

KIPP TECH VALLEY CHARTER SCHOOL

FINANCIAL REPORTS

JUNE 30, 2017 AND 2016



Teal, Becker & Chiramonte™
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5-6
Notes to Financial Statements	7-17

SUPPLEMENTARY INFORMATION

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-19
Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance	20-21
Schedule of Functional Expenses	22
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24
Schedule of Findings and Questioned Costs	25



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 (the School), which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary Schedule of Functional Expenses appearing on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), 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 supplementary Schedule of Functional Expenses and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, 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* in considering KIPP Tech Valley Charter School's internal control over financial reporting and compliance.

Teal Becker, Charman, CPAs PC

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

	ASSETS	
	<u>2017</u>	<u>2016</u>
Current Assets		
Cash	\$ 525,088	\$ 80,270
Due from school districts, net	349,353	202,591
State and federal aid receivable	455,348	114,044
Prepaid expenses	<u>59,452</u>	<u>135,277</u>
Total Current Assets	<u>1,389,241</u>	<u>532,182</u>
Property, Plant, Equipment and Textbooks		
Land	2,880,892	2,105,892
Building	10,706,633	5,174,814
Equipment	459,452	393,681
Textbooks	<u>64,390</u>	<u>64,390</u>
Total	14,111,367	7,738,777
Less accumulated depreciation and amortization	<u>(1,168,480)</u>	<u>(886,337)</u>
Net Property, Plant, Equipment and Textbooks	<u>12,942,887</u>	<u>6,852,440</u>
Other Assets		
Bond trust accounts, restricted	1,000	786,540
Facility purchase deposit	-	50,000
Interest rate swap agreement	<u>113,598</u>	<u>-</u>
Total Other Assets	<u>114,598</u>	<u>836,540</u>
TOTAL ASSETS	<u><u>\$ 14,446,726</u></u>	<u><u>\$ 8,221,162</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current portion of long-term debt	\$ -	\$ 160,000
Accounts payable	95,359	230,842
Accrued expenses	164,653	240,694
Deferred revenue	<u>-</u>	<u>574</u>
Total Current Liabilities	260,012	632,110
Long-Term Liabilities		
Long-term debt, net of debt issuance costs	<u>15,212,502</u>	<u>7,448,252</u>
Total Liabilities	15,472,514	8,080,362
Unrestricted Net Assets	<u>(1,025,788)</u>	<u>140,800</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 14,446,726</u></u>	<u><u>\$ 8,221,162</u></u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Revenue		
Public School Districts		
Resident student enrollment	\$ 5,757,622	\$ 4,273,466
Students with disabilities	67,440	48,848
Grants		
Federal	766,488	568,262
State	185,318	7,000
Other	391,415	61,384
Total Revenue	<u>7,168,283</u>	<u>4,958,960</u>
Expenses		
Program Services		
Regular education	3,309,777	2,666,850
Special education	167,712	173,840
Other programs	1,003,317	578,064
Supporting Services		
Management and general	2,063,837	1,641,250
Loss on extinguishment of debt	1,903,826	-
Loss on impairment	-	460,067
Total Expenses	<u>8,448,469</u>	<u>5,520,071</u>
Change in Unrestricted Net Assets Before Gain on Interest Rate Swap Contract	(1,280,186)	(561,111)
Gain on interest rate swap agreement	<u>113,598</u>	<u>-</u>
Change in Unrestricted Net Assets	(1,166,588)	(561,111)
Unrestricted Net Assets, Beginning of Year	<u>140,800</u>	<u>701,911</u>
Unrestricted Net Assets, End of Year	<u>\$ (1,025,788)</u>	<u>\$ 140,800</u>

See accompanying notes to financial statements.

KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Change in unrestricted net assets	\$ (1,166,588)	\$ (561,111)
Adjustments to reconcile change in unrestricted net assets to net cash provided (used) by operating activities:		
Depreciation	282,143	172,167
Amortization classified as interest expense	19,526	17,064
Bad debt expense	60,000	175,000
Loss on impairment	-	460,067
Loss on extinguishment of debt	363,193	-
Gain on interest rate swap agreement	(113,598)	-
(Increase) decrease in assets:		
Due from school districts	(206,762)	(214,142)
State and federal aid receivable	(341,304)	(91,119)
Prepaid expenses	75,825	(125,061)
Increase (decrease) in liabilities:		
Accounts payable	(135,483)	123,790
Accrued expenses	(76,041)	17,977
Deferred revenue	(574)	(43,867)
Net Cash Used By Operating Activities	<u>(1,239,663)</u>	<u>(69,235)</u>
Cash Flows From Investing Activities		
Expenditures for property, plant, equipment and textbooks	(122,590)	(14,564)
Expenditures for expansion development costs	-	(35,037)
Expenditures for facility purchase deposit	-	(50,000)
Net Cash Used By Investing Activities	<u>(122,590)</u>	<u>(99,601)</u>
Cash Flows From Financing Activities		
Principal payments on long-term debt	-	(150,000)
Proceeds from long-term debt, net of debt financing costs	1,021,531	-
(Deposits to) disbursements from bond trust accounts, restricted	785,540	(7,954)
Net Cash Provided (Used) By Financing Activities	<u>1,807,071</u>	<u>(157,954)</u>
Net Increase (Decrease) in Cash	444,818	(326,790)
Cash, Beginning of year	<u>80,270</u>	<u>407,060</u>
Cash, End of Year	<u>\$ 525,088</u>	<u>\$ 80,270</u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	\$ <u>539,576</u>	\$ <u>532,175</u>
 Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Purchase of property, plant, equipment and textbooks	\$ (6,372,590)	\$ -
Less: Deposit	50,000	-
Less: Long-term debt issued	<u>6,200,000</u>	<u>-</u>
Expenditures for Property, Plant, Equipment and Textbooks	<u>\$ (122,590)</u>	<u>\$ -</u>
Long-term debt issued, net of financing costs	\$ 15,196,531	\$ -
Less: Proceeds used to defease outstanding bonds	(7,975,000)	-
Less: Proceeds used to purchase property	<u>(6,200,000)</u>	<u>-</u>
Proceeds from Long Term Debt, net of Financing Costs	<u>\$ 1,021,531</u>	<u>\$ -</u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

1. ORGANIZATION, GOVERNANCE AND OPERATIONS

Organization

The KIPP Tech Valley Charter School (“the School”) was organized in 2004 to operate a charter school for grades 5 through 8, 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 2015, the State University renewed the School’s provisional charter for a term of five years with the provisional charter expiring in 2020. As part of the renewal of the School’s 2015 provisional charter, permission was granted to expand the School to include kindergarten through grade 4. During the year ended June 30, 2017, the School began enrolling students in kindergarten, and in each subsequent year a grade will be added until the School reaches its provisional charter of a school for kindergarten through grade 8.

During the 2016-2017 School year, the School’s educational operations serving principally Albany, NY and surrounding areas had an annualized full time enrollment of 403 students in kindergarten and 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 expense 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, 2017 AND 2016**

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 entitlement grants and is recognized as earned, as allowable expenditures are incurred. Amounts received in advance of the allowable expenditures being incurred are recorded as deferred revenue. 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 \$360,000 and \$300,000 at June 30, 2017 and 2016, respectively.

Bad debt expense was \$60,000 and \$175,000 for the years ended June 30, 2017 and 2016, respectively.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, Equipment and Textbooks

The School capitalizes expenditures for property and equipment in excess of \$1,000. Property, plant, 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. The following are the estimated useful lives used for depreciation and amortization:

	<u>Years</u>
Building	39
Equipment	3-7
Textbooks	3

Depreciation expense was \$282,143 and \$172,167 for the years ended June 30, 2017 and 2016, respectively.

Maintenance and repairs are charged to operations when incurred. When property, plant, 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.

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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. 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 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 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 relation costs as expenses when they are incurred. Public relations expenses were \$30,356 and \$14,007 for the years ended June 30, 2017 and 2016, respectively.

New Accounting Standard

In 2017, the School adopted ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* regarding the presentation on the statements of financial position of the costs of issuance of debt and related amortization expense in the statements of activities. The new guidance requires presenting such unamortized costs as a direct reduction from the unpaid principal of the debt. (See Note 6.) Amortization is required to be included with interest expense on the statements of activities.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standard (Continued)

Previously, the School presented unamortized debt issuance costs as deferred charges on the statements of financial position, and has retroactively reclassified 2016 amounts to agree with the new deduction presentation. The reclassifications reduced total assets and long-term debt and total liabilities at June 30, 2016, by \$366,748 with no effect on net assets.

Reclassification

Certain 2016 amounts have been reclassified to conform to the 2017 presentation. Unrestricted net assets and changes in unrestricted net assets are unchanged due to this reclassification.

Subsequent Events

The School has evaluated subsequent events through October 27, 2017, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2017, have been incorporated into these financial statements.

3. PROPERTY, PLANT, EQUIPMENT AND TEXTBOOKS

The details of property, plant, equipment and textbooks, and accumulated depreciation for the years ended June 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 2,880,892	\$ 2,105,892
Building	10,706,633	5,174,814
Equipment	459,452	393,681
Textbooks	<u>64,390</u>	<u>64,390</u>
Total Property, Equipment and Textbooks	14,111,367	7,738,777
Accumulated depreciation and amortization	<u>(1,168,480)</u>	<u>(886,337)</u>
Net Property, Plant, Equipment and Textbooks	<u>\$12,942,887</u>	<u>\$ 6,852,440</u>

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

4. BOND TRUST ACCOUNTS - RESTRICTED

The School had 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 represented funds held by UMB Bank, N.A. in the name of the School. The School directed all educational aid payments to be deposited with the Custodian. The Custodian paid 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 were not provided for. The Custodian also paid 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 commenced on January 1, 2014 and deposits into the Repair and Replacement Fund commenced on January 1, 2016. Any funds remaining with the Custodian following all such transfers would have been transferred to the School.

Bond trust accounts - restricted consist of the following:

	<u>2017</u>	<u>2016</u>
Expense Fund	\$ 1,000	\$ 7,822
Debt Service Reserve Fund	-	692,215
Bond Fund	-	80,249
Repair and Replacement Fund	-	6,253
Custody Fund	-	<u>1</u>
Total	<u>\$ 1,000</u>	<u>\$ 786,540</u>

The underlying investments in the bond trust accounts at June 30, 2016 consisted of cash and money market funds.

During October 2016, the restricted bond trust accounts were utilized in providing funding for the advanced refunding and defeasance of the Industrial Development Authority of the City of Phoenix, Arizona, Education Facility Bonds (KIPP Tech Valley Charter School Project) Series 2012. (See Note 7.)

5. LINE OF CREDIT

The line of credit consists of a Citizens Bank unsecured revolving line of credit for up to \$150,000 to support general working capital requirements through September 2018. Interest is at LIBOR +3% (4.22% at June 30, 2017). There was no outstanding balance on the line at June 30, 2017.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

6. LONG-TERM DEBT

Long-term debt at June 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Citizens Bank mortgage payable, interest at 65% of LIBOR +3% (2.703% at June 30, 2017). Due 2036, with interest only for the first 24 months, amortized over 18 years. Secured by property and equipment.	\$ 12,000,000	\$ -
Boston Community Loan Fund, Inc. subordinated note payable, interest at 6% for the first five years, reset based on five-year U.S. Treasury Yield Curve. Due 2026, with interest only for the first 24 months, amortized over 18 years. Secured by property and equipment.	3,600,000	-
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 provided for the School to make installment payments in an amount sufficient to pay the principal and interest on the bonds when due. Industrial Development Authority of the City of Arizona, Education Facility Bonds (KIPP Tech Valley Charter School Project) Series 2012 (IDA), 6% term bond due December 1, 2022, 6.50% term bond due December 1, 2032 and 7.00% term bond due December 1, 2017. The loan agreement was collateralized by a first mortgage and security interest in the School's land, building and equipment. This debt was refinanced in the current year.	-	7,975,000
	15,600,000	7,975,000
Current Portion of Long-Term Debt	-	160,000
Long-Term Portion	15,600,000	7,815,000
Less: deferred financing costs	387,498	366,748
Long-Term Debt, Net of Deferred Financing Costs	<u>\$ 15,212,502</u>	<u>\$ 7,448,252</u>

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

6. LONG-TERM DEBT (Continued)

For the years ended June 30, 2017 and 2016, amortization of the deferred financing costs included in interest expense was \$19,526 and \$17,064, respectively.

The following is a summary of maturing debt service requirements for the years ending June 30:

2018	\$	-
2019		399,336
2020		551,698
2021		574,584
2022		598,484
Thereafter		<u>13,475,898</u>
Total		<u>\$ 15,600,000</u>

Debt Covenants

The Citizens Bank mortgage payable loan agreement and the Boston Community Loan Fund, Inc. subordinated note payable loan agreement includes financial statement covenants to be maintained at the end of each fiscal year of the School, commencing with June 30, 2017, of a debt service coverage ratio not less than 1.20 to 1. For the fiscal year ending June 30, 2018, and as of the end of each subsequent fiscal year thereafter, a ratio not less than 1.50 to 1 is required. The debt service coverage ratio at each fiscal year-end will be determined on the basis of cash flow available for debt service for the fiscal year then ended and debt service for such fiscal year. This covenant was met for the year ended June 30, 2017.

The Citizens Bank mortgage payable loan agreement and the Boston Community Loan Fund, Inc. subordinated note payable loan agreement includes financial statement covenants for maintaining minimum liquidity as of June 30 and December 31 in each year commencing with December 31, 2016. The minimum liquidity requires the School to have unrestricted cash and investments with a fair market value of not less than \$350,000. The covenant was met at June 30, 2017 and was not met at December 31, 2016.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

7. EXTINGUISHMENT OF DEBT

In October 2016, the School defeased a total of \$7,975,000, the net carrying amount of the long-term borrowings of the Industrial Development Authority of the City of Phoenix, Arizona, Education Facility Bonds (KIPP Tech Valley Charter School Project) Series 2012. In the transaction, the School irrevocably placed assets with an escrow agent in a trust to be used solely for satisfying the scheduled payments of both the interest and principal of the defeased debt. The School believes that the investments placed in the defeasance trust will be sufficient to satisfy all future debt service requirements for the defeased debt. Accordingly, the amount of debt considered to be extinguished does not appear as a liability in the accompanying statement of financial position. At June 30, 2017, \$7,815,000 of the defeased debt remained outstanding.

As a result of the defeasance of the Industrial Development Authority of the City of Phoenix, Arizona, Education Facility Bonds (KIPP Tech Valley Charter School Project) Series 2012 debt the School incurred a loss on extinguishment of debt of \$1,903,826 for the year ended June 30, 2017.

8. INTEREST RATE SWAP AGREEMENT

The School has entered into an interest rate swap agreement with Citizens Bank, with a trade date of September 15, 2016, to reduce the impact of changes in the interest rate on its floating interest rate mortgage payable. The agreement is effective on September 15, 2018 and terminates on September 15, 2036 with the option of early termination on September 15, 2026 and the 15th of each month thereafter until August 15, 2036. The agreement effectively stabilizes the School's interest rate exposure to a fixed rate of 1.62%. The School documents its risk management strategy and hedge effectiveness at the inception of and during the term of the hedge. The School's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap agreements to convert variable rate debt to a fixed rate.

The School recognizes the cash flow hedge related to the interest rate swap agreement on the statement of financial position at fair value. The fair value of the interest rate swap is based on quotes from Citizens Bank. Fair value for the interest rate swap agreement (level 3) are derived from proprietary models of Citizens' Bank and is intended to represent the present value of expected cash flows from each transaction between the School and Citizens Bank. The School has recorded an asset in the amount of \$113,598 and \$-0- at June 30, 2017 and 2016, respectively, relating to the fair value of the swap agreement.

The change in fair value of the interest rate swap agreement is reported on the statement of activities as a separate component of the change in net assets. The change in the fair value of the interest rate swap agreement is classified as an operating activity on the statement of cash flows.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

9. 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, and they consist of the following:

	<u>2017</u>	<u>2016</u>
	<u>Grant Receipts Expended</u>	<u>Grant Receipts Expended</u>
Federal Grants:		
Entitlement grants	\$ 166,335	\$ 155,830
Child Nutrition	378,461	285,810
Federal Investing in Innovation Grant	220,463	88,246
Federal Dissemination Grant	1,229	38,376
New York State Department of Education:		
Child Nutrition	9,037	7,000
New York State Senate:		
Special Charter School Aid	<u>176,281</u>	<u>-</u>
Total Grant Support and Revenue	<u>\$ 951,806</u>	<u>\$ 575,262</u>

10. OPERATING LEASES

Beginning in July 2016, the School leased an educational facility used for its middle school classes. The lease was on a month-to-month basis and terminated in October 2016 when the School closed on the purchase of the facility. Rent expense was \$83,066 and \$-0- for the years ended June 30, 2017 and 2016, respectively.

The School leases office equipment under non-cancelable operating leases that expire in 2019 and 2021. The monthly lease payments are \$2,267.

Rent expense was \$28,032 and \$21,641 for the years ended June 30, 2017 and 2016, respectively. The minimum annual lease payments are as follows:

2018	\$ 27,072
2019	12,628
2020	5,439
2021	5,439
2022	<u>453</u>
Total	<u>\$ 51,031</u>

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

11. 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, 2017 and 2016 was \$113,201 and \$99,065, respectively.

12. 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 and at times during the years ended June 30, 2017 and 2016, the balance on deposit exceeded the FDIC limits. 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 66% and 77% of total revenue for the years ended June 30, 2017 and 2016, respectively. Receivable from this school district made up 56% and 67% of the total due from school districts as of June 30, 2017 and 2016.

13. LOSS ON IMPAIRMENT

During the year ended June 30, 2016, the School determined that the project for the development and construction of a new educational facility for the School's kindergarten through grade 4 school would not occur. Accordingly, the expansion development costs which had been deferred are considered impaired and were expensed at June 30, 2016.

14. FACILITY PURCHASE DEPOSIT

During the year ended June 30, 2016, the School entered into an agreement to purchase an educational facility that will be used by the School. The purchase was completed during the year ended June 30, 2017.

SUPPLEMENTARY INFORMATION



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To The Board of Trustees
KIPP Tech Valley Charter School

Independent Auditors' Report

We have audited, 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, the financial statements of KIPP Tech Valley Charter School (the School), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KIPP Tech Valley Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Paul Becker & Charamonte, CPAs PC

Albany, New York
October 27, 2017



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To The Board of Trustees
KIPP Tech Valley Charter School

Independent Auditors' Report

Report on Compliance for Each Major Federal Program

We have audited KIPP Tech Valley Charter School's (the School) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2017. The School's major federal program is identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, KIPP Tech Valley Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. .

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Paul Becker & Charamonte CPAs PC

Albany, New York
October 27, 2017

**KIPP TECH VALLEY CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>Program Services</u>			Management And General	<u>2017 Totals</u>	<u>2016 Totals</u>
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other Programs</u>			
Functional Expenses						
Personnel service						
Administrative staff personnel	\$ -	\$ -	\$ -	\$ 540,932	\$ 540,932	\$ 551,487
Instructional personnel	2,007,065	99,923	-	-	2,106,988	1,554,368
Non-instructional personnel	-	-	141,628	405,520	547,148	441,217
Total Salaries and Staff	2,007,065	99,923	141,628	946,452	3,195,068	2,547,072
Fringe benefits and payroll taxes	413,247	20,574	29,161	195,901	658,883	497,197
Retirement	70,999	3,535	5,010	33,657	113,201	99,065
Staff development	17,787	-	-	2,254	20,041	3,780
Travel	-	-	-	4,569	4,569	1,523
Instructional supplies	177,625	4,372	687	-	182,684	106,159
Food program	-	-	171,833	-	171,833	130,101
Legal	-	-	-	30,064	30,064	3,371
Accounting	-	-	-	30,166	30,166	33,763
Consultants	15,069	16,257	-	30,511	61,837	43,017
Board expenses	-	-	-	194	194	428
Office supplies and materials	-	-	-	97,740	97,740	83,466
Depreciation	102,594	3,334	43,003	133,212	282,143	172,167
Utilities	37,227	1,664	18,133	101,228	158,252	75,500
Lease - equipment	14,016	-	-	14,016	28,032	21,642
Lease - facility	49,840	2,492	25,751	4,983	83,066	-
Repairs and maintenance	54,662	2,485	24,846	42,920	124,913	53,127
Insurance	16,880	767	7,673	13,043	38,363	31,432
Interest	236,536	10,752	107,516	182,778	537,582	549,239
Fundraising	-	-	-	-	-	1,500
Miscellaneous equipment	35,028	-	36	1,163	36,227	4,449
Recruitment	-	-	-	11,724	11,724	6,524
Student services	61,202	1,557	428,040	-	490,799	312,648
Bad debts	-	-	-	60,000	60,000	175,000
Elementary School Startup	-	-	-	40,092	40,092	47,773
Fees and licensing	-	-	-	87,170	87,170	36,435
Dissemination grant sub-recipient awards	-	-	-	-	-	23,626
Total Functional Expenses	<u>\$ 3,309,777</u>	<u>\$ 167,712</u>	<u>\$ 1,003,317</u>	<u>\$ 2,063,837</u>	<u>\$ 6,544,643</u>	<u>\$ 5,060,004</u>

KIPP TECH VALLEY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

Program	Federal CFDA # Number	Grant/Contract Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Pass-through from New York State Education Department			
Child Nutrition Cluster:			
Non-Cash Assistance (food distribution)			
Commodity Supplemental Food Program	10.565	N/A	\$ 17,964
Non-Cash Assistance Subtotal			<u>17,964</u>
School Breakfast Program	10.553	N/A	100,277
National School Lunch Program	10.555	N/A	<u>260,220</u>
Cash Assistance Subtotal			<u>360,497</u>
Total - Child Nutrition Cluster			<u>378,461</u>
Total - Department of Agriculture			<u>378,461</u>
<u>U.S. Department of Education</u>			
Pass-through from New York State Education Department			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	0021-17-4485	150,465
Title I Grants to Local Educational Agencies	84.010	0021-16-4485	<u>7,427</u>
Title I, Part A Cluster Subtotal			<u>157,892</u>
Supporting Effective Instruction State Grant	84.367	0147-17-4485	<u>8,443</u>
Charter Schools	84.282A	0089-16-9007	<u>1,229</u>
Pass-through from KIPP Foundation			
Program Grant for Replication and Expansion of High Quality Charter Schools	84-282M	U282M140013	<u>220,463</u>
Total - Department of Education			<u>388,027</u>
Total Federal Assistance			<u>\$ 766,488</u>

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of KIPP Tech Valley Charter School (the School) under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) was prepared on the accrual basis of accounting. Grant awards are recorded as revenue when the criteria for earning the revenue is met, generally when the expenditure of grant funds is made. Grant expenditures are recorded when the liability is incurred.

The amounts reported as federal expenditures in the Schedule represent expenditures of federal funds as obtained from the appropriate federal financial reports for the applicable program and periods. The non-federal share of expenditures, if any, is excluded from the Schedule.

3. NON-CASH ASSISTANCE

The School was the recipient of a federal award program that does not result in cash receipts or disbursements. The School was granted \$17,964 of commodities under the Commodity Supplemental Food Program (CFDA 10.565).

4. SUBRECIPIENTS

KIPP Tech Valley Charter School did not provide federal awards to subrecipients during the year ended June 30, 2017.

**KIPP TECH VALLEY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Are any material weakness(es) identified? Yes No
- Are any significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

- Are any material weakness(es) identified? Yes No
- Are any significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

IDENTIFICATION OF MAJOR PROGRAM:

CFDA Number	Name of Federal Program
10.555	Child Nutrition Program Cluster

Dollar threshold used to distinguish between Federal type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No



October 27, 2017

To The Board of Trustees
KIPP Tech Valley Charter School
1 Dudley Heights
Albany, NY 12210-2601

In connection with our audit of KIPP Tech Valley Charter School (the School) for the year ended June 30, 2017, we have the following comments and recommendations:

Escrow Account

The New York State Education Department requires that charter schools establish an escrow account per the Charter Agreement. The escrow account should be used to pay for legal and audit expenses that would be associated with dissolution, should it occur.

We recommended in the prior year that the School establish an escrow account funded with an amount appropriate to cover the potential costs above, based on the Charter Agreement. As of the June 2017 audit, this has not been established; therefore, we continue to make this recommendation for the current year.

Operating Reserves

It was noted during our audit procedures that the School does not have a written policy for operating reserves. The purpose of maintaining an operating reserves policy is to define and set goals for reserve funds, and clearly describe authorization for the use of reserves. The policy should also outline requirements for reporting and monitoring operating reserve funds.

We recommended in the prior year that the School create a written policy for operating reserves and present it to the Board of Trustees for approval; at the end of the June 2017 fiscal year, this has not been created; therefore, we continue to make this recommendation for the current year.

Accounts Receivable Aging

In the prior year, we noted during our review of the accounts receivable aging schedule that there were negative balances in the current column and large balances in the over 90 days column. This occurs when payments received from schools are not matched with the bills and cleared out of accounts receivable. The accounts receivable aging continues to have large balances and we recommend that the receivables should be reviewed and cleaned up in the next fiscal year to create a more accurate representation of the aging of accounts receivable.

Residency Verification

During our residency testing, we noted that there were addresses on the final reconciliation that had no support by lease or utility bills in the student personnel files. It looks as though during time of enrollment, verification is received, but we found that when there are changes to addresses, the policy of obtaining the proper verification is not always followed. We recommend that as any changes occur, the student files are updated with proper documentation.

Nutrition Invoice Summaries

When performing our single audit testing on the nutrition disbursements, we found that the summaries that include approval and coding were not attached to the invoices paid. We recommend that the summaries are attached to the group of invoices paid, and if the summary includes multiple vendors, making copies and attaching to each vendor's group of invoices paid.

QuickBooks

The School is currently utilizing QuickBooks 2012, we recommend upgrading to the current QuickBooks version. We have found that the older the program is, the School could begin to encounter issues with receiving technical support.

This letter is intended solely for the information and use of the School's Board of Trustees and others within the School and is not intended to be, and should not be, used by anyone other than these specified parties.

We would be pleased to discuss the above comments and our recommendations, or to respond to any questions at your convenience.

Very truly yours,

TEAL, BECKER & CHIARAMONTE, CPAs, P.C.

Teal Becker & Chiaramonte CPAs PC