

KIPP TECH VALLEY CHARTER SCHOOL

FINANCIAL REPORT

JUNE 30, 2013 AND 2012



Teal, Becker & Chiaramonte™
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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KIPP TECH VALLEY CHARTER SCHOOL

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-13
 <u>SUPPLEMENTAL INFORMATION</u>	 <u>Schedule Number</u>
SCHEDULE OF FUNCTIONAL EXPENSES	I



Teal, Becker & Chiaramonte™
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of KIPP Tech Valley Charter School, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KIPP Tech Valley Charter School as of June 30, 2013 and 2012, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses 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 audit 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.

Paul Becker & Charamonte, CPAs PC

Albany, New York
October 10, 2013

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash	\$ 814,245	\$ 673,175
Due from school districts, net	527,519	596,102
State and federal aid receivable	57,616	175,529
Other receivable	9,676	-
Prepaid expenses	9,609	56,294
Total Current Assets	<u>1,418,665</u>	<u>1,501,100</u>
Property, Equipment and Textbooks		
Land	2,105,892	-
Building	5,174,814	-
Equipment	301,492	279,780
Leasehold improvements	139,386	139,386
Textbooks	52,626	51,597
Total	7,774,210	470,763
Less accumulated depreciation and amortization	<u>(527,839)</u>	<u>(412,907)</u>
Net Property, Equipment and Textbooks	<u>7,246,371</u>	<u>57,856</u>
Other Assets		
Deferred financing costs, net	417,940	-
Bond trust accounts, restricted	773,126	-
Other	3,710	-
Total Other Assets	<u>1,194,776</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 9,859,812</u>	<u>\$ 1,558,956</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Current portion of bonded mortgage payable	\$ 130,000	\$ -
Accounts payable	62,005	110,645
Accrued expenses	169,070	117,137
Deferred revenue	6,147	-
Total Current Liabilities	367,222	227,782
Long-Term Liabilities		
Bonded mortgage payable	<u>8,270,000</u>	<u>-</u>
Total Liabilities	8,637,222	227,782
Unrestricted Net Assets	<u>1,222,590</u>	<u>1,331,174</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,859,812</u>	<u>\$ 1,558,956</u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Revenue		
Public School Districts		
Resident student enrollment	\$ 4,200,846	\$ 3,879,318
Students with disabilities	80,957	207,256
Grants		
Federal	412,608	360,301
State	7,652	5,762
Other	18,980	117,170
Total Revenue	<u>4,721,043</u>	<u>4,569,807</u>
Expenses		
Program Services		
Regular education	2,538,240	2,284,180
Special education	222,878	179,184
Other programs	638,460	545,030
Supporting Services		
Management and general	1,430,049	728,473
Total Expenses	<u>4,829,627</u>	<u>3,736,867</u>
Change in Unrestricted Net Assets	(108,584)	832,940
Unrestricted Net Assets, Beginning of Year	<u>1,331,174</u>	<u>498,234</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 1,222,590</u></u>	<u><u>\$ 1,331,174</u></u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (108,584)	\$ 832,940
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	114,933	57,045
Amortization of debt issuance costs	8,532	-
Bad debt expense (recoveries)	279,887	(263,330)
(Increase) decrease in assets:		
Due from school districts	(211,304)	180,056
State and federal aid receivable	117,913	(15,145)
Other receivable	(9,676)	-
Prepaid expenses	46,685	(51,896)
Other assets	(3,710)	-
Increase (decrease) in liabilities:		
Accounts payable	(48,640)	(46,531)
Accrued expenses	51,933	(127,948)
Deferred revenue	6,147	-
Net Cash Provided By Operating Activities	<u>244,116</u>	<u>565,191</u>
Cash Flows From Investing Activities		
Expenditures for property, equipment and textbooks	<u>(7,303,448)</u>	<u>(15,307)</u>
Cash Flows From Financing Activities		
Proceeds from bonded mortgage payable	8,400,000	-
Debt issuance costs	(426,472)	-
Deposits to bond trust accounts, restricted	<u>(773,126)</u>	<u>-</u>
Net Cash Provided By Financing Activities	<u>7,200,402</u>	<u>-</u>
Net Increase in Cash	141,070	549,884
Cash, Beginning of Period	<u>673,175</u>	<u>123,291</u>
Cash, End of Period	<u>\$ 814,245</u>	<u>\$ 673,175</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 256,960</u>	<u>\$ -</u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 2012-2013 the School’s educational operations, serving principally Albany, New York and surrounding areas, had an annualized full time enrollment of 300 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.

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 grants 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 \$346,000 and \$75,000 at June 30, 2013 and 2012, respectively.

Bad debt expense (recoveries) was \$279,887 and \$(263,330) for the years ended June 30, 2013 and 2012, respectively.

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Equipment and Textbooks

The School capitalizes expenditures for property and equipment in excess of \$500. Property, 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>
Building	39
Equipment	3-5
Textbooks	3
Leasehold improvements	7

Depreciation expense was \$114,933 and \$57,045 for the years ended June 30, 2013 and 2012, respectively.

Maintenance and repairs are charged to operations when incurred. When property, equipment and textbooks are 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, 2009 and prior.

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in accordance 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. Significant estimates made by the School in the accompanying financial statements include certain assumptions related to accounts receivable and long-lived assets. Actual results could differ from these 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 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 receivable, 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 \$28,107 and \$16,169 for the years ended June 30, 2013 and 2012, respectively.

Subsequent Events

The School has evaluated subsequent events through October 10, 2013, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2013, have been incorporated into these financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

3. PROPERTY, EQUIPMENT AND TEXTBOOKS

The details of property, equipment and textbooks and accumulated depreciation for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 2,105,892	\$ -
Building	5,174,814	-
Equipment	301,492	279,780
Leasehold improvements	139,386	139,386
Textbooks	<u>52,626</u>	<u>51,597</u>
Total Property, Equipment and Textbooks	7,774,210	470,763
Accumulated depreciation and amortization	<u>(527,839)</u>	<u>(412,907)</u>
Net Property, Equipment and Textbooks	<u><u>\$ 7,246,371</u></u>	<u><u>\$ 57,856</u></u>

4. DEFERRED FINANCING COSTS, NET

Deferred financing costs consist of bond closing costs incurred in connection with the issuance of the Industrial Development Authority of the City of Phoenix, Arizona, Education Facility Bonds (KIPP Tech Valley Charter School Project) Series 2012 debt.

Bond closing costs are amortized using the straight-line method over the term of the obligation. Amortization expense was \$8,532 and \$-0- for the years ended June 30, 2013 and 2012, respectively.

Estimated amortization expense is \$17,064 for each of the next five years.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

5. BOND TRUST ACCOUNTS - RESTRICTED

The School has entered into a custody agreement with UMB Bank, N.A. as Custodian and Trustee for the holders of the Industrial Development Authority of the City of Phoenix, Arizona, Education Facility Bonds (KIPP Tech Valley Charter School Project) Series 2012. The reserve accounts represent funds held by UMB Bank, N.A. in the name of the School. The School will direct all educational aid payments to be deposited with the Custodian. The Custodian will pay the Trustee, for deposits to the Bond Fund, an amount equal to a proportionate share of the next interest payment and principal payment on the bonds for which funds have not been provided for. The Custodian will also pay to the Trustee from the amounts received from the School's educational aid payments amounts calculated by the Trustee for deposits into the School's Rebate Fund, Expense Fee Fund and the Repair and Replacement Fund. Deposits into the Expense Fee Fund will commence on January 1, 2014 and deposits into the Repair and Replacement Fund will commence on January 1, 2016. Any funds remaining with the Custodian following all such transfers will be transferred to the School.

Bond trust accounts restricted consist of the following:

	<u>2013</u>	<u>2012</u>
Debt service reserve fund	\$ 692,056	\$ -
Bond fund	71,699	-
Custody fund	6,270	-
Expense fund	3,101	-
Total	<u>\$ 773,126</u>	<u>\$ -</u>

The underlying investments in the bond trust accounts at June 30, 2013 consist of cash and money market funds.

6. BONDED MORTGAGE PAYABLE

The School's educational facilities and adjacent land parcels were acquired through financing provided by the Industrial Development Authority of the City of Phoenix, Arizona, Education Facility Bonds (KIPP Tech Valley Charter School Project) Series 2012 (IDA). The School acquired the facility and adjacent land parcels from the IDA through a loan agreement which provides for the School to make installment payments in an amount sufficient to pay the principal and interest on the bonds when due. The loan agreement is collateralized by a first mortgage and security interest in the School's land, building and equipment.

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

6. BONDED MORTGAGE PAYABLE (Continued)

Maturities, remaining principal amounts and interest rates of the bonds (and underlying loan agreement), are as follows:

	<u>2013</u>
6.00% Term Bond, due December 1, 2022	\$ 1,775,000
6.50% Term Bond, due December 1, 2032	3,265,000
7.00% Term Bond, due December 1, 2037	<u>3,360,000</u>
	8,400,000
Current Portion of bonded mortgage payable	<u>(130,000)</u>
Total Long-term Bonded Mortgage Payable	<u><u>\$ 8,270,000</u></u>

The following is a summary of maturing debt service requirements:

For the years ending June 30, 2014	\$ 130,000
2015	145,000
2016	150,000
2017	170,000
2018	180,000
Thereafter	<u>7,625,000</u>
	<u><u>\$ 8,400,000</u></u>

The loan agreement includes certain financial statement covenants for maintaining a debt service coverage ratio not less than 1.20 to 1.0 as measured annually and a liquidity requirement for maintaining a days cash on hand of not less than 45 days measured quarterly. These covenants were met for the year ended June 30, 2013.

7. GRANTS

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

	<u>2013</u>	<u>2012</u>
	<u>Grant Receipts Expended</u>	<u>Grant Receipts Expended</u>
Federal Grants:		
Entitlement grants	\$ 170,626	\$ 150,947
Child Nutrition	194,940	156,854
Federal Investing in Innovation Grant	47,042	52,500
New York State Department of Education:		
Child Nutrition	<u>7,652</u>	<u>5,762</u>
Total Grant Support and Revenue	<u><u>\$ 420,260</u></u>	<u><u>\$ 366,063</u></u>

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

8. OPERATING LEASE

The School leased its educational facilities from July 1, 2012 through December 2012 on a month-to-month basis. In December 2012, the School purchased the educational facilities.

The School leases office equipment under a non-cancelable operating lease that expires in 2015. The monthly lease payment is \$1,873.

Rent expense was \$229,612 and \$491,791 for the years ended June 30, 2013 and 2012, respectively. The minimum annual lease payments are as follows:

2014	\$	22,480
2015	\$	20,606

9. 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, 2013 and 2012 was \$102,713 and \$77,665, respectively.

10. CONCENTRATION OF RISK

The School maintains its cash account in one bank located in Albany, NY. The account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The School has not experienced a loss in such account. As of June 30, 2013, the uninsured cash was \$567,937. The School believes it is not exposed to any significant credit risk on its cash balances.

The School receives a substantial portion of its funding from school districts where the School's students reside. One school district constituted 78% of total revenue for the years ended June 30, 2013 and 2012, respectively. The receivable from this school district made up 70% of the total due from school districts as of June 30, 2013.

SUPPLEMENTAL INFORMATION

Schedule I

KIPP TECH VALLEY CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	Program Services			Management And General	2013		2012	
	Regular Education	Special Education	Other Programs		Totals		Totals	
Functional Expenses								
Personnel service	\$ 1,358,225	\$ 149,059	\$ 113,383	\$ 657,068	\$ 2,277,735	\$	1,996,324	\$
Fringe benefits	318,980	35,007	26,628	154,313	534,928		423,004	
Staff development	24,234	-	-	1,641	25,875		878	
Travel	-	-	-	13,950	13,950		8,958	
Telephone	-	-	-	39,214	39,214		27,788	
Instructional supplies	69,612	3,646	558	-	73,816		81,556	
Field trips	-	-	104,906	-	104,906		76,649	
Food program	-	-	119,156	-	119,156		203,978	
Legal	-	-	-	10,812	10,812		6,248	
Accounting	-	-	-	30,390	30,390		21,535	
Consultants	16,639	-	-	12,094	28,733		31,145	
Board expenses	-	-	-	17	17		371	
Office supplies and materials	-	-	-	68,833	68,833		50,322	
Amortization	7,149	341	434	608	8,532		-	
Depreciation	96,302	4,590	5,842	8,199	114,933		57,045	
Utilities	45,360	2,162	2,752	3,861	54,135		39,970	
Leases								
Facilities	171,296	8,164	10,392	14,583	204,435		450,000	
Equipment	12,589	-	-	12,588	25,177		41,791	
Repairs and maintenance	100,106	4,771	6,073	8,523	119,473		112,127	
Transportation	-	-	229,642	-	229,642		229,208	
Insurance	17,484	833	1,061	9,031	28,409		34,002	
Interest	253,984	12,105	15,409	21,622	303,120		-	
Miscellaneous equipment	4,274	-	2,224	3,096	9,594		21,082	
Recruitment	-	-	-	3,194	3,194		3,412	
Student services	42,006	2,200	-	-	44,206		35,893	
Public relations	-	-	-	28,107	28,107		16,169	
Bad debts (recoveries)	-	-	-	279,887	279,887		(263,330)	
Fees and licensing	-	-	-	48,418	48,418		30,742	
Total Functional Expenses	\$ 2,538,240	\$ 222,878	\$ 638,460	\$ 1,430,049	\$ 4,829,627	\$	3,736,867	\$