

KIPP TECH VALLEY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017



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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 | 7-16 |

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> | 17-18 |
| Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance | 19-20 |
| Schedule of Functional Expenses | 21 |
| Schedule of Expenditures of Federal Awards | 22 |
| Notes to Schedule of Expenditures of Federal Awards | 23 |
| Schedule of Findings and Questioned Costs | 24 |



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, 2018 and 2017, 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, 2018 and 2017, 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 21 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 29, 2018, 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 solely 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 effectiveness of KIPP Tech Valley Charter School's 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.

Neal Becker & Charamonte, CPAs PC

Albany, New York
October 29, 2018

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

| ASSETS | <u>2018</u> | <u>2017</u> |
|--|-----------------------------|-----------------------------|
| Current Assets | | |
| Cash | \$ 1,754,442 | \$ 525,088 |
| Reserved cash | 145,018 | - |
| Due from school districts, net | 1,094,872 | 349,353 |
| State and federal aid receivable | 425,653 | 455,348 |
| Prepaid expenses | <u>102,945</u> | <u>59,452</u> |
| Total Current Assets | <u>3,522,930</u> | <u>1,389,241</u> |
| Property, Plant, Equipment, and Textbooks | | |
| Land | 2,880,892 | 2,880,892 |
| Building | 10,724,623 | 10,706,633 |
| Equipment | 477,200 | 459,452 |
| Textbooks | <u>72,044</u> | <u>64,390</u> |
| Total | 14,154,759 | 14,111,367 |
| Less accumulated depreciation and amortization | <u>(1,471,691)</u> | <u>(1,168,480)</u> |
| Net Property, Plant, Equipment, and Textbooks | <u>12,683,068</u> | <u>12,942,887</u> |
| Other Assets | | |
| Bond trust accounts, restricted | 1,000 | 1,000 |
| Construction in Progress - Expansion | 50,275 | - |
| Interest rate swap agreement | <u>397,611</u> | <u>113,598</u> |
| Total Other Assets | <u>448,886</u> | <u>114,598</u> |
| TOTAL ASSETS | <u>\$ 16,654,884</u> | <u>\$ 14,446,726</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Current portion of long-term debt | \$ 406,362 | \$ - |
| Accounts payable | 316,701 | 95,359 |
| Accrued expenses | 219,757 | 164,653 |
| Deferred revenue | <u>1,274,362</u> | <u>-</u> |
| Total Current Liabilities | 2,217,182 | 260,012 |
| Long-Term Liabilities | | |
| Long-term debt, net of debt issuance costs | <u>14,826,312</u> | <u>15,212,502</u> |
| Total Liabilities | 17,043,494 | 15,472,514 |
| Net assets - unrestricted | | |
| Undesignated | (533,628) | (1,025,788) |
| Board designated | <u>145,018</u> | <u>-</u> |
| Total net assets | <u>(388,610)</u> | <u>(1,025,788)</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 16,654,884</u> | <u>\$ 14,446,726</u> |

See accompanying notes to financial statements.

KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|-----------------------|
| Revenue | | |
| Public School Districts: | | |
| Resident student enrollment | \$ 7,126,439 | \$ 5,757,622 |
| Students with disabilities | 45,086 | 67,440 |
| Grants: | | |
| Federal | 1,139,251 | 766,488 |
| State | 213,069 | 185,318 |
| Other | 29,841 | 391,415 |
| Total Revenue | <u>8,553,686</u> | <u>7,168,283</u> |
| Expenses | | |
| Program Services: | | |
| Regular education | 3,765,349 | 3,309,777 |
| Special education | 280,465 | 167,712 |
| Other programs | 1,409,987 | 1,003,317 |
| Supporting Services: | | |
| Management and general | 2,744,720 | 2,063,837 |
| Loss on extinguishment of debt | - | 1,903,826 |
| Total Expenses | <u>8,200,521</u> | <u>8,448,469</u> |
| Change in Unrestricted Net Assets Before Gain on Interest Rate Swap Agreement | 353,165 | (1,280,186) |
| Gain on interest rate swap agreement | <u>284,013</u> | <u>113,598</u> |
| Change in Unrestricted Net Assets | 637,178 | (1,166,588) |
| Unrestricted Net Assets, Beginning of Year | <u>(1,025,788)</u> | <u>140,800</u> |
| Unrestricted Net Assets, End of Year | <u>\$ (388,610)</u> | <u>\$ (1,025,788)</u> |

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|--------------------|
| Cash Flows From Operating Activities | | |
| Change in unrestricted net assets | \$ 637,178 | \$ (1,166,588) |
| Adjustments to reconcile change in unrestricted net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 303,208 | 282,143 |
| Amortization classified as interest expense | 20,175 | 19,526 |
| Bad debt expense | - | 60,000 |
| Loss on extinguishment of debt | - | 363,193 |
| Gain on interest rate swap agreement | (284,013) | (113,598) |
| (Increase) decrease in assets: | | |
| Due from school districts | (745,519) | (206,762) |
| State and federal aid receivable | 29,695 | (341,304) |
| Inventory and prepaid expenses | (43,493) | 75,825 |
| Construction in progress - expansion | (50,275) | - |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 221,342 | (135,483) |
| Accrued expenses | 55,104 | (76,041) |
| Deferred revenue | 1,274,362 | (574) |
| Net Cash Provided (Used) By Operating Activities | <u>1,417,764</u> | <u>(1,239,663)</u> |
| Cash Flows From Investing Activities | | |
| Expenditures for property, plant, equipment, and textbooks | <u>(43,392)</u> | <u>(122,590)</u> |
| Net Cash Used By Investing Activities | <u>(43,392)</u> | <u>(122,590)</u> |
| Cash Flows From Financing Activities | | |
| Proceeds from long-term debt, net of debt financing costs | - | 1,021,531 |
| Disbursements from bond trust accounts, restricted | <u>-</u> | <u>785,540</u> |
| Net Cash Provided By Financing Activities | <u>-</u> | <u>1,807,071</u> |
| Net Increase in Cash | 1,374,372 | 444,818 |
| Cash, Beginning of Year | <u>525,088</u> | <u>80,270</u> |
| Cash, End of Year | <u>\$ 1,899,460</u> | <u>\$ 525,088</u> |

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|-----------------------|
| Supplemental Disclosure of Cash Flow Information | | |
| Interest Paid | \$ <u>564,959</u> | \$ <u>539,576</u> |
| Supplemental Disclosures of Non-Cash Investing and Financing Activities: | | |
| Purchase of property, plant, equipment, and textbooks | \$ (43,392) | \$ (6,372,590) |
| Expenditures for Property, Plant, Equipment, and Textbooks | <u>\$ (43,392)</u> | <u>\$ (6,372,590)</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> |
| Proceeds from Long Term Debt, Net of Financing Costs | <u>\$ -</u> | <u>\$ 1,021,531</u> |

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 2017-2018 School year, the School’s educational operations serving principally Albany, NY and surrounding areas had an annualized full time enrollment of 462 students in kindergarten through grade 1 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, 2018 AND 2017

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 at June 30, 2018 and 2017.

Bad debt expense was \$0- and \$60,000 for the years ended June 30, 2018 and 2017, respectively.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 \$303,208 and \$282,143 for the years ended June 30, 2018 and 2017, 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. Tax positions are evaluated and recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities.

Commitments and Contingencies

The School follows the guidance for uncertainty in income taxes. As of June 30, 2018 the School believes that they have appropriate support for the income tax positions taken and to be taken on its returns based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter. The School has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the School for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The application of these accounting principles involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The School periodically evaluates estimates and assumptions used in the preparation of the financial statements and makes changes on a prospective basis when adjustments are necessary. 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 \$20,978 and \$30,356 for the years ended June 30, 2018 and 2017, respectively.

Presentation

Certain reclassifications, when applicable, are made to the prior year financial statement presentation to correspond to the current year's format. Reclassifications, when made, have no effect on total net assets or changes in net assets.

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through October 29, 2018, which is the date the financial statements were available to be issued.

3. PROPERTY, PLANT, EQUIPMENT, AND TEXTBOOKS

The details of property, plant, equipment, and textbooks, and accumulated depreciation for the years ended June 30, 2018 and 2017, are as follows:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Land | \$ 2,880,892 | \$ 2,880,892 |
| Building | 10,724,623 | 10,706,633 |
| Equipment | 477,200 | 459,452 |
| Textbooks | <u>72,044</u> | <u>64,390</u> |
| Total Property, Equipment, and Textbooks | 14,154,759 | 14,111,367 |
| Accumulated depreciation and amortization | <u>(1,471,691)</u> | <u>(1,168,480)</u> |
| Net Property, Plant, Equipment, and Textbooks | <u>\$12,683,068</u> | <u>\$12,942,887</u> |

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. Any funds remaining with the Custodian following all such transfers would have been transferred to the School in 2020 according to the original agreement. Deposits into the Expense Fee Fund commenced on January 1, 2014.

Bond trust accounts - restricted consist of the following:

| | <u>2018</u> | <u>2017</u> |
|--------------|-----------------|-----------------|
| Expense Fund | <u>\$ 1,000</u> | <u>\$ 1,000</u> |
| Total | <u>\$ 1,000</u> | <u>\$ 1,000</u> |

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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% (5.09% at June 30, 2018). There was no outstanding balance on the line at June 30, 2018.

6. LONG-TERM DEBT

Long-term debt at June 30, 2018 and 2017 consists of the following:

| | <u>2018</u> | <u>2017</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 | \$ 12,000,000 |
| Boston Community Loan Fund, Inc., refinanced a portion of the \$3,600,000 loan, subordinated note payable, interest at 4.25% for the term of the loan. Due 2024, with interest only for the first 24 months, amortized over 6 years with the remaining balance after being added back to the original loan. Secured by property and equipment. | 1,900,000 | - |
| 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. | <u>1,700,000</u> | <u>3,600,000</u> |
| | 15,600,000 | 15,600,000 |
| Current Portion of Long-Term Debt | <u>406,362</u> | - |
| Long-Term Portion | 15,193,638 | 15,600,000 |
| Less: Deferred financing costs | <u>367,326</u> | <u>387,498</u> |
| Long-Term Debt, Net of Deferred Financing Costs | <u>\$ 14,826,312</u> | <u>\$ 15,212,502</u> |

**KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

6. LONG-TERM DEBT (Continued)

For the years ended June 30, 2018 and 2017, amortization of the deferred financing costs included in interest expense was \$20,176 and \$19,526, respectively.

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

| | | |
|------------|----|----------------------|
| 2019 | \$ | 406,362 |
| 2020 | | 559,504 |
| 2021 | | 582,118 |
| 2022 | | 597,834 |
| 2023 | | 619,771 |
| Thereafter | | <u>12,834,411</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, 2018.

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, 2018 and December 31, 2017.

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

7. 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 \$397,611 and \$113,598 at June 30, 2018 and 2017, 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, 2018 AND 2017**

8. 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>2018</u> | <u>2017</u> |
|---|--|--|
| | <u>Grant Receipts Expended</u> | <u>Grant Receipts Expended</u> |
| Federal Grants: | | |
| Entitlement Grants | \$ 260,520 | \$ 166,335 |
| Child Nutrition | 445,587 | 378,461 |
| Federal Investing in Innovation Grant | 433,144 | 220,463 |
| Federal Dissemination Grant | - | 1,229 |
| New York State Department of Education: | | |
| Child Nutrition | 10,784 | 9,037 |
| New York State Senate: | | |
| Special Charter School Aid | <u>202,285</u> | <u>176,281</u> |
| Total Grant Support and Revenue | <u>\$ 1,352,320</u> | <u>\$ 951,806</u> |

9. OPERATING LEASES

The School leases office equipment under non-cancelable operating leases that expire in 2022. The monthly lease payments are \$2,765.

Rent expense was \$33,202 and \$28,032 for the years ended June 30, 2018 and 2017, respectively. The minimum annual lease payments are as follows:

| | |
|-------|-------------------|
| 2019 | \$ 33,179 |
| 2020 | 33,179 |
| 2021 | 33,179 |
| 2022 | <u>5,077</u> |
| Total | <u>\$ 104,614</u> |

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

10. 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, 2018 and 2017 was \$142,895 and \$113,201, respectively.

11. CONCENTRATION OF RISK

The School maintains its cash accounts in one bank located in Albany, NY. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and at times during the years ended June 30, 2018 and 2017, the balances 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 79% and 66% of total revenue for the years ended June 30, 2018 and 2017, respectively. Receivable from this school district made up 41% and 56% of the total due from school districts as of June 30, 2018 and 2017.

12. BOARD DESIGNATED NET ASSETS

Board Designated net assets are related to cash funds set aside for reserves. These funds are shown as reserved cash on the statements of financial position.

13. SUBSEQUENT EVENTS

As of October 29, 2018, the School has received a commitment letter for up to \$3,000,000 of additional debt from Citizens Bank. This is expected to close in November 2018 and will be drawn down over the course of the construction. Interest only is payable for the first two years at LIBOR +2.9%. After the two year interest only period, the loan will amortize at the same rate for a 10-year amortization period.

Subsequent to the June 30, 2018 year end, construction of an approximately 9,000 square foot addition to the primary school and expansion of the parking lot began. Construction costs through October 2018 approximate \$750,000, with an anticipated cost of \$4,700,000. The project is scheduled to be completed June 2019.

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, 2018, 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 29, 2018.

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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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.

Teal Becker & Charamonte, CPAs PC

Albany, New York
October 29, 2018



**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 programs for the year ended June 30, 2018. The School's major federal programs are 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 programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal programs 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 programs. 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 programs for the year ended June 30, 2018.

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 programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs 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. We did not identify and deficiencies in internal control over compliance that we consider to be material weakness. However, material weakness 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.

Teal Becker & Charamonte, CPAs PC

Albany, New York
October 29, 2018

**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> | | | <u>Management And General</u> | <u>2018 Totals</u> | <u>2017 Totals</u> |
|-----------------------------------|------------------------------|------------------------------|---------------------------|---------------------------------------|------------------------|------------------------|
| | <u>Regular Education</u> | <u>Special Education</u> | <u>Other Programs</u> | | | |
| Functional Expenses | | | | | | |
| Personnel service | | | | | | |
| Administrative staff personnel | \$ - | \$ - | \$ - | \$ 875,348 | \$ 875,348 | \$ 540,932 |
| Instructional personnel | 2,240,824 | 218,350 | - | - | 2,459,174 | 2,106,988 |
| Non-instructional personnel | - | - | 163,555 | 629,399 | 792,954 | 547,148 |
| Total Salaries and Staff | <u>2,240,824</u> | <u>218,350</u> | <u>163,555</u> | <u>1,504,747</u> | <u>4,127,476</u> | <u>3,195,068</u> |
| Fringe benefits and payroll taxes | 401,332 | 16,490 | 185,466 | 312,380 | 915,668 | 658,883 |
| Retirement | 62,630 | 2,573 | 28,943 | 48,749 | 142,895 | 113,201 |
| Staff development | 18,161 | - | - | 2,245 | 20,406 | 20,041 |
| Travel | 4,199 | - | - | 6,666 | 10,865 | 4,569 |
| Instructional supplies | 290,794 | 1,140 | - | - | 291,934 | 182,684 |
| Food program | - | - | 186,209 | - | 186,209 | 171,833 |
| Legal | - | - | - | 14,767 | 14,767 | 30,064 |
| Accounting | - | - | - | 82,151 | 82,151 | 30,166 |
| Consultants | 16,539 | 17,917 | - | 34,457 | 68,913 | 61,837 |
| Board expenses | - | - | - | 1,136 | 1,136 | 194 |
| Office supplies and materials | - | - | - | 81,158 | 81,158 | 97,740 |
| Depreciation | 132,894 | 5,460 | 61,414 | 103,440 | 303,208 | 282,143 |
| Utilities | 40,519 | 1,665 | 18,725 | 146,901 | 207,810 | 158,252 |
| Lease - equipment | 30,749 | - | - | 30,749 | 61,498 | 28,032 |
| Lease - facility | - | - | - | - | - | 83,066 |
| Repairs and maintenance | 72,420 | 2,976 | 33,466 | 56,367 | 165,229 | 124,913 |
| Insurance | 28,046 | 1,152 | 12,961 | 21,830 | 63,989 | 38,363 |
| Interest | 256,459 | 10,537 | 118,517 | 199,618 | 585,131 | 537,582 |
| Miscellaneous equipment | 76,258 | - | - | - | 76,258 | 36,227 |
| Recruitment | - | - | - | 10,261 | 10,261 | 11,724 |
| Student services | 93,525 | 2,205 | 600,731 | - | 696,461 | 490,799 |
| Bad debts | - | - | - | - | - | 60,000 |
| Elementary School Startup | - | - | - | - | - | 40,092 |
| Fees and licensing | - | - | - | 87,098 | 87,098 | 87,170 |
| Total Functional Expenses | <u>\$ 3,765,349</u> | <u>\$ 280,465</u> | <u>\$ 1,409,987</u> | <u>\$ 2,744,720</u> | <u>\$ 8,200,521</u> | <u>\$ 6,544,643</u> |

**KIPP TECH VALLEY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018**

| Program | Federal CFDA # Number | Grant/Contract Number | Federal Expenditures |
|--|--------------------------------------|----------------------------------|---------------------------------|
| <u>U.S. Department of Agriculture</u> | | | |
| Pass-through from New York State Education Department | | | |
| Non-Cash Assistance (food distribution) | | | |
| Commodity Supplemental Food Program | 10.565 | N/A | \$ <u>6,103</u> |
| Non-Cash Assistance Subtotal | | | <u>6,103</u> |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | 10.553 | N/A | 124,370 |
| National School Lunch Program | 10.555 | N/A | <u>315,114</u> |
| Cash Assistance Subtotal | | | <u>439,484</u> |
| Total - Child Nutrition Cluster | | | <u>439,484</u> |
| Total - Department of Agriculture | | | <u>445,587</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 | <u>180,765</u> |
| Supporting Effective Instruction State Grant | 84.367 | 0147-17-4485 | <u>79,755</u> |
| Pass-through from KIPP Foundation | | | |
| Program Grant for Replication and Expansion of High Quality Charter Schools | 84-282M | U282M140013 | <u>433,144</u> |
| Total - Department of Education | | | <u>693,664</u> |
| Total Federal Assistance | | | <u>\$ 1,139,251</u> |

KIPP TECH VALLEY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

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, 2018. 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 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 \$6,103 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, 2018.

**KIPP TECH VALLEY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

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 |
| 84.367 | Title II Supporting Effective Instruction State Grant |

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

Auditee qualified as low-risk auditee? Yes No



October 29, 2018

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, 2018, we have the following comments, recommendations, and information regarding accounting and financial reporting standards changes that will have an effect on the school.

Upcoming Accounting Pronouncement

These financial standard changes to your upcoming year-end financial statements will be required as a result of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance will change the way all not-for-profits classify net assets and prepare their financial statements; this is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 (calendar 2018) and for interim periods within fiscal years beginning after December 31, 2018.

These updates address the following:

- Complexity in net asset classification.
- Clarity of information regarding liquidity and availability of cash.
- Transparency in reporting of financial performance measures.
- Consistency in reporting expenses by function and nature.
- Flexibility in preparation of the statement of cash flows.

The majority of these changes will impact how your financial statements look rather than the accounting behind them, but some advance planning to implement the changes could save considerable time and effort at year-end. Please see the attached memo for further details. We want to provide you with support on these changes and will be available to discuss their impact on your organization's financial reporting.

Accounts Receivable Aging

In the current year and prior year, we noted during our review of the accounts receivable aging schedules that there were negative balances in the current column and large balances in the over 90 days column. The accounts receivable aging continues to have large balances and we recommend that the School continues to review and clean up the receivables in the next fiscal year to create a more accurate representation of the aging of accounts receivable.

Major Events

In the current year there was a change to the debt that we were unaware of until after our audit fieldwork had begun. The change was not made known to us until we were reviewing the current year portion of the long-term debt. We recommend that if there is a major event or change with the School that occurs, please inform and provide us with the new information associated with the occurrence promptly. Doing this in a timely manner will ensure efficiency of our audit procedures.

Credit Card Statement Approvals

In our current year disbursement and single audit testing, we found that not all credit card purchases were being approved formally before payment of the credit card. We recommend that all credit card statements are approved and that any back-up documentation be appropriately coded and approved as well.

Residency Verification

During the prior year, during our residency testing, we noted that there were addresses on the final reconciliation that had no updated support by lease or utility bills in the student personnel files. In the current year, we noted one instance where there was an address change for a student that was not reflected in the student personnel file. We recommended in the prior year that as changes occur, that the student files are updated with the proper documentation. We continue to make this recommendation for the current year.

Escrow Account

In the prior year, we commented and recommended that the School establish an escrow account per the requirement of the New York State Education Department that would be used to pay for legal and audit expenses that would be associated with dissolution, should it occur. We are happy to report that escrow accounts were established in the current year.

Operating Reserves

In the prior year, we recommended that the School create a written policy for operating reserves approved by the Board of Trustees. During the June 2018 fiscal year, this policy has been created and approved.

Nutrition Invoice Summaries

In the prior year we recommended that the summaries with approval and coding be attached to the invoices paid, we are happy to report that this is the policy currently being followed.

QuickBooks

In the prior year, the School was QuickBooks 2012, we recommended upgrading to the current QuickBooks version. We have noted that the School has updated to QuickBooks 2018 Premire.

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

KLM/jcs
01035 mgltlr
Enclosure