

Middle Village Preparatory Charter School

Auditors' Communication on Internal Control

June 30, 2016

Board of Trustees
Middle Village Preparatory Charter School

In planning and performing our audit of the financial statements of Middle Village Preparatory Charter School (the "School") as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting ("internal control") as a basis for designing 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

This communication is intended solely for the information and use of the management, the board of trustees and others within the organization and is not intended to be used by anyone other than these specified parties.

PKF O'Connor Davies, LLP
Harrison, New York
September 15, 2016

Middle Village Preparatory Charter School

Financial Statements

June 30, 2016 and 2015

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, 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 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 clear 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, 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.

Report on Supplementary Information

Our audits were 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 September 15, 2016 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.

PKF O'Connor Davies, LLP
September 15, 2016

Middle Village Preparatory Charter School

Statements of Financial Position

	June 30,	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 2,293,116	\$ 430,210
Grants and accounts receivable	180,518	102,920
Prepaid expenses and other assets	33,424	33,958
Restricted cash	75,032	50,001
Property and equipment, net	<u>732,620</u>	<u>894,081</u>
	<u>\$ 3,314,710</u>	<u>\$ 1,511,170</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 461,019	\$ 267,394
Loan payable	-	447,026
Deferred revenue	<u>-</u>	<u>2,067</u>
Total Liabilities	461,019	716,487
Net Assets, Unrestricted	<u>2,853,691</u>	<u>794,683</u>
	<u>\$ 3,314,710</u>	<u>\$ 1,511,170</u>

See notes to financial statements

Middle Village Preparatory Charter School

Statements of Activities

	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT		
Public School District -		
State and local per pupil operating revenue	\$ 5,964,922	\$ 3,564,279
Government grants and contracts	1,120,008	190,096
Other income	189,958	164,231
Total Revenue	<u>7,274,888</u>	<u>3,918,606</u>
EXPENSES		
Program services	4,793,081	2,978,196
Management and general	422,799	451,041
Total Expenses	<u>5,215,880</u>	<u>3,429,237</u>
Change in Net Assets	2,059,008	489,369
NET ASSETS, UNRESTRICTED		
Beginning of period	<u>794,683</u>	<u>305,314</u>
End of period	<u>\$ 2,853,691</u>	<u>\$ 794,683</u>

See notes to financial statements

Middle Village Preparatory Charter School

Statements of Cash Flows

	Year ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from per pupil operating revenue and government grants and contracts	\$ 7,005,265	\$ 3,735,782
Other income	189,958	164,231
Total Cash Received	7,195,223	3,900,013
Cash paid for payroll and benefits	2,562,454	1,527,078
Cash paid for interest	-	1,075
Cash paid to vendors	2,122,200	1,663,964
Total Cash Paid	4,684,654	3,192,117
Net Cash from Operating Activities	2,510,569	707,896
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(175,606)	(410,160)
Deposits to restricted cash	(25,031)	(25,001)
Net Cash from Investing Activities	(200,637)	(435,161)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	-	(50,000)
Borrowings on loan payable	-	127,114
Payments on loan payable	(447,026)	(90,001)
Net Cash from Financing Activities	(447,026)	(12,887)
Net Change in Cash and Cash Equivalents	1,862,906	259,848
CASH AND CASH EQUIVALENTS		
Beginning of period	430,210	170,362
End of period	\$ 2,293,116	\$ 430,210
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,059,008	\$ 489,369
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	337,067	258,175
Change in operating assets and liabilities		
Grants and accounts receivable	(77,598)	10,114
Prepaid expenses and other assets	534	(22,359)
Accounts payable and accrued expenses	193,625	1,304
Deferred revenue	(2,067)	(28,707)
Net Cash from Operating Activities	\$ 2,510,569	\$ 707,896

See notes to financial statements

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2016 and 2015

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly liquid investments, with a maturity of three months or less at the time of purchase to be cash equivalents.

Restricted Cash

Included in restricted cash is an escrow fund of \$75,032 as of June 30, 2016 and \$50,001 as of June 30, 2015 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 (June 30, 2014) of the School's operation. By April 1 of year 2 (June 30, 2015), the balance will be no less than \$50,000, and by April 1, of year 3 (June 30, 2016) it will be no less than \$75,000.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2016 and 2015

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

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. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets.

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized at June 30, 2016 and 2015.

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 statements 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, 2016 and 2015.

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 statements 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.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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.

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

Regular Education Program Services – represents expenses directly associated with regular 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 years ended June 30, 2016 and 2015 was \$13,514 and \$16,028.

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.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2016 and 2015

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

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through September 15, 2016, which is the date that the financial statements were available to be issued.

3. Concentration of Credit Risk and Revenue

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

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. State and local per pupil education and special education revenue provided to the School totaled \$5,964,922 and \$3,564,279 for the years ended June 30, 2016 and 2015. The School is dependent upon this level of funding in order to continue its operations.

The School entered into contractual arrangements 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 and consist of income from New York State.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Lives</u>
Computers and other equipment	\$ 449,521	\$ 381,653	3
Furniture and fixtures	297,191	250,875	7
Leasehold improvements	<u>754,892</u>	<u>693,470</u>	5
	1,501,604	1,325,998	
Accumulated depreciation and amortization	<u>(768,984)</u>	<u>(431,917)</u>	
	<u>\$ 732,620</u>	<u>\$ 894,081</u>	

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2016 and 2015

6. Loan Payable

The School had a loan payable of \$447,026 at June 30, 2015 to the lessor for renovations made pursuant to the lease agreement discussed in Note 7. The loan was unsecured and non-interest bearing. The School made the final payment to the loan on January 28, 2016.

7. 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. Rent expense for the years ended June 30, 2016 and 2015 was \$720,000 and \$480,000.

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

2017	\$ 720,000
2018	<u>720,000</u>
	<u>\$ 1,440,000</u>

8. 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 years ended June 30, 2016 and 2015, the School contributed \$52,069 and \$37,083 to the plan.

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Middle Village Preparatory Charter School

Supplementary Information

June 30, 2016

Middle Village Preparatory Charter School

Schedule of Functional Expenses
 Year ended June 30, 2016
 (with summarized totals for the year ended June 30, 2015)

	No. of Positions	No. of Students	2016				2015	
			Program services			Management and General	Total	Total
			Regular Education	Special Education	Total			
		369.350	320.100	49.250				
Personnel Services Costs								
Administrative Staff Personnel	6		\$ 334,123	\$ 70,693	\$ 404,816	\$ 125,343	\$ 530,159	\$ 347,050
Instructional Personnel	15		1,517,672	233,506	1,751,178	-	1,751,178	985,847
Non-instructional Personnel	-		-	-	-	-	-	3,040
Total Salaries and Staff	21		1,851,795	304,199	2,155,994	125,343	2,281,337	1,335,937
Fringe benefits and payroll taxes			278,410	45,735	324,145	18,845	342,990	200,116
Retirement			42,266	6,943	49,209	2,861	52,070	37,083
Legal service			-	-	-	15,225	15,225	11,836
Accounting/audit services			-	-	-	59,987	59,987	68,465
Building and land rent / lease			584,435	96,006	680,441	39,559	720,000	480,000
Repairs and maintenance			316,868	52,053	368,921	21,448	390,369	261,116
Insurance			23,314	3,830	27,144	70,510	97,654	60,291
Utilities			189,941	31,202	221,143	12,857	234,000	150,000
Supplies and materials			212,855	34,966	247,821	14,408	262,229	173,675
Equipment and furnishings			21,660	3,558	25,218	1,466	26,684	14,759
Staff development			10,166	1,670	11,836	688	12,524	6,039
Marketing and recruitment			10,968	1,802	12,770	742	13,512	16,028
Technology			4,273	702	4,975	289	5,264	5,202
Food service			139,187	22,865	162,052	9,421	171,473	115,113
Student services			70,502	11,582	82,084	4,772	86,856	148,400
Office expense			19,662	3,230	22,892	1,331	24,223	22,653
Depreciation and amortization			273,602	44,945	318,547	18,519	337,066	258,175
Other			66,899	10,990	77,889	4,528	82,417	64,349
Total Expenses			\$ 4,116,803	\$ 676,278	\$ 4,793,081	\$ 422,799	\$ 5,215,880	\$ 3,429,237



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, 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 September 15, 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 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.

PKF O'Connor Davies, LLP

September 15, 2016