

Middle Village Preparatory Charter School

Financial Statements

For the Eighteen Month Period Ended
June 30, 2014

Independent Auditors' Report

**Board of Trustees
Middle Village Preparatory Charter School**

Report on the Financial Statements

We have audited the accompanying financial statements of Middle Village Preparatory Charter School (the "School"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the period January 1, 2013 (commencement of operations) through June 30, 2014, 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 audit. We conducted our audit 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 audit 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 auditor considers internal control relevant to the entity'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 entity'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 Middle Village Preparatory Charter School as of June 30, 2014, and the changes in its net assets and its cash flows for the period January 1, 2013 (commencement of operations) through June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 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 16, 2014 on our consideration of Middle Village Preparatory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Middle Village Preparatory Charter School's internal control over financial reporting and compliance.

O'Connor Davies, LLP

October 16, 2014

Middle Village Preparatory Charter School

Statement of Financial Position
June 30, 2014

ASSETS

Cash	\$ 170,362
Grants and accounts receivable	113,034
Prepaid expenses and other assets	11,599
Restricted cash	25,000
Property and equipment, net	<u>742,096</u>
	<u>\$ 1,062,091</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 266,090
Line of credit	50,000
Loan payable	409,913
Deferred revenue	<u>30,774</u>
Total Liabilities	<u>756,777</u>
Net Assets, Unrestricted	<u>305,314</u>
	<u>\$ 1,062,091</u>

Middle Village Preparatory Charter School

Statement of Activities
For the period January 1, 2013 (commencement of operations)
through June 30, 2014

REVENUE AND SUPPORT

Public School District -	
State and local per pupil operating revenue	\$ 1,700,264
Government grants and contracts	775,390
Other income	<u>44,209</u>
Total Revenue	<u>2,519,863</u>

EXPENSES

Program services	1,782,089
Management and general	<u>432,460</u>
Total Expenses	<u>2,214,549</u>
Change in Net Assets	305,314

NET ASSETS, UNRESTRICTED

Beginning of period	<u>-</u>
End of period	<u>\$ 305,314</u>

Middle Village Preparatory Charter School

Statement of Cash Flows For the period January 1, 2013 (commencement of operations) through June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from per pupil operating revenue and government grants and contracts	\$ 2,393,394
Other income	<u>44,209</u>
Total Cash Received	<u>2,437,603</u>
Cash paid for payroll and benefits	862,912
Cash paid to vendors	<u>923,404</u>
Total Cash Paid	<u>1,786,316</u>
Net Cash from Operating Activities	<u>651,287</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	<u>(915,838)</u>
Net Cash from Investing Activities	<u>(915,838)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Borrowings from line of credit	100,000
Payments on line of credit	(50,000)
Loan payable	<u>409,913</u>
Net Cash from Financing Activities	<u>459,913</u>
Net Change in Cash and Cash Equivalents	195,362

CASH AND CASH EQUIVALENTS

Beginning of period	<u>-</u>
End of period	<u>\$ 195,362</u>

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES

Change in net assets	\$ 305,314
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation and amortization	173,742
Change in operating assets and liabilities	
Grants and accounts receivable	(113,034)
Prepaid expenses and other assets	(11,599)
Accounts payable and accrued expenses	266,090
Deferred revenue	<u>30,774</u>
Net Cash from Operating Activities	<u>\$ 651,287</u>

See notes to financial statements

Middle Village Preparatory Charter School

Notes to Financial Statements

June 30, 2014

1. Organization and Tax Status

Middle Village Preparatory Charter School (the "School") is a public charter school that prepares students with the academic skills, strength of character and social and emotional well-being to excel in high school and college, to lead in their communities and to realize their best possible selves.

The School operates in Middle Village, New York. On January 1, 2013, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. The school opened with its first academic year in the fall of 2013 with sixth grade, and will add a grade each year until it serves sixth through eighth grade.

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The School's primary sources of income are from per pupil tuition and other government funding.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies, if any, at the date of the financial statements, and the reported amounts of support and revenue and expenses during the period then ended. Actual results could differ from those estimates.

Restricted Cash

Included in restricted cash is an escrow fund of \$25,000 to cover debts in the event of the School's dissolution. According to Section 2851(2)(t) of the Charter School Law, the School will maintain no less than \$75,000 in an escrow account. The escrow account will be no less than \$25,000 by April 1 of year 1 of the School's operation. By April 1 of year 2, the balance will be no less than \$50,000, and by April 1, of year 3 it will be no less than \$75,000.

Property and Equipment

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$1,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease.

Middle Village Preparatory Charter School

Notes to Financial Statements

June 30, 2014

2. Summary of Significant Accounting Policies (*continued*)

Presentation of Net Assets

The net assets of the School and changes therein are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets represent contributions with donor-imposed restrictions that have not yet been satisfied or are time restricted. When a stipulated time restriction ends or a 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 restriction. Permanently restricted net assets are those which are established by donor gifts to provide a permanent endowment. There were no temporarily or permanently restricted net assets at June 30, 2014.

Revenue Recognition

Revenue from state and local governments under the charter agreement is based on the number of students enrolled, and recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts is recognized by the School when qualifying expenditures are incurred. Funds received in advance for which qualifying expenditures have not been incurred are reflected as deferred revenue in the accompanying statement of financial position.

The School follows U.S. GAAP guidance on accounting for contributions received and contributions made. Accordingly, contributed assets are recorded at fair value at date of donation. Services are recognized as revenue and assets or expenses at fair value if those services (a) create or enhance nonfinancial assets, (b) would typically need to be purchased by the School if they had not been provided by contribution or (c) require specialized skills and are provided by individuals with those skills.

A number of volunteers have made a contribution of their time to the School to develop its programs and to serve on the School's board of trustees. The value of such contributed time is not reflected in these financial statements because it does not meet the criteria for recognition.

Functional Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2014

2. Summary of Significant Accounting Policies *(continued)*

Functional Expenses (continued)

Expenses are classified according to the functional categories for which they are incurred, as follows:

General Education Program Services – represents expenses directly associated with general education.

Special Education Program Services – represents expenses directly associated with special education for certain students requiring additional attention and guidance.

Management and general – represents expenses related to the overall administration and operation of the School that are not associated with any education services or fundraising.

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Marketing and recruitment costs for the eighteen month period ended June 30, 2014 was \$19,335.

Operating Leases

Operating leases are classified in accordance with the terms of the underlying agreements. Operating lease payments are charged to rental expense. Rent expense is recorded on a straight-line basis. Deferred rent is recorded when there are material differences between the fixed payment and the rent expense.

Accounting For Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is subject to examination by applicable taxing authorities since inception in 2013.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through October 16, 2014, which is the date that the financial statement was available to be issued.

3. Concentration of Credit Risk and Revenue

The School maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2014

3. Concentration of Credit Risk and Revenue (*continued*)

The School receives a majority of its revenues from the New York State Education Department through the Charter Schools Institute of the State of New York. The Charter Schools Institute of the State of New York provides general operating support to the School based upon the location and the number of students enrolled. Per pupil general education and special education support provided to the School totaled \$1,700,264 for the 18 month period ended June 30, 2014. The School is dependent upon this level of funding in order to continue its operations.

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to protect itself from such risks and is self-insured for other risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

4. Grants and Accounts Receivable

Grants and accounts receivable are deemed to be fully collectible by management.

5. Property and Equipment, Net

Property and equipment consist of the following at June 30, 2014:

		<u>Estimated Useful Lives</u>
Computers and other equipment	\$ 225,778	3
Furniture and fixtures	179,577	7
Leasehold improvements	<u>510,483</u>	5
	915,838	
Accumulated depreciation and amortization	<u>(173,742)</u>	
	<u>\$ 742,096</u>	

6. Line of Credit

The School entered into a line of credit with Victory Education Partners (“VEP”) in the amount of \$150,000 with interest rate of 3% per annum, compounded monthly, payable within the first or second year of operation. The line of credit will be used in the event that the School’s cash receipts are insufficient to fund all of the cash expenditure during the fiscal year 2013 (“Start-up Year”) and fiscal year 2014 (“Year 1”). The line of credit had an outstanding balance of \$50,000 at June 30, 2014. The interest expense for the eighteen month period ended June 30, 2014 was \$3,298.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2014

7. Loan Payable

The School has a loan payable of \$409,913 to the lessor for the renovations made as per the lease agreement in Note 8. The loan is unsecured and non-interest bearing and is to be paid in full by 2018.

8. Operating leases

On February 1, 2013, the School entered into a lease agreement for a period of five years and five months terminating on June 30, 2018. The lease may be renewed for an additional five years with the same terms. The rate of rent stays flat without increase during the term of the lease, but, as the space utilization increases, the rent is proportionately increased. The rent for additional space is calculated and charged in proportion to the increase in floor space. The initial base rent per year is \$240,000 rising to \$720,000 during the last period of the lease.

Future minimum rental expense for the years ending June 30, based on anticipated square footage space, is as follows:

2015	\$ 480,000
2016	720,000
2017	720,000
2018	<u>720,000</u>
	<u>\$ 2,640,000</u>

9. Employee Benefit Plan

The School maintains a deferred compensation plan for all qualified employees. The School elects to make contributions to the plan on a discretionary basis. For the 18 month period ended June 30, 2014, the School contributed \$21,096 to the plan.

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Middle Village Preparatory Charter School

Supplemental Information
June 30, 2014

Middle Village Preparatory Charter School

Schedule of Functional Expenses
For the period from January 1, 2013 (commencement of operations)
through June 30, 2014

	Program Services			Management and General	Total
	General Education	Special Education	Total Program Services		
Administrative staff personnel	\$ 213,287	\$ 18,056	\$ 231,343	\$ 125,343	\$ 356,686
Instructional personnel	421,524	22,476	444,000	-	444,000
Non-instructional personnel	<u>24,865</u>	<u>30,952</u>	<u>55,817</u>	<u>4,183</u>	<u>60,000</u>
Total Salaries and Related Expenses	659,676	71,485	731,160	129,526	860,686
Fringe benefits and payroll taxes	91,002	9,861	100,863	17,868	118,731
Retirement	16,115	1,746	17,862	3,164	21,026
Legal service	-	-	-	11,428	11,428
Accounting and audit services	-	-	-	68,882	68,882
Building and land rent	204,388	22,148	226,536	40,131	266,667
Facility expenses	98,579	10,682	109,261	19,356	128,617
Insurance	4,590	497	5,087	37,352	42,439
Utilities	55,185	5,980	61,165	10,835	72,000
Supplies and materials	95,259	10,323	105,582	18,704	124,286
Equipment and furnishings	9,085	984	10,069	1,784	11,853
Staff development	10,572	1,146	11,717	2,076	13,793
Marketing and recruitment	14,819	1,606	16,425	2,910	19,335
Technology	3,305	358	3,663	649	4,312
Food service	55,845	6,051	61,896	10,965	72,861
Student services	65,925	7,144	73,069	12,944	86,013
Office expense	27,075	2,934	30,009	5,316	35,325
Depreciation and amortization	133,165	14,430	147,595	26,147	173,742
Other expenses	<u>63,273</u>	<u>6,856</u>	<u>70,129</u>	<u>12,424</u>	<u>82,553</u>
Total Expenses	<u>\$ 1,607,857</u>	<u>\$ 174,232</u>	<u>\$ 1,782,089</u>	<u>\$ 432,460</u>	<u>\$ 2,214,549</u>

See independent auditors' report

**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**

Independent Auditors' Report

**Board of Trustees
Middle Village Preparatory Charter School**

We have audited, in accordance with the 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 Middle Village Preparatory Charter School (the "School"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the period January 1, 2013 (commencement of operations) through June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2014.

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 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 entity'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.

O'Connor Davies, LLP

October 16, 2014