

**MERIDIAN PUBLIC CHARTER SCHOOL
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2016 AND 2015

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Independent Auditor's Report

The Board of Trustees
Meridian Public Charter School and Subsidiary
Washington, DC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Meridian Public Charter School and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meridian Public Charter School and Subsidiary 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 Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and consolidating schedules of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 November 21, 2016 on our consideration of Meridian Public Charter School and Subsidiary'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 Meridian Public Charter School and Subsidiary's internal control over financial reporting and compliance.

Jane Marston & McQuade PA

Washington, DC
November 21, 2016

**MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,121,826	\$ 1,526,418
Grants and accounts receivable	409,644	702,188
Prepaid expenses	60,919	107,488
Total Current Assets	1,592,389	2,336,094
LONG TERM ASSETS		
Property and equipment, net	14,590,121	15,211,062
Unamortized loan costs, net	101,925	147,226
Cash and cash equivalents restricted by debt agreements	1,677,757	1,316,470
Deposits	30,400	25,400
Total Long Term Assets	16,400,203	16,700,158
TOTAL ASSETS	\$ 17,992,592	\$ 19,036,252
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 863,541	\$ 407,852
Accrued expenses	674,597	429,150
Deferred revenue	4,474	-
Capital lease payable, current	43,714	39,480
Total Current Liabilities	1,586,326	876,482
LONG TERM LIABILITIES		
Capital lease payable, net of current	83,780	96,772
Note payable	12,500,000	12,500,000
Total Long Term Liabilities	12,583,780	12,596,772
TOTAL LIABILITIES	14,170,106	13,473,254
NET ASSETS		
Unrestricted	3,822,486	5,562,998
TOTAL LIABILITIES AND NET ASSETS	\$ 17,992,592	\$ 19,036,252

The accompanying notes are an integral part of these consolidated financial statements.

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
REVENUES AND OTHER SUPPORT		
Per pupil appropriations	\$ 10,212,912	\$ 8,978,811
Per pupil facility allowance	2,243,032	1,963,008
Rental income	-	93,029
Federal entitlements and grants	964,400	952,496
Other grants and contributions	126,483	85,334
Before and after school care	93,606	116,307
Summer school	-	500,392
Interest income	7,091	7,166
Other income	1,751	53,924
Total Revenues and Other Support	13,649,275	12,750,467
EXPENSES		
Program	13,336,112	11,730,145
General and administrative	2,007,991	1,906,187
Fundraising	45,684	125,688
Total Expenses	15,389,787	13,762,020
CHANGE IN NET ASSETS	(1,740,512)	(1,011,553)
NET ASSETS , beginning of year	5,562,998	6,574,551
NET ASSETS , end of year	\$ 3,822,486	\$ 5,562,998

The accompanying notes are an integral part of these consolidated financial statements.

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATED SCHEDULES OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program	General and Administrative	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	\$ 6,713,235	\$ 973,418	\$ 25,246	\$ 7,711,899
Employee benefits	859,707	124,657	3,233	987,597
Payroll taxes	585,074	84,836	2,200	672,110
Professional development	393,875	57,112	1,481	452,468
Travel and meetings	58,479	8,479	220	67,178
Total Personnel, Salaries and Benefits	<u>8,610,370</u>	<u>1,248,502</u>	<u>32,380</u>	<u>9,891,252</u>
DIRECT STUDENT COSTS				
Supplies and materials	201,380	-	-	201,380
Transportation	43,773	-	-	43,773
Contracted instruction fees	366,850	-	-	366,850
Food service	519,468	-	-	519,468
Student assessments	40,318	-	-	40,318
Total Direct Student Costs	<u>1,171,789</u>	<u>-</u>	<u>-</u>	<u>1,171,789</u>
OCCUPANCY EXPENSES				
Rent	557,287	80,806	2,096	640,189
Maintenance and repairs	141,211	20,476	531	162,218
Utilities	180,877	26,227	680	207,784
Contracted building services	121,223	17,577	456	139,256
Total Occupancy Expenses	<u>1,000,598</u>	<u>145,086</u>	<u>3,763</u>	<u>1,149,447</u>
OFFICE EXPENSES				
Office supplies and materials	73,059	257,068	275	330,402
Telecommunications	328,791	47,674	1,236	377,701
Professional fees	562,474	81,559	2,115	646,148
Printing and publications	9,672	1,402	36	11,110
Postage and shipping	15,561	2,257	59	17,877
Total Office Expenses	<u>989,557</u>	<u>389,960</u>	<u>3,721</u>	<u>1,383,238</u>
GENERAL EXPENSES				
Insurance	45,814	6,643	172	52,629
Interest	543,493	78,806	2,044	624,343
Bad debt expense	8,239	1,195	31	9,465
Administration fee	120,641	17,493	454	138,588
Depreciation and amortization	808,488	117,231	3,040	928,759
Other general expense	37,123	3,075	79	40,277
Total General Expenses	<u>1,563,798</u>	<u>224,443</u>	<u>5,820</u>	<u>1,794,061</u>
TOTAL EXPENSES	<u><u>\$ 13,336,112</u></u>	<u><u>\$ 2,007,991</u></u>	<u><u>\$ 45,684</u></u>	<u><u>\$ 15,389,787</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATED SCHEDULES OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program	General and Administrative	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	\$ 5,658,555	\$ 1,026,106	\$ 71,246	\$ 6,755,907
Employee benefits	643,968	113,503	7,881	765,352
Payroll taxes	473,449	85,854	5,961	565,264
Professional development	279,370	30,590	-	309,960
Travel and meetings	5,784	1,049	72	6,905
Total Personnel, Salaries and Benefits	7,061,126	1,257,102	85,160	8,403,388
DIRECT STUDENT COSTS				
Supplies and materials	199,742	23,408	1,625	224,776
Transportation	58,568	-	-	58,568
Contracted instruction fees	680,195	31,500	-	711,695
Food service	467,233	6,172	429	473,834
Student assessments	13,533	-	-	13,533
Total Direct Student Costs	1,419,271	61,080	2,054	1,482,406
OCCUPANCY EXPENSES				
Rent	181,683	32,946	2,287	216,916
Maintenance and repairs	168,607	30,575	2,122	201,304
Utilities	117,580	21,322	1,481	140,383
Contracted building services	150,060	27,212	1,889	179,161
Total Occupancy Expenses	617,930	112,055	7,779	737,764
OFFICE EXPENSES				
Office supplies and materials	423,813	49,668	3,449	476,929
Telecommunications	288,728	52,357	3,635	344,720
Professional fees	388,839	70,511	4,895	464,245
Printing and publications	25,149	4,560	317	30,026
Postage and shipping	15,535	2,817	196	18,548
Other office expense	907	165	11	1,083
Total Office Expenses	1,142,971	180,078	12,503	1,335,551
GENERAL EXPENSES				
Insurance	61,524	11,157	775	73,456
Interest	522,549	94,758	6,579	623,886
Bad debt	30,986	5,619	390	36,995
Administration fee	101,311	18,371	1,276	120,958
Depreciation and amortization	725,241	131,513	9,132	865,886
Other general expense	47,236	34,454	40	81,730
Total General Expenses	1,488,847	295,872	18,192	1,802,911
TOTAL EXPENSES	\$ 11,730,145	\$ 1,906,187	\$ 125,688	\$ 13,762,020

The accompanying notes are an integral part of these consolidated financial statements.

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,740,512)	\$ (1,011,553)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	883,459	820,586
Amortization of loan costs	45,301	45,300
Deferred rent	-	(5,368)
(Increase) decrease in assets		
Grants and accounts receivable	292,544	187,142
Prepaid expenses	46,569	(35,004)
Cash and cash equivalents restricted by debt agreements	(361,287)	(359,430)
Deferred rent receivable	-	3,157
Deposits	(5,000)	2,433
Increase (decrease) in liabilities		
Accounts payable	455,689	(95,094)
Accrued expenses	245,447	(56,201)
Deferred revenues	4,474	(308,490)
Security deposit	-	(33,633)
Net Cash Used In Operating Activities	(133,316)	(846,155)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(227,700)	(497,991)
Net Cash Used In Investing Activities	(227,700)	(497,991)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on capital lease payable	(43,576)	(33,548)
Net Cash Used In Financing Activities	(43,576)	(33,548)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(404,592)	(1,377,694)
CASH AND CASH EQUIVALENTS, beginning of year	1,526,418	2,904,112
CASH AND CASH EQUIVALENTS, end of year	\$ 1,121,826	\$ 1,526,418
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 624,343	\$ 623,886
SUPPLEMENTAL DISCLOSURE OF NON CASH INFORMATION		
Acquisition of equipment under capital lease	\$ 34,818	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

**MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE A – ORGANIZATION AND PURPOSE

Meridian Public Charter School (the “School”) was incorporated as a not-for-profit organization on November 23, 1998 under the laws of the District of Columbia. The School received a charter in 1999 to operate as a charter school pursuant to the District of Columbia School Reform Act of 1995.

Located in Washington, DC, the School is a public academic elementary and middle school serving students in pre-school through eighth grade. The School is a model that is academic in focus with a concentration on reading and writing. The mission of the School is to instill within its students a passion for learning, self-confidence, and self-respect through academic achievement.

The School’s instruction program deals directly with the teaching of pupils including the interaction between teachers, assistants, specialists and pupils in the classroom, textbooks, and supplies. The School’s food service program consists of activities concerned with providing food to pupils in school and includes the preparation and serving of breakfast and lunch in connection with school activities.

Meridian – Harrison QALICB, Inc. (Qualified Active Low-Income Community Business – “QALICB”) is a District of Columbia non-profit corporation established to participate in the Internal Revenue Service’s New Market Tax Credit program to finance leasehold improvements of the School’s facility. The QALICB is controlled by the School.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School and QALICB’s (collectively, “Meridian”) consolidated financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Principles of Consolidation

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic Consolidations, these consolidated financial statements include the accounts of the School and the QALICB. All material inter-organization transactions and balances have been eliminated in consolidation.

Basis of Presentation

Consolidated financial statement presentation follows FASB ASC Topic for Not-for-Profit Entities. In accordance with the topic, Meridian reports information regarding its consolidated financial position based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and activities therein, are classified and reported as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the School and/or the passage of time

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Presentation - continued

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the School.

The School had no temporarily or permanently restricted net assets for the years ended June 30, 2016 and 2015.

Use of Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the 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 restrictions. Restricted revenue received that is expended in the year of receipt is treated as unrestricted for financial reporting purposes.

Federal entitlements and grants are received primarily from the District of Columbia government. Revenue is recognized when allowable expenditures in accordance with the grant terms have been incurred. The grants are subject to audit by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

Per pupil appropriated revenue is recognized during the period for which the associated educational services are provided. Per pupil appropriation revenue includes \$2,526,481 and \$2,245,756 for the years ended June 30, 2016 and 2015, respectively, for enhancements, such as special education, English language learners, and at-risk students. Before and after school care is recognized when the service is provided.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, Meridian considers all highly liquid debt instruments purchased with an original maturity of less than three months and money market funds to be cash equivalents.

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents Restricted by Debt Agreements

Cash and cash equivalents restricted by debt agreements is comprised of cash and cash equivalents deposited into a sinking fund account and construction disbursement account. The lender has a first priority security interest through debt maturity in each account. Meridian may not access the funds without prior permission of the lender.

Grants and Accounts Receivable

Grants and accounts receivable are stated at the amount management expects to collect from outstanding balances. Grants and accounts receivable primarily consists of amounts due from the federal government and the District of Columbia. Due to the nature of this funding, management believes that all grants and accounts receivable will be collected in one year or less; therefore, no allowance for bad debt has been recorded.

Property and Equipment

Property and equipment are stated at cost, or estimated market value at date of receipt, if donated. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the underlying assets, which range from 5 to 40 years. All property and equipment expenditures in excess of \$1,000 are capitalized. Leasehold improvements are amortized over the remaining term of the 25 year leases.

Unamortized Loan Costs

Loan costs incurred in securing the QALICB's debt have been capitalized by the QALICB. These costs are being amortized over the remaining period of the loan on the straight-line method, which approximates the interest method.

Deferred Revenue

Deferred revenues result from government grant funding received in the current fiscal year and are deferred until the next fiscal year in which the service is provided.

In-Kind Contributions

Donated services are recognized at their fair value if the service requires specialized skills and the services would typically need to be purchased, if not donated. Contributed services and promise to give services that do not meet the above criteria are not recognized. Meridian receives in-kind contributions from an individual funded through the department of mental health. The in-kind contributions include mental health primary and secondary prevention activities and treatment services. During the years ended June 30, 2016 and 2015, Meridian received in-kind contributions of \$0 and \$31,735, respectively, and are included as other grants and contributions revenue in the accompanying consolidated statements of activities.

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Functional Expenses

The costs of providing the Meridian’s various programs and supporting services have been summarized on a functional basis in the accompanying Consolidated Statement of Activities. Accordingly, certain costs have been allocated among the programs, fundraising and supporting services benefited.

Reclassifications

Certain amounts for June 30, 2015 have been reclassified to conform to the current year presentation. The reclassification had no effect on previously reported net assets or change in net assets.

NOTE C – INCOME TAXES

The School qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the School is classified as an entity that is not a private foundation under Section 509 (a)(1).

The School has adopted the accounting for uncertainty in income taxes as required by the Income Taxes topic of the FASB ASC. This topic requires the School to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefits to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being realized upon ultimate settlement which could result in the School recording a tax liability that would reduce its net assets.

The School has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax positions taken on returns filed for open tax years (2012-2014), or expected to be taken in its 2015 tax return. The School is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

NOTE D – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30:

	2016	2015
Leasehold improvements	\$ 16,573,807	\$ 16,558,381
Furniture and equipment	973,269	760,995
Capital leased equipment	209,794	174,976
	17,756,870	17,494,352
Less accumulated depreciation and amortization	(3,166,749)	(2,283,290)
Property and Equipment, Net	\$ 14,590,121	\$ 15,211,062

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE D – PROPERTY AND EQUIPMENT - continued

Depreciation and amortization expense of property and equipment for the years ended June 30, 2016 and 2015 was \$883,459 and \$774,450, respectively. Accumulated depreciation includes accumulated depreciation of capital leased equipment in the amount of \$81,262 and \$40,828 as of June 30, 2016 and 2015, respectively. Depreciation expense related to capital leased equipment was \$40,798 and \$34,995 for years ended June 30, 2016 and 2015, respectively.

NOTE E – UNAMORTIZED LOAN COSTS

The following is a summary of unamortized loan costs at June 30:

	2016	2015
Loan costs	\$ 317,101	\$ 317,101
Less accumulated amortization	(215,176)	(169,875)
Unamortized Loan Costs	\$ 101,925	\$ 147,226

Amortization expense for the years ended June 30, 2016 and 2015 was \$45,300 and \$45,300, respectively.

NOTE F – OPERATING LEASE

In December 2009, the School exercised its option to renew a 4-year lease agreement for its facilities, which expired July 31, 2014. Under the terms of the lease, the School was required to make monthly payments of \$74,065, which were increased annually by 2%, plus a pro-rata share of utilities, common area expenses, and property taxes. As part of the agreement there was a rental abatement of one half of each base rent payment which was made in the months of August to November 2010. During 2012, the School entered sublease agreements with two local public charter schools that expired in July 2014. The School received rental income under these agreements of \$0 and \$93,029 during the years ended June 30, 2016 and 2015, respectively. As of August 2014, the lease and associated subleases expired and were not renewed.

During October 2011, the School entered into a 25 year lease agreement for use of the facility of the current location. In order to secure financing described in Note I, the School assigned all of its rights, title, and interest of the lease to the QALICB. The QALICB then entered into a sublease agreement with the School for the same facility. The sublease agreement is for a 20 year term, which expires October 13, 2031. Under the terms of the sublease, the School is required to make monthly payments of \$53,784, which continue through September 18, 2018. After this time, the sublease payments will be renegotiated since they are based on the interest and loan payments that the QALICB is required to pay in accordance with the loan agreement.

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE F – OPERATING LEASE - continued

The future minimum lease payments of leases under non-cancelable agreements are as follows for years ending June 30:

2017	\$	645,404
2018		645,404
2019		161,351
Total	\$	<u>1,452,159</u>

During July 2015, the School entered into a 26 month lease agreement with a DC nonprofit organization for use of a facility for its middle school. The School is required to make payments on a monthly basis. Annual rent is equal to the DC appropriated facilities allowance per pupil multiplied by 160 and 90%. At the end of each lease year, additional amounts may be due in accordance with the lease agreement based on the landlords actual costs of providing access to the facility to the School. Accordingly, the School cannot reasonably estimate its future minimum lease payments under the terms of this lease.

Rent expense for the years ended June 30, 2016 and 2015 was \$640,189 and \$219,916, respectively.

NOTE G – CAPITAL LEASE PAYABLE

During June 2014, the School entered into a 60 month capital lease for copier equipment. During July 2015, the School entered into a 48 month lease for playground equipment. Under the terms of the leases, the School is required to make monthly payments of \$4,089. Future minimum lease payments are as follows for years ending June 30:

2017	\$	49,074
2018		49,074
2019		38,826
		<u>136,974</u>
Less interest		(9,480)
Total	\$	<u>127,494</u>

NOTE H – NOTE PAYABLE

The New Market Tax Credit (“NMTC”) program encourages investment in real estate projects in low-income communities by allowing investors to receive tax credits against their federal income tax return in exchange for making qualified investments in Community Development Entities (“CDE”). The CDE’s purpose is to make loans and investments in low-income communities to QALICBs.

During October 2011, the CDE utilized qualified funding to loan \$12,500,000 to the QALICB to finance leasehold improvements for the School. The loan agreement consists of three loans totaling \$12,500,000 and expiring between October 14, 2018 and October 14, 2041. Each loan has a fixed interest rate of 4.85% per annum. Interest only payments on the loans are due monthly through 2018 with balloon payments due at maturity on two loans totaling \$10,043,000. The third loan is payable in monthly installments of \$14,884 including interest beginning November 2018.

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE H – NOTE PAYABLE - continued

The future minimum payments on the notes are as follows for years ending June 30:

2017	\$	-
2018		-
2019		10,050,980
2020		59,509
2021		62,170
Thereafter		<u>2,327,341</u>
 Total Notes Payable	 \$	 <u>12,500,000</u>

According to the terms of the note payable, Meridian is required to maintain specified ratios and other covenants. As of June 30, 2016 and 2015, Meridian did not meet a certain ratio covenant; however, the lender issued a waiver regarding the unmet ratio covenant for the years ended June 30, 2016 and 2015.

NOTE I – RETIREMENT BENEFITS

The School established a 401(k) qualified retirement plan, under which full-time and part-time employees, 21 years of age and older, are eligible to participate after the first full month of employment.

Under the plan, the School will match up to 5% of the participants’ contribution, and a discretionary contribution is also available. The total matching and discretionary contributions made by the School for the years ended June 30, 2016 and 2015 were \$176,717 and \$142,969, respectively.

NOTE J – CONCENTRATIONS

Meridian receives the majority of its revenues, 86% in 2015 and 80% in 2014, based on per pupil funding from the District of Columbia Public Charter School Board. It also receives various federal grants, which are subject to audit by the overseeing agency.

As of June 30, 2016 and 2015, Meridian had cash that exceeded the \$250,000 federally insured limit in the amounts of \$1,648,228 and \$2,153,595, respectively. Meridian has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash held by this financial institution.

NOTE K – SUBSEQUENT EVENTS

As required by the Subsequent Events topic of the FASB ASC, management of Meridian evaluated subsequent events through the date of the auditor’s report, which is the date these consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

SUPPLEMENTAL INFORMATION

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
JUNE 30, 2016

	<u>School</u>	<u>QALICB</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and cash equivalents	\$ 716,813	\$ 405,013	\$ -	\$ 1,121,826
Grants and accounts receivable	409,644	-	-	409,644
Due from QALICB	234,452	-	(234,452)	-
Prepaid expenses	60,919	-	-	60,919
Total Current Assets	<u>1,421,828</u>	<u>405,013</u>	<u>(234,452)</u>	<u>1,592,389</u>
LONG TERM ASSETS				
Property and equipment, net	879,999	13,710,122	-	14,590,121
Unamortized loan costs, net	-	101,925	-	101,925
Cash and cash equivalents restricted by debt agreements	1,677,757	-	-	1,677,757
Deposits	30,400	-	-	30,400
Total Long Term Assets	<u>2,588,156</u>	<u>13,812,047</u>	<u>-</u>	<u>16,400,203</u>
TOTAL ASSETS	<u>\$ 4,009,984</u>	<u>\$ 14,217,060</u>	<u>\$ (234,452)</u>	<u>\$ 17,992,592</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Accounts payable	\$ 863,541	\$ -	\$ -	\$ 863,541
Accrued expenses	674,597	-	-	674,597
Deferred revenue	4,474	-	-	4,474
Due to School	-	234,452	(234,452)	-
Capital lease payable, current portion	43,714	-	-	43,714
Total Current Liabilities	<u>1,586,326</u>	<u>234,452</u>	<u>(234,452)</u>	<u>1,586,326</u>
LONG TERM LIABILITIES				
Capital lease payable, net of current portion	83,780	-	-	83,780
Note payable	-	12,500,000	-	12,500,000
Total Long Term Liabilities	<u>83,780</u>	<u>12,500,000</u>	<u>-</u>	<u>12,583,780</u>
TOTAL LIABILITIES	<u>1,670,106</u>	<u>12,734,452</u>	<u>(234,452)</u>	<u>14,170,106</u>
NET ASSETS				
Unrestricted	<u>2,339,878</u>	<u>1,482,608</u>	<u>-</u>	<u>3,822,486</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,009,984</u>	<u>\$ 14,217,060</u>	<u>\$ (234,452)</u>	<u>\$ 17,992,592</u>

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
JUNE 30, 2015

	<u>School</u>	<u>QALICB</u>	<u>Eliminations</u>	<u>Total</u>
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,150,319	\$ 376,099	\$ -	\$ 1,526,418
Grants and accounts receivable	702,188	-	-	702,188
Due from QALICB	234,452	-	(234,452)	-
Prepaid expenses	107,488	-	-	107,488
Total Current Assets	<u>2,194,447</u>	<u>376,099</u>	<u>(234,452)</u>	<u>2,336,094</u>
LONG TERM ASSETS				
Property and equipment, net	850,713	14,360,349	-	15,211,062
Unamortized loan costs, net	-	147,226	-	147,226
Cash and cash equivalents restricted by debt agreements	1,316,366	104	-	1,316,470
Deposits	25,400	-	-	25,400
Total Long Term Assets	<u>2,192,479</u>	<u>14,507,679</u>	<u>-</u>	<u>16,700,158</u>
TOTAL ASSETS	<u>\$ 4,386,926</u>	<u>\$ 14,883,778</u>	<u>\$ (234,452)</u>	<u>\$ 19,036,252</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Accounts payable	\$ 407,852	\$ -	\$ -	\$ 407,852
Accrued expenses	429,150	-	-	429,150
Due to School	-	234,452	(234,452)	-
Capital lease payable, current	39,480	-	-	39,480
Total Current Liabilities	<u>876,482</u>	<u>234,452</u>	<u>(234,452)</u>	<u>876,482</u>
LONG TERM LIABILITIES				
Capital lease payable, net of current	96,772	-	-	96,772
Note payable	-	12,500,000	-	12,500,000
Total Long Term Liabilities	<u>96,772</u>	<u>12,500,000</u>	<u>-</u>	<u>12,596,772</u>
TOTAL LIABILITIES	973,254	12,734,452	(234,452)	13,473,254
NET ASSETS				
Unrestricted	<u>3,413,672</u>	<u>2,149,326</u>	<u>-</u>	<u>5,562,998</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,386,926</u>	<u>\$ 14,883,778</u>	<u>\$ (234,452)</u>	<u>\$ 19,036,252</u>

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATING SCHEDULES OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	<u>School</u>	<u>QALICB</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Per pupil appropriations	\$ 10,212,912	\$ -	\$ -	\$ 10,212,912
Per pupil facility allowance	2,243,032	-	-	2,243,032
Rental income	-	645,164	(645,164)	-
Federal entitlements and grants	964,400	-	-	964,400
Other grants and contributions	126,483	-	-	126,483
Before and after school care	93,606	-	-	93,606
Interest income	7,091	-	-	7,091
Other income	1,751	-	-	1,751
Total Revenues and Other Support	<u>13,649,275</u>	<u>645,164</u>	<u>(645,164)</u>	<u>13,649,275</u>
EXPENSES				
Program	12,755,731	1,141,998	(561,617)	13,336,112
General and administrative	1,923,836	165,590	(81,435)	2,007,991
Fundraising	43,502	4,294	(2,112)	45,684
Total Expenses	<u>14,723,069</u>	<u>1,311,882</u>	<u>(645,164)</u>	<u>15,389,787</u>
CHANGE IN NET ASSETS	(1,073,794)	(666,718)	-	(1,740,512)
NET ASSETS, beginning of year	<u>3,413,672</u>	<u>2,149,326</u>	<u>-</u>	<u>5,562,998</u>
NET ASSETS, end of year	<u>\$ 2,339,878</u>	<u>\$ 1,482,608</u>	<u>\$ -</u>	<u>\$ 3,822,486</u>

MERIDIAN PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATING SCHEDULES OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	<u>School</u>	<u>QALICB</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Per pupil appropriations	\$ 8,978,811	\$ -	\$ -	\$ 8,978,811
Per pupil facility allowance	1,963,008	-	-	1,963,008
Rental income	93,029	645,164	(645,164)	93,029
Federal entitlements and grants	952,496	-	-	952,496
Other grants and contributions	85,334	-	-	85,334
Before and after school care	116,307	-	-	116,307
Summer school	500,392	-	-	500,392
Interest income	7,166	-	-	7,166
Other income	53,924	-	-	53,924
Total Revenues and Other Support	<u>12,750,467</u>	<u>645,164</u>	<u>(645,164)</u>	<u>12,750,467</u>
EXPENSES				
Program	11,172,098	1,098,418	(540,371)	11,730,145
General and administrative	1,804,992	199,184	(97,989)	1,906,187
Fundraising	118,662	13,830	(6,804)	125,688
Total Expenses	<u>13,095,752</u>	<u>1,311,432</u>	<u>(645,164)</u>	<u>13,762,020</u>
CHANGE IN NET ASSETS	(345,285)	(666,268)	-	(1,011,553)
NET ASSETS, beginning of year	<u>3,758,957</u>	<u>2,815,594</u>	<u>-</u>	<u>6,574,551</u>
NET ASSETS, end of year	<u>\$ 3,413,672</u>	<u>\$ 2,149,326</u>	<u>\$ -</u>	<u>\$ 5,562,998</u>



**INDEPENDENT AUDITOR'S 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***

The Board of Trustees
Meridian Public Charter School and Subsidiary
Washington, DC

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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Meridian Public Charter School and Subsidiary ("Meridian"), which comprise the consolidated statements of financial position as of June 30, 2016, and the related consolidated statements of activities, and cash flows, for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Meridian'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Meridian's internal control. Accordingly, we do not express an opinion on the effectiveness of Meridian'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meridian's consolidated financial statements are free of 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 organization'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jane Marusa & McQuade PA

Washington, DC
November 21, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Trustees
Meridian Public Charter School
Washington, DC

Report on Compliance for Each Major Federal Program

We have audited Meridian Public Charter School's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2016. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

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

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

Jane Marcus & McQuade PA

Washington, DC
November 21, 2016

**MERIDIAN PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U. S. Department of Education			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Title I Grants to Local Educational Agencies	84.010	62010A, 52010A	\$ 290,301
Supporting Effective Instruction State Grant	84.367	62367A, 52367A	87,277
English Language Acquisition State Grant	84.365	62365A, 52365A	34,440
DC School Choice Incentive Program	84.370	U370C130001	61,287
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	62027A, 52027A	159,457
Special Education - Preschool Grants	84.173	62173A, 52173A	6,129
Total Special Education Cluster (IDEA)			<u>165,586</u>
Total U.S. Department of Education			<u>638,891</u>
U.S. Department of Agriculture			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Child Nutrition Cluster			
School Breakfast Program	10.553		76,465
National School Lunch Program	10.555		224,950
School Snack Program	10.XXX		18,012
Total U.S. Department of Agriculture			<u>319,427</u>
U.S. Department of Health and Human Services			
Medical Assistance Program	93.778		6,082
Total U.S. Department of Health and Human Services			<u>6,082</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 964,400</u></u>

MERIDIAN PUBLIC CHARTER SCHOOL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

NOTE A – BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the School and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School elected not to use the 10 percent de minimis indirect cost rate. Pass-through entity identifying numbers are presented where available.

**MERIDIAN PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued Unmodified

Internal control over financial reporting:

Material weaknesses identified ___yes X no

Significant deficiencies identified that are not considered to be material weaknesses ___yes X none reported

Noncompliance material to financial statements noted ___yes X no

Federal Awards

Internal control over major programs:

Material weaknesses identified ___yes X no

Significant deficiencies identified that are not considered to be material weaknesses ___yes X none reported

Type of auditor’s report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? ___yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs or Clusters</u>
84.010	Title I Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee? X yes no

Section II – Financial Statement Findings

None noted

Section III – Federal Awards Findings and Questioned Costs

None noted

**MERIDIAN PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016
(continued)**

Section IV – Summary Schedule of Prior Year Findings and Questioned Costs

Finding No. 2015-001 Financial Statement Finding

Status: Corrected. Management revised the Procedure Manual and ensured consistent documentation of authorization was implemented.