

***KIPP TECH VALLEY CHARTER SCHOOL***

***FINANCIAL REPORTS***

***JUNE 30, 2016 AND 2015***



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## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
Independent Auditors' Report	1-2
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-15

### **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>	16-17
Schedule of Functional Expenses	18



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

## **Independent Auditors' Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of KIPP Tech Valley Charter School, which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of the 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 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 the School's internal control over financial reporting and compliance.



Albany, New York  
October 31, 2016

**KIPP TECH VALLEY CHARTER SCHOOL  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2016 AND 2015**

<b>ASSETS</b>		
	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>Current Assets</b>		
Cash	\$ 80,270	\$ 407,060
Due from school districts, net	202,591	163,449
State and federal aid receivable	114,044	22,925
Prepaid expenses	<u>135,277</u>	<u>10,216</u>
Total Current Assets	<u>532,182</u>	<u>603,650</u>
<b>Property, Plant, Equipment and Textbooks</b>		
Land	2,105,892	2,105,892
Building	5,174,814	5,174,814
Equipment	393,681	379,117
Textbooks	<u>64,390</u>	<u>64,390</u>
Total	<u>7,738,777</u>	<u>7,724,213</u>
Less accumulated depreciation and amortization	<u>(886,337)</u>	<u>(714,170)</u>
Net Property, Plant, Equipment and Textbooks	<u>6,852,440</u>	<u>7,010,043</u>
<b>Other Assets</b>		
Bond trust accounts, restricted	786,540	778,586
Deferred financing costs, net	366,748	383,812
Expansion development costs	-	425,030
Facility purchase deposit	<u>50,000</u>	<u>-</u>
Total Other Assets	<u>1,203,288</u>	<u>1,587,428</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,587,910</u></b>	<b><u>\$ 9,201,121</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Current portion of bonded mortgage payable	\$ 160,000	\$ 150,000
Accounts payable	230,842	107,052
Accrued expenses	240,694	222,717
Deferred revenue	<u>574</u>	<u>44,441</u>
Total Current Liabilities	632,110	524,210
<b>Long-Term Liabilities</b>		
Bonded mortgage payable	<u>7,815,000</u>	<u>7,975,000</u>
Total Liabilities	8,447,110	8,499,210
<b>Unrestricted Net Assets</b>	<u>140,800</u>	<u>701,911</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,587,910</u></b>	<b><u>\$ 9,201,121</u></b>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Revenue</b>		
Public School Districts		
Resident student enrollment	\$ 4,273,466	\$ 4,054,907
Students with disabilities	48,848	66,571
Grants		
Federal	568,262	641,372
State	7,000	5,863
Other	61,384	80,915
Total Revenue	<u>4,958,960</u>	<u>4,849,628</u>
<b>Expenses</b>		
Program Services		
Regular education	2,666,850	2,584,636
Special education	173,840	178,454
Other programs	578,064	608,896
Supporting Services		
Management and general	1,641,250	1,525,680
Loss on impairment	460,067	-
Total Expenses	<u>5,520,071</u>	<u>4,897,666</u>
<b>Change in Unrestricted Net Assets</b>	(561,111)	(48,038)
Unrestricted Net Assets, Beginning of Year	<u>701,911</u>	<u>749,949</u>
<b>Unrestricted Net Assets, End of Year</b>	<u>\$ 140,800</u>	<u>\$ 701,911</u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows From Operating Activities</b>		
Change in unrestricted net assets	\$ (561,111)	\$ (48,038)
Adjustments to reconcile change in unrestricted net assets to net cash provided (used) by operating activities:		
Depreciation	172,167	168,174
Amortization of debt issuance costs	17,064	17,064
Bad debt expense	175,000	89,266
Loss on impairment	460,067	-
(Increase) decrease in assets:		
Due from school districts	(214,142)	178,747
State and federal aid receivable	(91,119)	9,532
Prepaid expenses	(125,061)	1,480
Increase (decrease) in liabilities:		
Accounts payable	123,790	(65,493)
Accrued expenses	17,977	(36,881)
Deferred revenue	(43,867)	44,441
Net Cash Provided (Used) By Operating Activities	<u>(69,235)</u>	<u>358,292</u>
<b>Cash Flows From Investing Activities</b>		
Expenditures for property, plant, equipment and textbooks	(14,564)	(15,055)
Expenditures for expansion development costs	(35,037)	(57,055)
Expenditures for facility purchase deposit	<u>(50,000)</u>	<u>-</u>
Net Cash Used By Investing Activities	<u>(99,601)</u>	<u>(72,110)</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	(150,000)	(145,000)
(Deposits to) disbursements from bond trust accounts, restricted	<u>(7,954)</u>	<u>18,189</u>
Net Cash Used By Financing Activities	<u>(157,954)</u>	<u>(126,811)</u>
<b>Net Increase (Decrease) in Cash</b>	(326,790)	159,371
Cash, Beginning of year	<u>407,060</u>	<u>247,689</u>
<b>Cash, End of Year</b>	<u>\$ 80,270</u>	<u>\$ 407,060</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest Paid	<u>\$ 532,175</u>	<u>\$ 541,050</u>

See accompanying notes to financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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 ending June 30, 2017, the School will begin 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 2015-2016 School year, the School’s educational operations serving principally Albany, NY and surrounding areas had an annualized full time enrollment of 309 students in grades 5 through 8.

*Governance and Operations*

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting*

The School prepares its financial statements on the accrual basis of accounting and, accordingly, reflects all significant receivables, payables, and other liabilities, and recognizes revenue when earned and 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, 2016 AND 2015**

**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 \$300,000 and \$125,000 at June 30, 2016 and 2015, respectively.

Bad debt expense was \$175,000 and \$89,266 for the years ended June 30, 2016 and 2015, respectively.

**KIPP TECH VALLEY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Property, Plant, Equipment and Textbooks*

The School capitalizes expenditures for property and equipment in excess of \$500. 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	3-5
Textbooks	3

Depreciation expense was \$172,167 and \$168,174 for the years ended June 30, 2016 and 2015, 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, 2016 AND 2015**

**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 \$14,007 and \$12,934 for the years ended June 30, 2016 and 2015, respectively.

*Subsequent Events*

The School has evaluated subsequent events through October 31, 2016, which is the date the financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2016, have been incorporated into these financial statements.

*Reclassification*

Certain 2015 amounts have been reclassified to conform to the 2016 presentation. Unrestricted net assets and changes in unrestricted net assets are unchanged due to this reclassification.

**KIPP TECH VALLEY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**3. PROPERTY, PLANT, EQUIPMENT AND TEXTBOOKS**

The details of property, plant, equipment and textbooks, and accumulated depreciation and amortization for the years ended June 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,105,892	\$ 2,105,892
Building	5,174,814	5,174,814
Equipment	393,681	379,117
Textbooks	<u>64,390</u>	<u>64,390</u>
Total Property, Equipment and Textbooks	7,738,777	7,724,213
Accumulated depreciation and amortization	<u>(886,337)</u>	<u>(714,170)</u>
Net Property, Plant, Equipment and Textbooks	<u>\$ 6,852,440</u>	<u>\$ 7,010,043</u>

**4. DEFERRED FINANCING COSTS, NET**

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

Bond closing costs are amortized using the straight-line method over the term of the obligation. Amortization expense was \$17,064 for each year ended June 30, 2016 and 2015.

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

**5. BOND TRUST ACCOUNTS - RESTRICTED**

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

**KIPP TECH VALLEY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**5. BOND TRUST ACCOUNTS - RESTRICTED (Continued)**

Bond trust accounts - restricted consist of the following:

	<u>2016</u>	<u>2015</u>
Debt service reserve fund	\$ 692,215	\$ 692,056
Bond fund	80,249	75,044
Expense fund	7,822	5,478
Repair and replacement fund	6,253	-
Custody fund	<u>1</u>	<u>6,008</u>
Total	<u>\$ 786,540</u>	<u>\$ 778,586</u>

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

**6. EXPANSION DEVELOPMENT COSTS**

The School has deferred facility design and planning costs incurred by the School attributable to the development of a new charter elementary school for kindergarten through grade 4. The development costs will be expensed over the estimated life of the facility once it is completed. If the project will not be completed, the costs will be expensed in the year that it is determined that the proposed new elementary school will not be chartered. Development costs deferred were \$-0- and \$425,030 for the years ended June 30, 2016 and 2015, respectively. (See Note 12.)

**7. BONDED MORTGAGE PAYABLE**

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

**KIPP TECH VALLEY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**7. BONDED MORTGAGE PAYABLE (Continued)**

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

	<u>2016</u>	<u>2015</u>
6.00% Term Bond, due December 1, 2022	\$ 1,350,000	\$ 1,500,000
6.50% Term Bond, due December 1, 2032	3,265,000	3,265,000
7.00% Term Bond, due December 1, 2037	<u>3,360,000</u>	<u>3,360,000</u>
	7,975,000	8,125,000
Current Portion of bonded mortgage payable	<u>(160,000)</u>	<u>(150,000)</u>
Total Long-Term Bonded Mortgage Payable	<u>\$ 7,815,000</u>	<u>\$ 7,975,000</u>

The following is a summary of maturing debt service requirements:

For the years ending June 30, 2017	\$ 160,000
2018	170,000
2019	180,000
2020	190,000
2021	205,000
Thereafter	<u>7,070,000</u>
	<u>\$ 7,975,000</u>

The loan agreement includes certain financial statement covenants for maintaining a debt service coverage ratio not less than 1.20 to 1 as measured quarterly and a liquidity requirement for maintaining a days cash on hand of not less than 45 days measured quarterly. These covenants were not met for the year ended June 30, 2016. For the first three quarters of each fiscal year the debt service coverage ratio is calculated using unaudited financial statements and the fourth quarter of each fiscal year calculated using audited financial statements.

**KIPP TECH VALLEY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**7. BONDED MORTGAGE PAYABLE (Continued)**

If the debt service coverage ratio is less than 1.20 to 1 for two consecutive quarters, the School shall retain an independent consultant to submit a written report and to make recommendations (a copy of such report and recommendations shall be filed with the Bondholder Representative, the Trustee and the Underwriter) with respect to revenues or other financial matters of the School which are relevant to increasing the debt service coverage ratio to at least 1.20 to 1. The School shall adopt and follow the recommendations of the independent consultant so long as the School's compliance with the recommendation would not violate state law, federal law, the School's charter or the policy of the State University. So long as the School is complying with the applicable recommendations, the School will be deemed to have complied with its covenant.

For the year ended June 30, 2016, the School did not meet the debt service coverage ratio. The bondholder has agreed to waive the requirement to hire an independent consultant related to the missed debt service coverage ratio for the third and fourth quarters.

**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.

	<u>2016</u>	<u>2015</u>
	<b>Grant Receipts Expended</b>	<b>Grant Receipts Expended</b>
Federal Grants:		
Entitlement grants	\$ 155,830	\$ 142,256
Child Nutrition	285,810	238,586
Federal Investing in Innovation Grant	88,246	89,192
Federal Dissemination Grant	38,376	171,338
New York State Department of Education:		
Child Nutrition	<u>7,000</u>	<u>5,863</u>
Total Grant Support and Revenue	<u>\$ 575,262</u>	<u>\$ 647,235</u>

**KIPP TECH VALLEY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**9. OPERATING LEASE**

The School leases office equipment under a non-cancelable operating lease that expires in 2019. The monthly lease payments are \$1,814.

Rent expense was \$21,642 and \$24,602 for the years ended June 30, 2016 and 2015, respectively. The minimum annual lease payments are as follows:

2017	\$	21,768
2018		21,634
2019		7,189

**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, 2016 and 2015 was \$99,065 and \$113,710, respectively.

**11. 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, 2016 and 2015, 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 77% and 72% of total revenue for the years ended June 30, 2016 and 2015, respectively. Receivable from this school district made up 67% and 26% of the total due from school districts as of June 30, 2016 and 2015.

**12. 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 have been expensed at June 30, 2016.

**KIPP TECH VALLEY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**13. 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 is anticipated to be completed during the year ended June 30, 2017.

**14. SUBSEQUENT EVENTS**

Beginning July 2016, the School began leasing an educational facility used for its middle school classes. The lease was on a month-to-month basis and was terminated in October 2016 when the School closed on the purchase of the facility.

In October 2016, the School borrowed debt from two lenders to finance the purchase of the educational facility and to provide for the advanced refunding and defeasance of the bonds issued in 2012.

The School borrowed \$12 million through bonds issued by the Industrial Development Authority of the City of Phoenix, Arizona. The interest rate on the bonds float at 65% of the LIBOR rate +3%. Final maturity of the bond will be in 10 years. Interest only is payable for the first 24 months. After the 24 month interest only period, the bond will amortize over a 20 year period. In addition, the School will have available a \$150,000 line of credit from the same lender, with interest payable at LIBOR +3%.

In addition, the School borrowed \$3,800,000 in subordinated debt. The interest rate on this loan is fixed for five years at 6% and, thereafter, will be reset based on the 5 Year US Treasury Yield Curve. Final maturity of the loan will be in 10 years. Interest only is payable for the first 24 months. After the 24 month interest only period, the bond will amortize over the remainder of the term based on an 18 year amortization period.

**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 Directors  
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, 2016, 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 31, 2016.

***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 opinion 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 the 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.

Handwritten signature in cursive script that reads "Teal Becker & Charamonte CPAs PC".

Albany, New York  
October 31, 2016

**KIPP TECH VALLEY CHARTER SCHOOL  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>Program Services</u>			<u>Management And General</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other Programs</u>			
<b>Functional Expenses</b>						
Personnel service						
Administrative staff personnel	\$ -	\$ -	\$ -	\$ 551,487	\$ 551,487	\$ 551,781
Instructional personnel	1,446,656	107,712	-	-	1,554,368	1,486,085
Non-instructional personnel	-	-	102,402	338,815	441,217	416,726
Total Salaries and Staff	1,446,656	107,712	102,402	890,302	2,547,072	2,454,592
Fringe benefits and payroll taxes	282,392	21,026	19,989	173,790	497,197	513,735
Retirement	56,266	4,189	3,983	34,627	99,065	113,710
Staff development	2,329	-	-	1,451	3,780	3,479
Travel	-	-	-	1,523	1,523	945
Instructional supplies	103,807	2,352	-	-	106,159	98,216
Food program	-	-	130,101	-	130,101	120,163
Legal	-	-	-	3,371	3,371	2,556
Accounting	-	-	-	33,763	33,763	34,225
Consultants	21,406	4,165	-	17,446	43,017	40,307
Board expenses	-	-	-	428	428	13
Office supplies and materials	-	-	-	83,466	83,466	53,320
Amortization	14,298	681	867	1,218	17,064	17,064
Depreciation	144,259	6,875	8,752	12,281	172,167	168,174
Utilities	30,305	1,444	1,839	41,912	75,500	70,533
Lease - equipment	10,821	-	-	10,821	21,642	24,602
Repairs and maintenance	44,515	2,122	2,701	3,789	53,127	45,388
Insurance	26,337	1,255	1,598	2,242	31,432	28,290
Interest	445,909	21,252	27,052	37,962	532,175	541,050
Fundraising	-	-	-	1,500	1,500	2,867
Miscellaneous equipment	4,449	-	-	-	4,449	4,447
Recruitment	-	-	-	6,524	6,524	4,236
Student services	33,101	767	278,780	-	312,648	346,519
Bad debts	-	-	-	175,000	175,000	89,266
Elementary School Startup	-	-	-	47,773	47,773	-
Fees and licensing	-	-	-	36,435	36,435	54,342
Dissemination grant sub-recipient awards	-	-	-	23,626	23,626	65,627
<b>Total Functional Expenses</b>	<u>\$ 2,666,850</u>	<u>\$ 173,840</u>	<u>\$ 578,064</u>	<u>\$ 1,641,250</u>	<u>\$ 5,060,004</u>	<u>\$ 4,897,666</u>



October 31, 2016

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, 2016, 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 recommend that the School establish an escrow account funded with an amount appropriate to cover the potential costs above, based on the Charter Agreement.

### **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 recommend that the School create a written policy for operating reserves and present it to the Board of Trustees for approval.

### **Accounts Receivable Aging**

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.

We recommend that payments are matched with bills to create a more accurate representation of the aging of accounts receivable.

KIPP Tech Valley Charter School

October 31, 2016

Page 2 of 2

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.**

A handwritten signature in cursive script that reads "Teal Becker & Chiaramonte, CPAs PC".

MJL/gsw  
03510 mgtltr



October 31, 2016

To The Board of Trustees  
KIPP Tech Valley Charter School

We have audited the financial statements of KIPP Tech Valley Charter School (the School) as of and for the year ended June 30, 2016, and have issued our report thereon dated October 31, 2016. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated June 1, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of KIPP Tech Valley Charter School solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated October 31, 2016.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our Firm, as appropriate, and our Firm have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the School's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by KIPP Tech Valley Charter School is included in Note 2 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Management's estimates of the allowance for uncollectible School receivables and useful lives of fixed assets. The allowance for uncollectible School receivables is based on historical collection rates and an analysis of the collectability of individual accounts and useful lives. We evaluated the key factors and assumptions used to develop the allowance and useful lives and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

### *Financial Statement Disclosures*

The financial statement disclosures are neutral, consistent, and clear.

## **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatement that we identified as a result of our audit procedures was brought to the attention of, and corrected by, management:

- Increase in allowance for uncollectible accounts of \$175,000.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to KIPP Tech Valley Charter School's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter dated October 31, 2016.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with KIPP Tech Valley Charter School, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the School, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the School's auditors.

**Other Matter**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This report is intended solely for the information and use of the Board of Trustees and management of the School and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

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

A handwritten signature in cursive script that reads "Teal Becker & Chiaramonte CPAs PC".