts		
Resident student enrollment	\$ 3,960,427	\$ 3,422,310
Students with disabilities	214,012	129,644
Grants		
Federal	379,936	301,867
State	5,661	11,082
Other	6,789	16,184
Total Revenue	<u>4,566,825</u>	<u>3,881,087</u>
Expenses		
Program Services		
Regular education	2,161,684	2,416,735
Special education	169,689	107,788
Other programs	512,111	537,446
Supporting Services		
Functional	1,345,353	750,624
Total Expenses	<u>4,188,837</u>	<u>3,812,593</u>
Change in Unrestricted Net Assets	377,988	68,494
Unrestricted Net Assets, Beginning of Year	<u>120,246</u>	<u>51,752</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 498,234</u></u>	<u><u>\$ 120,246</u></u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities		
Change in unrestricted net assets	\$ 377,988	\$ 68,494
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization expense	70,700	77,095
Bad debt expense	371,635	137,685
(Increase) decrease in assets:		
Due from school districts	(725,574)	(59,706)
State and federal aid receivable	(102,376)	164,258
Prepaid expenses	1,646	(1,984)
Increase (decrease) in liabilities:		
Accounts payable	19,225	(101,876)
Accrued expenses	21,501	16,451
Net Cash Provided By Operating Activities	<u>34,745</u>	<u>300,417</u>
Cash Flows From Investing Activities		
Expenditures for plant, equipment and textbooks	<u>(2,850)</u>	<u>(13,873)</u>
Cash Flows From Financing Activities		
Proceeds from note payable	-	50,000
Repayment of note payable	<u>-</u>	<u>(250,000)</u>
Net Cash Used by Financing Activities	<u>-</u>	<u>(200,000)</u>
Net Increase in Cash	31,895	86,544
Cash, Beginning of Period	<u>91,396</u>	<u>4,852</u>
Cash, End of Period	<u><u>\$ 123,291</u></u>	<u><u>\$ 91,396</u></u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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"). During 2010, the State University renewed the School's provisional charter, for a term of five years with the provisional charter expiring in 2015.

During 2010-2011 the School's educational operations serving principally Albany, New York and surrounding areas had an annualized full time enrollment of 286 students in grades 5 through 8.

Governance and Operations

The School is governed by a 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

In accordance with accounting principles generally accepted in the United States of America, 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, 2011 and 2010.

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 Statements of Activities as Net Assets Released from Restrictions.

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

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

For 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. Costs are subject to audit and changes, if any, are recognized in the year known.

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 \$349,410 and \$18,604 at June 30, 2010 and 2009, respectively.

Bad debt expense was \$371,635 and \$137,685 for the years ended June 30, 2011 and 2010, respectively.

Plant, Equipment, Textbooks, Depreciation and Amortization

The School capitalizes expenditures for property and equipment in excess of \$500. 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 \$70,700 and \$77,095 for the years ended June 30, 2011 and 2010, respectively.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The School has been classified as a publicly-supported organization that is not a private foundation under Section 509(a) of the Code.

Under Accounting Standard Codifications (ASC) Section 740, the tax-exempt status of a tax-exempt entity is an uncertain tax position, since events could potentially occur that jeopardize tax exempt status. Management is not aware of any events that could jeopardize tax exempt status. Therefore, no liability or provision for income tax has been reflected in the financial statements.

Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School are no longer subject to examination for the fiscal years ended June 30, 2007, and prior.

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 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

Accounting principles generally accepted in the United States of America 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.

Public Relations

The School records public relations cost as expenses when they are incurred. Public relations expense was \$13,187 and \$4,214 for the years ended June 30, 2011 and 2010, respectively.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The School has evaluated subsequent events through October 20, 2011, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2011, have been incorporated into these financial statements.

3. 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>2011</u>	<u>2010</u>
	<u>Grant Receipts Expended</u>	<u>Grant Receipts Expended</u>
Federal Grants:		
Entitlement grants	\$ 192,030	\$ 182,869
Child Nutrition	144,476	118,998
Federal Investing in Innovation Grant	43,430	-
New York State Department of Education:		
Child Nutrition	<u>5,661</u>	<u>11,082</u>
Total Grant Support and Revenue	<u>\$ 385,597</u>	<u>\$ 312,949</u>

4. 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, 2011, 100% of the facility was leased by the School.

The School leases office equipment under non-cancelable operating leases that expire in 2013 and 2015. Monthly lease payments are \$2,273.

Rent expense was \$479,809 and \$481,696 for the years ended June 30, 2011 and 2010, respectively. The minimum annual lease payments are as follows:

2012	\$ 477,272
2013	\$ 26,873
2014	\$ 22,480
2015	\$ 20,606

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

5. PLANT, EQUIPMENT AND TEXTBOOKS

The details of property, equipment and textbooks, and accumulated depreciation for the years ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 264,473	\$ 261,623
Leasehold improvements	139,386	139,386
Textbooks	<u>51,597</u>	<u>51,597</u>
Total Property, Equipment and Textbooks	455,456	452,606
Accumulated depreciation and amortization	<u>(355,862)</u>	<u>(285,162)</u>
Net Property, Equipment and Textbooks	<u><u>\$ 99,594</u></u>	<u><u>\$ 167,444</u></u>

6. 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, 2011 and 2010 was \$49,218 and \$37,534, respectively.

7. CONCENTRATION OF RISK

The School receives a substantial portion of its funding from school districts where the School's students reside. One School district constituted 80% and 82% of total revenue for the years ended June 30, 2011 and 2010, respectively. Receivable from this school district made up 86% of the total due from school districts as of June 30, 2011.

SUPPLEMENTAL INFORMATION

**KIPP TECH VALLEY CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

Schedule I

	Program Services				Management and General	2011 Totals	2010 Totals
	Regular Education	Special Education	Other Programs				
Functional Expenses	\$	\$	\$	\$	\$	\$	\$
Personnel service	1,171,819	107,500	-	589,704	1,869,023	1,771,644	
Fringe benefits	270,677	24,831	-	136,215	431,723	361,039	
Staff development	-	-	-	-	-	10,011	
Travel	-	-	-	4,872	4,872	6,961	
Telephone	-	-	-	25,285	25,285	28,171	
Instructional supplies	67,774	6,493	1,129	-	-	51,110	
Field trips	-	-	73,713	-	-	73,316	
Food program	-	-	191,636	-	-	172,442	
Legal	-	-	-	4,744	4,744	5,203	
Accounting	-	-	-	24,115	24,115	19,672	
Consultants	15,120	-	-	20,940	36,060	45,346	
Board expenses	-	-	-	301	301	506	
Office supplies and materials	-	-	-	28,644	28,644	40,314	
Depreciation and amortization	59,240	2,823	3,594	5,043	70,700	77,095	
Utilities	40,719	1,941	2,470	3,466	48,596	52,740	
Lease							
Facilities	377,055	17,970	22,875	32,100	450,000	450,000	
Equipment	14,905	-	-	14,904	29,809	31,696	
Repairs and maintenance	94,853	4,521	5,754	8,075	113,203	118,661	
Transportation	-	-	209,031	-	209,031	254,612	
Insurance	23,563	1,123	1,430	8,584	34,700	30,683	
Fundraising	-	-	-	-	-	6,629	
Miscellaneous equipment	-	-	479	1,130	1,609	1,735	
Recruitment	-	-	-	21,398	21,398	5,645	
Student services	25,959	2,487	-	-	28,446	24,142	
Public relations	-	-	-	13,187	13,187	4,214	
Bad debts	-	-	-	371,635	371,635	137,685	
Fees and licensing	-	-	-	31,011	31,011	31,321	
Total Functional Expenses	\$ 2,161,684	\$ 169,689	\$ 512,111	\$ 1,345,353	\$ 4,188,837	\$ 3,812,593	