



MERIT PREPARATORY CHARTER SCHOOL

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2017
PREPARED BY
MERIT PREPARATORY CHARTER SCHOOL**

MERIT PREPARATORY CHARTER SCHOOL

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909 Broad Street, Newark, New Jersey 07102 Tel: 973-642-4400, Fax 862-367-7706

November 16, 2018

The Commissioner
New Jersey Department of Education
Riverview Executive Plaza – Bldg. 100
P. O. Box 500
Trenton, New Jersey 08625-0500

Dear Commissioner:

We hereby submit the Comprehensive Annual Financial Report of the Merit Preparatory Charter School (the “Charter School” or “Merit Prep”) for the year ended June 30, 2017.

Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Charter School. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and are reported in a manner designed to fairly present the financial position and result of operations of the various funds of the Charter School. All disclosures necessary to enable the reader to gain an understanding of the Charter School’s financial activities have been included.

Governmental Accounting Standards Board (GASB) requires that management provide a narrative introduction overview and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Merit Preparatory Charter School’s MD&A can be found immediately following the Independent Auditor’s Report.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes this transmittal letter, the Charter School’s organizational chart and a list of principal officials. The financial section includes the independent auditor’s report, management’s discussion and analysis (MD&S) and the basic financial statements including the Charter School-wide financial statements presented in conformity with Governmental Accounting Standards Board Statement No. 34. The basic financial statements also include individual fund financial statements and required supplemental information (RSI). The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The Charter School is required to undergo an annual single audit in conformity with the provisions of the *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the New Jersey OMB's Circular 15-08, "*Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*". Information related to this single audit, including the auditor's report on internal control and compliance with applicable *laws and regulations* and findings and recommendations are included in the single audit section of this report.

1) Reporting Entity and its Services

The Charter School is an independent reporting entity within the criteria adopted by the Government Accounting Standards Board (GASB) as established by National Council on Governmental Accounting (NCGA) Statement No. 3. All funds and account groups of the Charter School are included in this report.

The overarching mission of the Charter School is to inspire and empower its students, families and staff with opportunities to successfully shape and transform their lives by becoming successful, lifelong learners who possess the critical-thinking, academic, advocacy, and leadership skills required to continuously open new doors in their lives and the lives of others.

The Charter School is one of Newark's newest and most innovative public charter schools. It combines high quality teaching and innovative online learning to deliver a personalized education to all students. The Charter School ensures that all students are on grade level and well equipped to meet the challenges of college, work and life. Our goal is for 100% of our students to graduate from college.

2) Enrollment Outlook

Opened August 2012, Merit Prep is in its fifth year of operation. The Charter School served 488 students during the school year 2016-2017 in grades 6-12. However, the school's charter was revoked during the year ended June 30, 2017 effective as of that date.

The Charter School's approach is distinctive in several key ways:

- Free, open enrollment school.
- Great classroom teaching with online learning that provides our students with a personalized education.
- Prepares students to achieve at the highest levels in the worlds of college, work and life.

3) Economic Condition and Outlook

The Charter School is located in the City of Newark, which is the largest city in the state. The City serves as the county seat for Essex County, with County, State, Federal Courts and governmental offices attracting a large number of law firms to the central business district.

Newark is a transportation center serviced by Interstate Highway system, NJ Transit, Amtrak Rail Links, and Newark International Airport, as well as container and cargo facilities at Port Newark-Elizabeth.

It is the insurance, finance and banking capital of the State. Headquartered in Newark are a number of large financial institutions including the Prudential Insurance Company, and Blue Cross blue Shield of New Jersey, as well as the State's largest public utility, Public Service Electric and Gas Company.

Newark is the site of the Rutgers University School of Medicine and Dentistry of New Jersey, the New Jersey Institute of Technology, the Newark campus of Rutgers University, Seton Hall Law School and Essex County College. Covering over 320 acres, these colleges serve a population of 45,000 students and faculty.

The City of Newark has been obliged to perform a revaluation of property holdings. Among the concerns voiced in conjunction with this change is the potential effect of the redistribution of property tax burden on economic activity and on the ability of local government to maintain and improve services including its tax contribution for public school purposes.

The City has experienced a surge of large-scale economic development projects initiated by the private sector over the last decade. The increasing number of businesses relocating to the area is expected to result in an increase in employment level, which could result in an increased tax base, both residential and industrial, and an increase in annual daily enrollment. The period of economic development and expansion is expected to continue which suggests that the Charter School will continue to prosper. As our enrollment increases we plan to lease additional facilities at our current location and possibly in surrounding areas in the City.

4) Major Initiatives

Merit Prep is managed by a national non-profit blended charter school management organization, Matchbook Learning. Matchbook Learning was hired by the Merit Prep Board to design the school's innovative blended instruction model, recruit, select and manage the school leadership at Merit Prep and continue to innovate on Matchbook Learning's unique blended school model at Merit Prep.

The Charter School has made a commitment to serving all students, especially the highest needs students, and is committed to continuous self-evaluation and improvement in our outreach to the Newark students most in need of a rigorous college-preparatory middle/high school program.

4) **Major Initiatives** - *continued*

Our commitment is evident in all aspects of outreach and our educational programs. School-wide, 81% of our students qualify for free and reduced-price lunch. 7% of the student body was special education students.

5) **Internal Accounting Controls**

Management of the Charter School is responsible for establishing and maintaining internal control designed to ensure the assets of the Charter School are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal awards and state financial assistance, the Charter School also is responsible for ensuring that adequate system of internal controls is in place to ensure compliance with applicable laws and regulations related to those programs. This system of internal control is also subject to periodic evaluation by the Charter School's management.

As part of the Charter School's single audit described earlier, tests are made to determine the adequacy of the system of internal controls, including that portion related to federal awards and state financial assistance programs, as well as to determine that the Charter School has complied with applicable laws and regulations.

6) **Budgetary Controls**

In addition to internal accounting controls, the Charter School maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with the statutory requirements of charter school budgets. Annual appropriated budgets are adopted for general and special revenue funds. The final budget amount, as amended for the year is reflected in the financial section.

An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at period end are either canceled or are included as re-appropriations of fund balance in the subsequent year. No reservation of fund balance was made at June 30, 2017.

The year 2016-2017 is our fifth audit period. The Charter School made efforts during the period to thoroughly review its operational processes and procedures in order to prepare for the audit and on maintaining general compliance with sound fiscal practices.

7) Accounting Systems and Report

The Charter School’s accounting records reflect generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). The accounting records also reflect New Jersey State Statute (N.J.S.A 18:4-14) that requires a uniform system of double-entry bookkeeping consistent with the GAAP established by GASB for us in all school districts and charter school.

The accounting system is organized on the basis of funds in accordance with the Uniform Charter of Accounts (Handbook 2R2) for New Jersey Public Schools. These funds are explained in “Notes to the Financial Statements”, Note 1.

8) Financial Statement Information

As demonstrated by the various statements and schedules included in the financial section of this report, the Charter School continues to meet its responsibility for sound financial management. The following schedule presents a summary of the General Fund, and Special revenue funds for the year ended June 30, 2017:

**Summary of the General Fund
and Special Revenue Fund Revenues**

	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Increase/ (Decrease)</u>
Local sources	\$ 954,946	\$ 888,524	\$ 66,422	7.5%
State sources	7,369,736	5,285,610	2,084,126	39.4%
Federal sources	447,736	303,732	144,004	47.4%
	<u>\$ 8,772,418</u>	<u>\$ 6,477,866</u>	<u>\$ 2,294,552</u>	<u>35.4%</u>

2017 was the Charter School’s fifth year of operations. The 35.4% increase in revenue is consistent with the increase in enrollment. However, it should be noted that the school’s charter was revoked during the year ended June 30, 2017.

8) **Financial Statement Information** - *continued*

The following schedule presents a summary of general fund and special revenue expenditures for the year ended June 30, 2017:

**Summary of the General Fund
and Special Revenue Fund Expenditures**

	2017	2016	Increase/ (Decrease)	Percentage Increase/ (Decrease)
Instruction	\$ 3,913,554	\$ 2,418,364	\$ 1,495,190	61.8%
Administrative	2,842,333	2,167,537	674,796	31.1%
Support	2,560,185	1,678,290	881,895	52.5%
Capital outlay	55,487	54,405	-	0.0%
	\$ 9,371,559	\$ 6,318,596	\$ 3,051,881	48.3%

2017 was the Charter School’s fifth year of operations. The 48.3% increase in expenditures is consistent with the increase in enrollment. The rate of increase in expenditures was significantly higher than the 35% rate increase in revenue. This is because 2017 was the year the school’s charter was revoked.

9) **Cash Management**

The investment policy of the Charter School is guided in large part by state statute as detailed in “Notes to the Financial Statements”. The Charter School has adopted a cash management plan, which requires it to deposit public funds in public depositories protected from loss under the provision of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect Governmental Units from loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

10) **Risk Management**

The Board carries various forms of insurance, including but not limited to general liability and comprehensive/collision, hazard and theft insurance on property and contents, fidelity bonds and worker’s compensation.

11) **Other Information**

Independent Audit

State statute requires an annual audit by independent Certified Public Accountants or registered Municipal Accountants. The Charter School appointed the accounting firm of Olugbenga Olabintan, Certified Public Accountants and Consultants.

In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and New Jersey OMB Circular Letter 15-08 “*Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*”.

The auditor’s report on the basic financial statements, is included in the financial section of this report. The auditor’s reports related specifically to the single audit are included in the single audit section of this report.

12) **Acknowledgments**

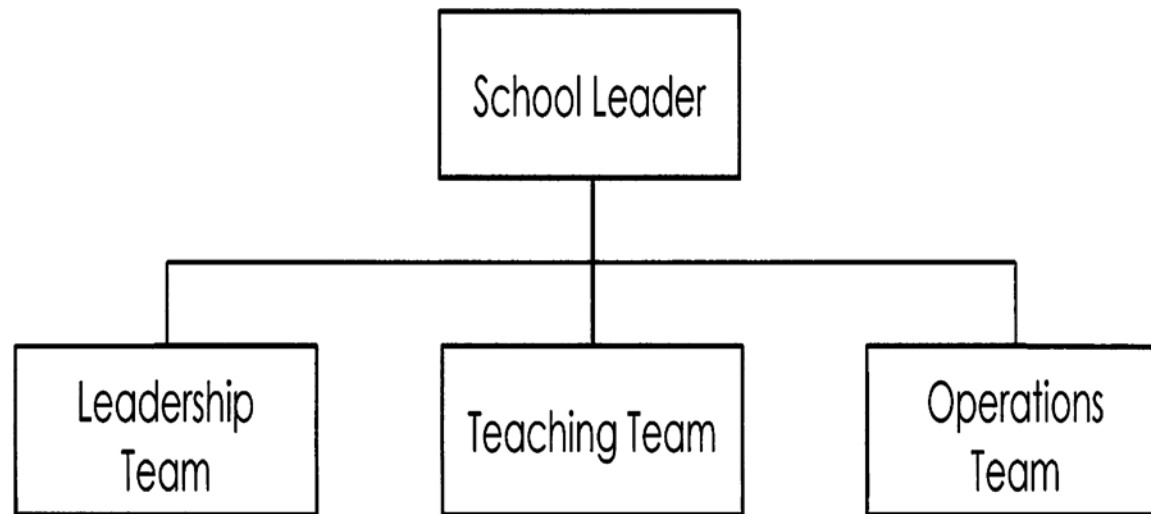
We recognize and appreciate all of the factors that led to the revocation of our charter during our fifth year of operations. I take this opportunity to wish everybody the very best in the future.

Respectively submitted



Dr. Brian Falkowski
School Business Administrator/Board Secretary

6.2.c Organizational Chart



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MERIT PREPARATORY CHARTER SCHOOL

ROSTER OF TRUSTEES AND OFFICERS

JUNE 30, 2017

Members of Board of Trustees

Mike Cosack, Chair, Lead Person

Aubrey Haines, Secretary

Rich Gordon, Treasurer, Community Member

Kristen Sigler, Board Member

Cheryl Arnedt, Board Member

Lisa Miller, Member, Community Member

Administration

Ronald D. Harvey, Jr., Principal

Dr. Brian S. Falkowski, School Business Administrator/Board Secretary

MERIT PREPARATORY CHARTER SCHOOL

Consultants and Advisors

Independent Auditors

Olugbenga Olabintan
Certified Public Accountants and Consultants
137 Camden Street, Suite # 3
Newark, NJ 07103

Attorney

Avolio & Hanlon, P.C.
Attorneys At Law
Crossroads Corporate Center
3150 Brunswick Pike, Suite 120
Lawrenceville, NJ 08648

Dissolution Trustee

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(215) 888 7333
E-Mail: LNunery2@comcast.net

Official Depository

TD Bank
Newark, NJ 07102

Financial Section

Olugbenga Olabintan

Certified Public Accountant/Consultant

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Newark, NJ 07103

Tel: (201) 230-7518
Fax: (973) 368-8268
E-mail: oolabintan@aol.com

Independent Auditors' Report

The Honorable President and
Members of the Board of Trustees
Merit Preparatory Charter School
County of Essex
Newark, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Board of Trustees Merit Preparatory Charter School, (the "Charter School") in the County of Essex, State of New Jersey as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements as listed in the table of contents.

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 *and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey*. 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 auditor's 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter School as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows, thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Revocation of Charter

The accompanying financial statements have been prepared on the basis that the Charter School ceased academic operations effective June 30, 2017, and will no longer continue as a going concern. Pursuant to State of New Jersey Statutes (N.J.S.A.18A:36A-17 and N.J.A.C 6A:11-2.3(b)) the charter for Merit Prep Charter School was revoked by the New Jersey Commissioner of Education effective June 30, 2017. The factors leading to the charter revocation are fully discussed in Note 19 to this Comprehensive Annual Financial Report. As a consequence of the revocation, the charter school was directed to cease operations.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis and Budgetary Comparison Information, and Pension Information* as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School's basic financial statements. The accompanying supplementary information, which consists of the introductory section, combining and individual nonmajor fund financial statements, financial schedules and statistical tables are presented for purposes of additional analysis and are not required part of the basic financial statements. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the provisions of New Jersey Department of the Treasury Circular Letter 15-08 OMB, *Single Audit Policy for Recipients of*

Federal Grants, State Grants and State Aid, respectively, and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statement, schedule of expenditures of federal awards and schedule of state financial assistance are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 presented, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, financial schedules and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.

Olugbenga Olabintan, CPA

November 16, 2018
Newark, New Jersey

OLUGBENGA OLABINTAN
Certified Public Accountant/Consultant



Olugbenga Olabintan, CPA
Licensed Public School Accountant
No. 20CS00230200

Required Supplementary Information

Part I

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) provides an analysis of the Charter School's overall financial position and results of operations.

MERIT PREPARATORY CHARTER SCHOOL
Management's Discussion and Analysis
Year Ended June 30, 2017
(Unaudited)

Introduction

This section of the Merit Preparatory Charter School's annual financial report presents our discussion and analysis of the Charter School's financial performance and provides an overview of the Charter School's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the transmittal letter at the front of this report and the Charter School's financial statements, which follow this section.

Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis- for State and Local Governments*. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

Cessation of Operations

Pursuant to State of New Jersey Statutes (N.J.S.A.18A:36A-17 and N.J.A.C 6A:11-2.3(b)) the charter for Merit Prep Charter School was revoked by the New Jersey Commissioner of Education effective June 30, 2017. The factors leading to the charter revocation are fully discussed in Note 19 to this Comprehensive Annual Financial Report. As a consequence of the revocation, the charter school was directed to cease operations.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- Net position of governmental activities ended the fiscal year with \$148,559. Net position of business-type activities, which represent food service operations/after care and summer instructional programs, ended the fiscal year with \$-0-.
- General revenues accounted for \$8,324,682 in revenue or 93 percent of total revenues of \$8,961,986. Program specific revenues, in the form of charges for services, grants, and contributions accounted for \$637,304 or 7 percent of total revenues.
- The Charter School had \$9,318,100 in expenses related to governmental activities; \$447,736 of these expenses is offset by operating grants and contributions. General revenues (primarily federal and state aid) of \$8,185,997 helped to provide for the balance of these programs.
- The General Fund reported fund surplus at June 30, 2017, of \$472,350.

MERIT PREPARATORY CHARTER SCHOOL
Management's Discussion and Analysis
Year Ended June 30, 2017
(Unaudited)

Using the Basic Financial Statements

This annual report consists of a series of basic financial statements, required supplementary information, other supplementary information and notes to those statements and information.

The report is organized so the reader can understand the Merit Preparatory Charter School as a financial whole, or as an entire operating entity. The first two basic financial Statements, the Statement of Net Position and the Statement of Activities, are governmental-wide financial statements and provide overall information about the activities of the entire Charter School, presenting both an aggregate view of the Charter School's finances and a long-term view of those finances. The remaining basic financial statements are fund financial statements that focus on the individual parts of the government, reporting the Charter School's operation in more detail than the government-wide statements. The fund financial statements also look at the Charter School's most significant funds with all other non-major funds presented in total in a single column. For the Merit Preparatory Charter School, the General Fund is the most significant fund.

The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.

Proprietary fund statements offer short and long-term financial information about the activities, the government operates like a business, such as food service.

Fiduciary fund statements provide information about financial relationship in which the Charter School acts solely as a trustee or agent for the benefits of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of Required Supplementary Information that further explains and supports the information in the financial statements.

Reporting the Charter School as a Whole

Statement of Net Position and Statements of Activities

While this report contains the fund used by the Charter School to provide programs and activities, the view of the Charter School as a whole looks at all financial transactions and asks the question, "how did we do financially during fiscal year 2017?" The statements of Net Position and the Statement of Activities answer this question. These Statements include all the Charter School's assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash was received or paid.

MERIT PREPARATORY CHARTER SCHOOL
Management's Discussion and Analysis
Year Ended June 30, 2017
(Unaudited)

Statement of Net Position and Statement of Activities-continued

These two statements report the Charter School's net position and changes in those assets. This change in net position is important because it identifies whether the financial position of the Charter School has improved or diminished for the Charter School as a whole. The cause of this change may be the result of many factors some financial, some not. Non-financial factors include the property tax base of the School District where the Charter School is located, current educational funding laws in New Jersey, facilities conditions, required educational programs, and other factors. In the Statements of Net position and the Statements of Activities, the Charter School is divided into two distinct kinds of activities:

Governmental Activities – Most of the Charter School's programs and services are reported here including instructions, extracurricular activities, curriculum, staff development, special education and other support services, operation and maintenance of plant, pupil transportation, health services and general administration.

Business-Type Activity – Services are provided on a charge for goods or services or reimbursement basis to recover the expenses of the goods or services provided. The food service operations/after care and summer instructional programs enterprise fund is reported as a business activity.

Reporting the Charter School's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Charter School's major funds-not the Charter School as a whole. Funds are accounting devices that the Charter School uses to keep track of a multitude of financial transactions. The Charter School's only major governmental fund is the General Fund.

Governmental Funds

Most of the Charter School's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year-end for spending in future periods. These funds are reported using an accounting method called modified accrual accounting. Which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statement provides a detailed short-term view of the Charter School's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship, or differences, between governmental activities reported in the Statement of Net Position and the Statement of Activities and the governmental funds are reconciled in the financial statements.

MERIT PREPARATORY CHARTER SCHOOL
Management's Discussion and Analysis
Year Ended June 30, 2017
(Unaudited)

Enterprise Fund

The enterprise fund uses the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

The Charter School as a Whole

The perspective of the Statement of Net Position is of the Charter School as a whole. Net position may serve over time as useful indicator of a government's financial position. In the case of the Charter School, assets exceeded liabilities by \$148,559 at the close of 2017. The following table provides a summary of net position relating to the Charter School's governmental and business type activities:

	Governmental Activities		Business Type Acvtivities		Total	
	2017	2016	2017	2016	2017	2016
Assets and deferred outflows of resources						
Current assets	\$ 883,437	\$ 1,680,462	\$ -	\$ 22,018	\$ 883,437	\$ 1,702,480
Capital assets, net	-	-	-	-	-	-
Deferred outflows of resources	888,810	1,129,230	-	-	888,810	1,129,230
Total assets and deferred outflows of resources	1,772,247	2,809,692	-	22,018	1,772,247	2,831,710
Liabilities and deferred outflows of resources:						
Current liabilities	411,087	608,971	-	22,018	411,087	630,989
Long term liabilites	523,242	1,346,151	-	-	523,242	1,346,151
Deferred outflows of resources	689,359	21,644	-	-	689,359	21,644
Total liabilities and deferred inflows of resources	1,623,688	1,976,766	-	22,018	1,623,688	1,998,784
Net position						
Invested in Capital assets (net of related debt)	-	-	-	-	-	-
Restricted for charter escrow	-	-	-	-	-	-
Unrestricted	148,559	832,926	-	-	148,559	832,926
Total net position	\$ 148,559	\$ 832,926	\$ -	\$ -	\$ 148,559	\$ 832,926

MERIT PREPARATORY CHARTER SCHOOL
Management's Discussion and Analysis
Year Ended June 30, 2017
(Unaudited)

The largest portion of the Charter School's net position is its current assets. The Charter School uses these current assets to provide services.

The total net position of the Charter School decreased by \$684,367 during the current fiscal year ended June 30, 2017. The entire decrease is attributable to a deficit of \$684,367 in the General Fund.

The table that follows reflects the change in net position for fiscal year 2017.

	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charge for services			\$0	\$956	\$0	\$956
Operating grants and contributions	\$447,736	\$303,732	189,568	168,855	637,304	472,587
Total program revenues	447,736	303,732	189,568	169,811	637,304	473,543
General revenues:						
Local aid	926,957	868,474	-	-	926,957	868,474
Federal and state aid	7,369,736	5,285,610	-	-	7,369,736	5,285,610
Miscellaneous	27,989	20,050	-	-	27,989	20,050
Transfers	(138,685)	(151,020)	138,685	151,020	-	-
Total general revenues	8,185,997	6,023,114	138,685	151,020	8,324,682	6,174,134
Total revenues	8,633,733	6,326,846	328,253	320,831	8,961,986	6,647,677
Expenses:						
Instructions	3,913,554	2,418,364	-	-	3,913,554	2,418,364
Administrative & support services	5,349,059	3,933,372	-	-	5,349,059	3,933,372
Unallocated depreciation	55,487	54,405	-	-	55,487	54,405
Food service	-	-	328,253	320,831	328,253	320,831
Total expenses	9,318,100	6,406,141	328,253	320,831	9,646,353	6,726,972
Change in net position	\$ (684,367)	\$ (79,295)	\$ -	\$ -	\$ (684,367)	\$ (79,295)

MERIT PREPARATORY CHARTER SCHOOL
Management's Discussion and Analysis
Year Ended June 30, 2017
(Unaudited)

Governmental Activities

The Statement of Activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services. The table below, for government activities, indicates the total cost of services and the net cost of services. It identifies the cost of these services supported by unrestricted state entitlements for the fiscal year ended June 30, 2017.

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,913,554	\$ 3,621,381
Administrative & support services	5,349,059	5,193,496
Unallocated depreciation	55,487	55,487
Total Expenses	\$ 9,318,100	\$ 8,870,364

Business-Type Activity

The business-type activity of the Charter School consists of the food service operation and the after-school program. These programs had revenues of \$328,253 (which includes a transfer from the General Fund of \$138,568 to cover deficit) and operating expenses of \$328,253 for fiscal year 2017. The Charter School intended to have food services be self-operating in the future years, that is, without assistance from the General Fund.

The Charter School's Funds

The Charter School's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues of \$8,324,682 and expenditures of \$8,923,823. The negative change in fund balance for the period was funded by the cumulative fund balance from the prior years.

The Charter School's budget is prepared according to New Jersey law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2017, the Charter School amended its General Fund budget as needed. The Charter School uses state-aid and other revenue-based budget. The budgeting systems are designed to tightly control total budget, but provide flexibility for Charter School's management teams.

For the General Fund, final budgeted revenues were \$8,025,048, which included a local tax levy of \$926,957. Expenditures and other financing uses were budgeted at \$8,674,381.

MERIT PREPARATORY CHARTER SCHOOL
Management's Discussion and Analysis
Year Ended June 30, 2017
(Unaudited)

The Charter School anticipated budgeted fund balance of \$422,158 in its 2016-2017 budget year. General Fund expenditures were higher than revenues by \$599,141. Actual revenues and other financing sources were \$8,324,682 and expenditures were \$8,923,823.

The State of New Jersey reimbursed the Charter School \$99,274 during the year ended June 30, 2017 for the employer's share of social security contributions for TPAF members. The State also paid \$172,371 into the TPAF pension representing on-behalf employer's portion of the TPAF Pension System Contributions, TPAF Post-Retirement Medical Benefits Contributions and TPAF Long-Term Disability Insurance Premium Contributions for the Charter School. These unbudgeted amounts were included in both revenues and expenditures. This unbudgeted amount was included in both revenues and expenditures.

Capital Assets

At the end of year 2017, the Charter School had -0- funds invested in capital assets.

Long-term Liabilities

At June 30, 2017, the Charter School had \$523,242 and \$1,346,151 at June 30, 2017 and 2016, respectively, in net pension liability regarding the Public Employees Retirement System. More detailed information about the Charter School's long term obligations is presented in the notes to the financial statements.

Dissolution Plan

Pursuant to State of New Jersey Statutes (N.J.S.A.18A:36A-17 and N.J.A.C 6A:11-2.3(b)) the charter for Merit Prep Charter School was revoked by the New Jersey Commissioner of Education effective June 30, 2017. The factors leading to the charter revocation are fully discussed in Note 19 to this Comprehensive Annual Financial Report. As a consequence of the revocation, the charter school was directed to cease operations. In June 2017, the board of Trustees approved a Dissolution Plan as prescribed by the New Jersey Department of Education. The terms of the Plan call for the complete cessation of all academic activities and the disposition of all capital assets owned by the Charter School including the remaining unexpired term of equipment leases.

In addition, an independent trustee Leroy D. Nunery II, MBA, Ed.D. was appointed by the Board to oversee the dissolution including but not limited to, the collection of amounts due the Charter School, payment of outstanding liabilities and expenses owed by the Charter School, assistance with the final audit of the fiscal year ended June 30, 2017 and to issue a report to the Charter School's post June 30, 2017 dissolution activities.

The financial statements reflect all known adjustments to reflect the cessation of operations effective June 30, 2017. There may be adjustments that could result from the actual outcome of the dissolution that could affect the reported amounts of assets, liabilities, revenue and expenses.

MERIT PREPARATORY CHARTER SCHOOL
Management's Discussion and Analysis
Year Ended June 30, 2017
(Unaudited)

Furniture, Equipment and Textbooks

According to the Plan, an inventory of all useable furniture, equipment and textbooks was taken and valued. The Dissolution Trustee sold the furniture, equipment and textbooks which generated a significant amount of revenue and the entire amount was collected after June 30, 2017.

Contacting the Charter School's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Charter School's finances and to reflect the Charter School's accountability for the monies it receives. However, since the charter has been revoked, questions about this report or additional financial information needs should be directed to the dissolution trustee:

MERIT PREPARATORY CHARTER SCHOOL
Dissolution Trustee
Leroy D. Nunery II, MBA, Ed.D
511 Cresheim Valley Road
Wyndmoor, PA 19038
(215) 888 7333
E-Mail: LNunery2@comcast.net

School Business Administrator
Dr. Brian Falkowski
School Business Office
10 Centre Drive, Monroe
New Jersey 08831
(732) 631 4009
E-mail: bfalkowski@sboffice.com

Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements provide a financial overview of the Charter School's operations. These financial statements present the financial position and operating results of all governmental activities and business-type activities as of and for the Year Ended June 30, 2017.

Statement of Net Position

June 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 171,763	\$ (101,151)	\$ 70,612
Restricted cash and cash equivalents	-	-	-
Accounts receivable	711,674	101,151	812,825
Interfund receivable	-	-	-
Capital assets (net of accumulated depreciation of \$ 170,177)	-	-	-
Total assets	<u>883,437</u>	<u>-</u>	<u>883,437</u>
Deferred outflows of resources			
Pension deferred outflows	<u>888,810</u>	<u>-</u>	<u>888,810</u>
Total assets and deferred outflows of resources	<u>\$ 1,772,247</u>	<u>\$ -</u>	<u>\$ 1,772,247</u>
Liabilities			
Accounts payable	\$ 226,716	\$ -	\$ 226,716
Intergovernmental payables - state	145,525	-	145,525
Interfund payable	38,846	-	38,846
Deferred revenue	-	-	-
Net pension liability	523,242	-	523,242
Total liabilities	<u>934,329</u>	<u>-</u>	<u>934,329</u>
Deferred inflows of resources			
Pension deferred inflows	<u>689,359</u>	<u>-</u>	<u>689,359</u>
Total liabilities and deferred inflows of resources	<u>1,623,688</u>	<u>-</u>	<u>1,623,688</u>
Net position			
Restricted for charter school escrow	-	-	-
Unrestricted, undesignated	<u>148,559</u>	<u>-</u>	<u>148,559</u>
Total net position	<u>148,559</u>	<u>-</u>	<u>148,559</u>
Total liabilities, deferred inflows of resources & net position	<u>\$ 1,772,247</u>	<u>\$ -</u>	<u>\$ 1,772,247</u>

See independent auditor's report and accompanying notes to basic financial statements.

MERIT PREPARATORY CHARTER SCHOOL

Statement of Activities

Year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:						
Instruction:						
Regular	\$ 3,913,554	\$ -	\$ 292,173	\$ (3,621,381)	\$ -	\$ (3,621,381)
Administrative & Support services:						
General administration	2,788,874	-	-	(2,788,874)	-	(2,788,874)
Support services	2,560,185	-	155,563	(2,404,622)	-	(2,404,622)
Capital outlay	-	-	-	-	-	-
Unallocated depreciation	55,487	-	-	(55,487)	-	(55,487)
Total governmental activities	<u>9,318,100</u>	<u>-</u>	<u>447,736</u>	<u>(8,870,364)</u>	<u>-</u>	<u>(8,870,364)</u>
Business-type activities:						
Food service	328,253	-	189,568	-	(138,685)	(138,685)
Total business-type activities	<u>328,253</u>	<u>-</u>	<u>189,568</u>	<u>-</u>	<u>(138,685)</u>	<u>(138,685)</u>
Total primary government	<u>\$ 9,646,353</u>	<u>\$ -</u>	<u>\$ 637,304</u>	<u>(8,870,364)</u>	<u>(138,685)</u>	<u>(9,009,049)</u>
General revenues, transfers and special items:						
Local sources				926,957	-	926,957
Federal and State sources				7,369,736	-	7,369,736
Miscellaneous				27,989	-	27,989
Transfers				(138,685)	138,685	-
Total general revenues, transfers and special items				<u>8,185,997</u>	<u>138,685</u>	<u>8,324,682</u>
Change in net position				(684,367)	-	(684,367)
Net position - beginning				832,926	-	832,926
Net position - ending				<u>\$ 148,559</u>	<u>\$ -</u>	<u>\$ 148,559</u>

See independent auditor's report and accompanying notes to basic financial statements.

Funds Financial Statements

Governmental Funds

MERIT PREPARATORY CHARTER SCHOOL
Governmental Funds

B-1

Balance Sheet

June 30, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Totals Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 499,724	\$ (327,961)	\$ 171,763
Restricted cash and cash equivalents	-	-	-
Accounts receivable:	-	-	-
State	383,713	-	383,713
Federal	-	327,961	327,961
Prepaid expenses	-	-	-
Interfund receivable	-	-	-
Total assets	<u>\$ 883,437</u>	<u>\$ -</u>	<u>\$ 883,437</u>
Liabilities and Fund Balances			
Interfund payables	\$ 38,846	\$ -	\$ 38,846
Accounts payables	226,716	-	226,716
Intergovernmental payables - federal	-	-	-
Intergovernmental payables - state	-	-	-
Intergovernmental payables - other	145,525	-	145,525
Deferred revenue	-	-	-
Total liabilities	<u>411,087</u>	<u>-</u>	<u>411,087</u>
Fund balances:			
Restricted for charter school escrow	-	-	-
Unreserved, undesignated	472,350	-	472,350
Total fund balances	<u>472,350</u>	<u>-</u>	<u>472,350</u>
Total liabilities and fund balances	<u>\$ 883,437</u>	<u>\$ -</u>	<u>-</u>

Amounts reported for governmental activities in the statement of net position (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of capital assets	\$ 170,177	
Accumulated depreciation	(170,177)	
	<u>\$ -</u>	-

Deferred Outflows related to pension contributions subsequent to the Net Pension Liability measurement date and other deferred items are not current financial resources and therefore are not reported in the fund statements. (See Note 7) 888,810

Deferred Inflows related to pension actuarial gains from experience and differences in actual return and assumed returns and other deferred items are not reported as liabilities in the fund statements. (See Note 7) (689,359)

Long-term liabilities, including net pension liability, are not due and payable in the current period and therefore are not reported as liabilities in the funds (see Note 7) (523,242)

Net position of governmental activities - A-1 \$ 148,559

See independent auditor's report and accompanying notes to basic financial statements.

MERIT PREPARATORY CHARTER SCHOOL
Governmental Funds

B-2

Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2017

	General Fund	Special Revenue Fund	Total
Revenues:			
Local sources:			
Local tax levy	\$ 926,957	\$ -	\$ 926,957
Miscellaneous	27,989	-	27,989
Total revenues - local sources	954,946	-	954,946
Federal sources	-	447,736	447,736
State sources	7,098,091	-	7,098,091
Reimbursed TPAF-Social Security (non-budgeted)	99,274	-	99,274
TPAF pension and post retirement medical benefits on-behalf payments (non-budgeted)	172,371	-	172,371
Total revenues	8,324,682	447,736	8,772,418
Current expense:			
Instruction	3,621,381	292,173	3,913,554
Administrative	2,570,688	-	2,570,688
Support services	2,265,937	155,563	2,421,500
Capital outlay	55,487	-	55,487
Reimbursed TPAF-Social Security (non-budgeted)	99,274	-	99,274
TPAF pension and post retirement medical benefits on-behalf payments (non-budgeted)	172,371	-	172,371
Total expenditures	8,785,138	447,736	9,232,874
Excess (deficiency) of revenues over (under) expenditures before other financing sources	(460,456)	-	(460,456)
Other financing sources:			
Transfer to cover food deficit	(138,685)	-	(138,685)
Excess (deficiency) of revenues over (under) expenditures after other financing sources	(599,141)	-	(599,141)
Fund balances, beginning of year	1,071,491	-	1,071,491
Fund balances, end of year	\$ 472,350	\$ -	\$ 472,350

See independent auditor's report and accompanying notes to basic financial statements.

MERIT PREPARATORY CHARTER SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended June 30, 2017

B-3

Total net change in fund balances - governmental funds (B-2) \$ (599,141)

Amounts reported for governmental activities in the Statement of Activities (A-2) are different because: -

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expenses in the period. Additionally, in the Statement of Activities gains or (losses) are recognized upon disposition.

	Depreciation expense	\$ (55,487)
	Capital outlays	55,487

-

Pension contributions are reported in governmental funds as expenditures. However, in the statement of activities, the contributions are adjusted for actuarial valuation adjustments, including service and interest costs, administrative costs, investment returns, and experience/assumption. This is the amount by which net pension liability and deferred inflows/outflows related to pension changed during the period.

(85,226)

Change in net position of governmental activities (A-2) \$ (684,367)

See independent auditor's report and accompanying notes to basic financial statements.

Proprietary Funds

MERIT PREPARATORY CHARTER SCHOOL
Proprietary Funds

B-4

Statement of Net Position

June 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$ (101,151)
Accounts receivable:	-
Federal	99,916
State	1,235
Interfund receivable - general fund	-
Total current assets	<u>\$ -</u>

Liabilities

Current liabilities:

Accounts payable	\$ -
Interfund payable - general fund	-
Total current liabilities	<u>\$ -</u>

Net position

Unrestricted	-
Total net position	<u><u>\$ -</u></u>

See independent auditor's report and accompanying notes to basic financial statements.

**MERIT PREPARATORY CHARTER SCHOOL
Proprietary Funds**

B-5

Statement of Revenues, Expenditures and Changes in Net Position

Year ended June 30, 2017

Operating revenues:	
Charges for services:	
Daily sales - nonreimbursable programs	\$ -
Daily sales - reimbursable programs	-
Miscellaneous revenue	-
Total operating revenues	<u>-</u>
Operating expenses:	
Cost of sales - nonreimbursable programs	327,284
Cost of sales - reimbursable programs	-
Salaries	969
Employee benefits	-
Professional /technical service	-
Supplies and materials	-
Depreciation	-
Miscellaneous	-
Total operating expenses	<u>328,253</u>
Operating income (loss)	<u>(328,253)</u>
Nonoperating revenues:	
State sources:	
State School Lunch Program	2,551
Federal sources:	
National School Lunch Program	139,182
National School Breakfast Program	47,835
Federal Snacks Program	-
Total nonoperating revenues	<u>189,568</u>
Net income/(loss) before contributions & transfers	(138,685)
Other financing sources:	
Transfer in/(out) - board contribution	<u>138,685</u>
	<u>138,685</u>
Change in net position	-
Total net position-beginning of year	<u>-</u>
Total net position-end of year	<u><u>\$ -</u></u>

See independent auditor's report and accompanying notes to basic financial statements.

**MERIT PREPARATORY CHARTER SCHOOL
Proprietary Fund**

B-6

Statement of Cash Flows

Year ended June 30, 2017

Cash flows from operating activities

Operating loss	\$ (328,253)
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(30,489)
Due to general fund	97,016
Accounts payable	(22,018)
Net cash provided by operating activities	<u>(283,744)</u>

Cash flows from noncapital financing activities

Cash received from state reimbursements	2,551
Cash received from federal reimbursements	187,017
Operating subsidies and transfers from other funds	138,685
Net cash provided by noncapital financing activities	<u>328,253</u>

Cash flows from investing activities

	-
Net change in cash and cash equivalents	44,509
Cash and cash equivalents, beginning	(145,660)
Cash and cash equivalents, ending	<u><u>\$ (101,151)</u></u>

See independent auditor's report and accompanying notes to basic financial statements.

Fiduciary Funds

**MERIT PREPARATORY CHARTER SCHOOL
Fiduciary Funds**

B-7

Statement of Fiduciary Net Position

June 30, 2017

	<u>Unemployment Insurance Fund</u>	<u>Agency Fund Payroll</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ -	\$ (38,846)	\$ (38,846)
Interfund receivable	-	38,846	38,846
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities and fund balances			
Liabilities:			
Interfund payables	\$ -	\$ -	\$ -
Payroll liabilities	-	-	-
Account payable - due to students group	-	-	-
Total liabilities	<u>-</u>	<u>\$ -</u>	<u>-</u>
Net Position	-		-
Total liabilities and net position	<u>\$ -</u>		<u>\$ -</u>

See independent auditor's report and accompanying notes to basic financial statements.

MERIT PREPARATORY CHARTER SCHOOL
Fiduciary Funds

B-8

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2017

	<u>Unemployment Compensation</u>
Additions:	
Board contributions	\$ -
Employee contributions	32,518
Total additions	<u>32,518</u>
Deductions:	
Unemployment payments	32,518
Total deductions	<u>32,518</u>
Change in net position	-
Net position, beginning	<u>-</u>
Net position, ending	<u><u>\$ -</u></u>

See independent auditor's report and accompanying notes to basic financial statements.

Notes to Basic Financial Statements

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

1 Description of the Charter School District and Reporting Entity

Merit Preparatory Charter School (the “Charter School” was incorporated in the State of New Jersey on January 31, 2012 as a non-for-profit corporation for the purpose of operating and maintaining a public school under a charter granted by the State of New Jersey, which promotes comprehensive educational reform by infusing innovation into the public education system. It is an instrumentality of the State of New Jersey, established to function as an education institution. The Charter School’s Board of Trustees (the Board) is responsible for the fiscal control of the Charter School. A Head of School is appointed by Board and is responsible for the administrative control of the Charter School. Under the existing statutes, the Charter School’s duties and powers include, but not limited to the development and adoption of a school program; the establishment, organization and operation of schools; and the acquisition, maintenance and disposition of school property.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Charter School are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Charter School. For the Charter School, this includes general operations, food service and student related activities of the Charter School.

The primary criterion for including activities within the Charter School’s reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the Charter School. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, and ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the Charter School over which the Board exercises operating control. Based on the aforementioned criteria, the Charter School has no component units to be included in the reporting entity. Further, the Charter School is not includable in any other reporting entity on the basis of such criteria.

The Merit Preparatory Charter School Board of Trustees also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

Its mission is to establish a character school to serve as a neighborhood resource and as a model for other similar schools. The Merit Preparatory Charter School is committed to achieving the New Jersey Core Curriculum Content Standards and producing high academic achievement by all students. The Charter School will integrate a holistic curriculum, utilize learner center techniques, family and care giver centered approaches, comprehensive community involvement, cutting edge technology and an intimate nurturing environment that will enhance positive self-images.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies

This summary of significant accounting policies of Merit Preparatory Charter School is presented to assist in understanding the Charter School's financial statements and notes are a representation of the Charter School's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States as applied to governmental units and have been consistently applied in the preparation of these financial statements.

The financial statements of the Merit Preparatory Charter School (the "Charter School") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Charter School also applies Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless they conflict with or contradict GASB pronouncements. The most significant of the Charter School's accounting policies are described below:

A Basis of Presentation

The Charter School's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Charter School Government-wide Financial Statements

The statement of net position and the statement of activities display information about the Charter School as a whole. These statements include the financial activities of the Charter School, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental and business-type activities of the Charter School at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Charter School's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Charter School, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Charter School.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies - continued

The governmental activities generally are financed through federal and state awards, taxes and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the Charter School are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Charter School. The New Jersey Department of Education (NJDOE) requires that all funds be reported as major, as it is considered important for public interest and to promote consistency among Charter Schools financial reporting in the State of New Jersey.

B Fund Accounting

The Charter School segregates transactions related to certain Charter School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Charter School at a more detailed level.

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Charter Schools' major governmental funds:

General Fund - The General Fund is the primary operating fund of the Charter School. It is used to account for all financial resources except those that are legally or administratively required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment which are classified in the Capital Outlay sub-fund.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies - *continued*

As required by the New Jersey Department of Education, the Charter School included budgeted capital outlay in this fund. Generally accepted accounting principles as they pertain to governmental entities state that General Fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Resources for budgeted capital outlay purposes are normally derived from State of New Jersey aid and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings, improvements of ground, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to current expense by board resolution.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue from State and Federal Government, (other than major Capital Projects, Debt Service or the Enterprise Funds) and local appropriations that legally restricted to expenditures for specified purposes.

Capital Projects Fund - The Capital Projects Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election. *As of June 30, 2017 there was no Capital Projects Fund.*

Proprietary Funds

The focus of Proprietary Funds' measurement is upon determination of net income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those to similar to business in the private sector. The following is a description of the Proprietary Funds of the Charter School:

Enterprise Funds - The Enterprise Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the Charter School is that the cost (i.e. expenses including depreciation and indirect costs) of providing goods and services to the students on a continuing basis be financed or recovered primarily through user charges; or where the Charter School has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies - *continued*

All proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and unreserved retained earnings, if applicable. Proprietary fund type operating statements present increases (revenue) and decreases (expenses) in net total assets.

Fiduciary Funds

Fiduciary or trust and Agency Funds are used to account for assets held by the Charter School in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. This fund category includes:

Trust Funds - Expendable Trust Funds (unemployment compensation) are accounted for in essentially the same manner as the governmental funds. The unemployment compensation trust fund is used to account for contributions from employees and the employer (the Charter School) and interest earned on the balance as well as payments to the State for reimbursements of unemployment claims.

Agency Funds – Agency funds (*Payroll, Health Benefits and Student Activity Fund*) are used to account for the assets that the Charter School holds on behalf of others as their agent. Agency funds are custodial in nature and do not involved measurement of results of operations.

C Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. ***Basis of accounting*** refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide statements of net position and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statement of these funds present increases (i.e., revenues and other financing sources), and decreases (i.e. Expenditures and other finances uses) during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies - *continued*

All proprietary funds are accounted for on a flow economic resources measurement focus. With this measurement focus, the accounting objectives are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flow. All assets and all liabilities, whether current or non-current, associated with their activities are included on the balance sheet. Fund equity (i.e., net total assets) is classified as net position.

Basis of Accounting

In the government wide statement of net position and statements of activities, both governmental and business like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized when the liability, resulting from exchange and exchange like transactions, is incurred (i. e the exchange takes place).

In the fund financial statements, governmental fund and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determine and “available” means collectible with the current period or soon enough thereafter to be used to pay liabilities of the current period. State equalization monies are recognized as revenue during the period in which they are appropriated. A one-year availability period is used for revenue recognition for all other governmental funds revenues.

D Budgets/Budgetary Control

Annual appropriated budgets are prepared in the spring of each year for the general and special revenue fund. The budgets are submitted to the County Office and the Education Commissioner for approval. Budgets except for the special revenue fund which is prepared using a non-GAAP budgetary basis, are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1. Transfers of appropriations may be made by Charter School Board resolution at any time during the fiscal year subject to the limitation of P.L. 2004 c73 (S1701). The Board of Trustees did not make any material supplemental budgetary appropriations during the fiscal year.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles, with the exception of the Special Revenue Fund as noted below.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies - *continued*

Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental funds types. Unencumbered appropriations lapse at fiscal year end.

The accounting records of the special revenue fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognized encumbrances as expenditures and also recognized the related revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow of the presentation of GAAP basis financial reports.

E Cash, Cash Equivalent and Investments

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investment with a maturity of three months or less at the time of purchases and are stated at cost plus accrued interest. US Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchases are stated at cost. All other investments are stated at fair value.

New Jersey Charter Schools are limited as to the types of the investments and types of financial institution they may invest in. New Jersey statute 18A:20-37 provides a list of permissible investment that may be purchased by New Jersey Charter Schools.

Additionally, the Charter School has adopted a cash management plan that requires it to deposit public fund in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect Governmental Units from loss funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-41 et. seq. established the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan Institutions, bank (both state and national banks) and saving bank the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposit of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies - *continued*

F Short-Term Interfund Receivables/Payables

On the fund financial statement, receivable and payables resulting from short-term (due within one year) interfund loans are classified as interfund receivable/payable. Interfund balances within governmental activities and within business-type activities are eliminated on the Government Wide Statements of Net Position.

G Inventories and Prepaid Expenses

Inventories and prepaid expenses, which benefit future periods, other than those recorded in the enterprise fund are recorded as expenditure during the year of purchase. Inventories in the proprietary funds are valued at cost, which approximates market, using the first-in-first-out (FIFO) method.

H Capital Assets

Capital assets, which include leasehold improvements, equipment, furniture & fixtures and vehicles are reported in the applicable governmental or business-type activities columns of the Government-wide financial statements. Capital assets are defined by the Charter School as assets with initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or through estimation procedures performed by an independent appraisal company.

The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend the assets lives are not capitalized. Donated capital assets are capitalized at estimated fair market value on the date donated. Depreciation of capital assets is computed and recorded by the straight-line method.

<u>Description of Capital Asset</u>	<u>Estimated Lives (Years)</u>
Leasehold improvements	15 or Lease Term
	Whichever is Shorter

I Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on specific event that is outside the control of the Charter School and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on specific event that is outside the control of the Charter School and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies - *continued*

For governmental fund financial statements, the current portion of unpaid compensated absences is in the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

The entire sick leave and vacation leave liabilities are reported on the school-wide financial statements.

The Charter School had no compensated absences as of June 30, 2017.

J Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, the non-current portion of compensated absences and mortgage payable (if any) that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are normally expected to be paid with expendable, available financial resources.

K Deferred Revenue

Deferred revenue in special revenue fund represent cash that has been received but not yet earned.

L Fund Balance and Equity

In February 2009, the GASB issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (“GASB 54”). GASB 54 is effective for periods beginning after June 15, 2011 and establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which government is bound to observe constraints imposed upon the use of resources reported in governmental funds. Under GASB 54, fund balances in the governmental funds financial statements are reported under the modified accrual basis of accounting and classified into the following five categories, as defined below:

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies - *continued*

1. Nonspendable – includes amounts that cannot be spent because they either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Assets included in this fund balance category include prepaid assets, inventories, long-term receivables, and corpus of any permanent funds.
2. Restricted – includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. Committed – includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.
4. Assigned – amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.
5. Unassigned – includes all spendable amounts not contained in the other classifications.

When both restricted and unrestricted resources are available for use, it is the Charter School’s policy to use restricted resources first, then unrestricted resources as they are needed. For the unrestricted fund balance, the Charter School first spends committed funds, then assigned funds, and finally, unassigned funds.

M Net Position

Net Position represent the difference between assets and liabilities in the Government-wide financial statements. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position are reported as restricted in the Government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

N Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the recorded amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

2 Summary of Significant Accounting Policies - *continued*

O On-Behalf Payments

Revenues and expenditures of the General Fund include payment made by the state of New Jersey for Pension and social security contributions for certified teacher members of the New Jersey Teachers' Pension and Annuity Fund. The amounts are not required to be included in the Charter School's annual budget.

P New Accounting Standards

During the previous fiscal year ended June 30, 2016, the Charter School adopted the following GASB statements:

GASB 68, *Accounting and Financial Reporting for Pensions* The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68*, should be applied simultaneously with the provisions of Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

3 Deposits and Investments

New Jersey statutes require that Charter Schools deposit public funds in public depositories located in New Jersey that are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories.

Charter schools are also permitted to deposit public funds in the State of New Jersey Cash Management Fund (NJCMF), the New Jersey Arbitrage Rebate Management Fund (NJARM) and the M.B.I.A Class. New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows: The market value of the collateral must equal at least 5% of the average daily balance of collected funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%. All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

The Charter School’s cash and cash equivalents are classified below to inform financial statement users about the extent to which the Charter School’s deposits and investments are exposed to custodial credit risk. As of June 30, 2017, the Charter School’s carrying amount of deposits and investments are as follows:

	General Fund	Special Revenue	Enterprise Funds	Agency Funds	Total
Cash balance	\$ 499,724	\$ (327,961)	\$ (101,151)	\$ (38,846)	\$ 31,766
Restricted-Escrow	-	-	-	-	-
Total	<u>\$ 499,724</u>	<u>\$ (327,961)</u>	<u>\$ (101,151)</u>	<u>\$ (38,846)</u>	<u>\$ 31,766</u>

Operating cash accounts are held in the Charter School’s name by one banking institution. At June 30, 2017, the Charter School’s carrying amount of deposits was \$31,766 and the bank balance was \$264,025. Of the bank balance, up to a maximum of \$250,000 of the Charter School’s cash deposits on June 30, 2017 were secured by federal deposit insurance and \$14,025 was covered by a collateral pool maintained by the bank as required by New Jersey statutes in accordance with the New Jersey Governmental Unit Deposit Protection Act (“GUDPA”).

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

3 Deposits and Investments - *continued*

GASB Statement No. 40 requires that the Charter School disclose whether its deposits are exposed to custodial risk (risk that in the event of failure of the counterparty, the Charter School would not be able to recover the value of its deposit or investment). In general deposits are considered to be exposed to custodial risk by three categories described below:

Category 1

Insured or collateralized with securities held by the Charter School or by its agent in the Charter School's name.

Category 2

Collateralized with securities held by the pledging public depository's trust department or agent in the Charter School's name.

Category 3

Uncollateralized, including any deposits that are collateralized with securities held by the pledging public depository, or by its trust department or agent, but not in the Charter School's name.

The Charter School does not have a policy for the management of the custodial risk, other than depositing all of its funds in banks covered by GUDPA.

Investments

New Jersey statutes permit the Charter School to purchase the following types of securities:

1. Bonds or other obligations of the United States or obligations guaranteed by the United States.
2. Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal national Mortgage Agency or of any United States Bank for Cooperatives which have a maturity date not greater than twelve months from the date of purchase.
3. Bonds or other obligations of the Charter School.
4. New Jersey Cash Management Fund, New Jersey Arbitrage Rebate Management Fund and MBIA CLASS.

As of June 30, 2017, the Charter School did not hold any investments.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

4 Capital Assets

The following schedule is a summarization of the governmental activities changes in capital assets for the year ended June 30, 2017:

Governmental activities	Beginning Balance	Net Additions (Deletions)	Ending Balance
Capital assets, being depreciated:			
Leasehold improvements	\$ 114,690	\$ 55,487	\$ 170,177
Less accumulated depreciation for:			
Leasehold improvements	(114,690)	(55,487)	(170,177)
 Total capital assets net	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>

Depreciation expense of \$55,487 was charged to an unallocated function.

5 Lease Obligations

Facilities Lease

The Charter School leases its facilities under the following operating lease agreement:

909 Broad Street, Newark, New Jersey – a four year lease through June 30, 2016 with extension options. There is no evidence that the extension options were exercised by the Charter School. The amount paid under this lease for the year ended June 30, 2017 was \$986,503.

Equipment Lease

The Charter School leases several office equipment items under operating lease agreements. For the year ended June 30, 2017, the Charter School incurred \$37,710 in equipment lease expenditures.

As a result of the Charter revocation effective June 30, 2017, all leases (rental and equipment) were terminated as of that date. Therefore, there were no future minimum lease payments required under the operating leases:

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

5 Lease Obligations - continued

Year ending June 30:	Space Lease	Copier Lease	Total
2018-2022	\$ -	\$ -	\$ -
Thereafter	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

6 Pension Plans

Description of Plans

Substantially all of the employees of the Charter School are covered by either the Public Employee's Retirement System or the Teacher's Pension and Annuity Fund (both of which are contributory defined benefits plans). Both were established by state statute and are administered by the New Jersey Division of Pension and Benefit (Division). According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirements System and the Teacher's Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

Teachers' Pension and Annuity Fund (TPAF)

The Teachers' Pension and Annuity Fund was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirements health care to substantially all full time certified teachers or professional staff of the public school systems in the State. The Teacher's Pension and Annuity Fund is considered a cost-sharing multiple-employer plan with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the Charter School and the systems other related non-contributing employers. Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

6 Pension Plans - *continued*

Public Employees' Retirement System (PERS)

The Public Employees' Retirement Systems (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county municipality, Charter School, or public agency provided the employee is not a member of another state-administered retirement system. The public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full time employees of the State of New Jersey or any county, municipality, Charter School, or public agency, provided the employee is not required to be a member of another state administered retirement system or other state or local jurisdiction.

Defined Contribution Retirement Program (DCRP)

The Defined Contribution Retirement Program (DCRP) was established under the provision of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one year of membership.

Vesting and Benefit Provisions

The vesting and benefit provisions for PERS are set by N.J.S.A 43:15a and 4303B and N.J.S.A. 18A: for TPAF. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determine to be 1/55 of the final average salary for each year of service credit as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The TPAF and PERS provides for specified medical benefits for member who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the member's accounts.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

6 Pension Plans - *continued*

Significant Legislation

Effective June 28, 2011, P.L. 2011, c. 78 enacted certain changes in the operations and benefit provisions of the TPAF and the PERS systems.

Pension Plan Design Changes

Effective June 28, 2011, P.L. 2011, c. 78, new members of TPAF and PERS, hired on or after June 28, 2011, will need 30 years of creditable service and have attained the age of 65 for receipt of the early retirement benefit without a reduction of 1/4 of 1% for receipt of the early retirement benefit without a reduction of 1/4 of 1% for each month that the member is under age 65. New members will be eligible for a service retirement benefit at age 65.

Funding Changes

Under the new legislation, the methodology for calculating the unfunded accrued liability payment portion of the employer's annual pension contribution to the PERS, and TPAF. The unfunded actuarial accrued liability (UAAL) will be amortized for each plan over an open-ended 30 year period and paid in level dollars. Beginning with the July 1, 2019 actuarial valuation (July 1, 2018 for PERS), the UAAL will be amortized over a closed 30 year period until the remaining period reaches 20, when the amortization period will revert to an open-ended 20 year period.

COLA Suspension

The payment of automatic cost-of-living adjustment to current and future retirees and beneficiaries are suspended until reactivated as permitted by this law.

Contribution Requirements

The contribution policy is set by N.J.S.A. 43:15A and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation.

Effective June 28, 2011, P.L. 2001, c. 78 provides for increases in the employee contribution rates: from 5.5% to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year, meaning after 12 months, after the law's effective date for TPAF and PERS.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

6 Pension Plans - *continued*

Contribution Requirements - *continued*

Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, non-contributory death benefits, and post-retirement medical premiums. Under current statute the charter school is a non-contributing employer of TPAF (i.e., the State of New Jersey makes the employer contribution on behalf of public school districts and charter school).

Annual Pension Costs (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2017 for TPAF, which is a cost sharing plan with special funding situations, annual pension cost differs from the annual required contribution. For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contributions made. TPAF employer contributions are made annually by the State of New Jersey to the pension system on behalf of the Charter School.

PERS employer contributions are made annually by the Board to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

The Charter School's contribution to PERS for the year ended June 30, 2017 was \$16,230.

In accordance with N.J.S.A 18A:66-66 the State of New Jersey reimbursed the Charter School \$99,274 during the year ended June 30, 2017 for the employer's share of social security contributions for TPAF members, as calculated on their base salaries. Also, the State paid \$172,371 into the TPAF pension representing on-behalf employer's portion of the TPAF Pension System Contributions, TPAF Post-Retirement Medical Benefits Contributions and TPAF Long-Term Disability Insurance Premium Contributions. These amounts have been included in the school wide financial statements and the fund financial statements as a revenue and expenditure in accordance with GASB No. 24.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures

Teachers' Pension and Annuity Fund (TPAF)

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Pension and Annuity Fund (TPAF) and additions to/deductions from the TPAF's fiduciary net position have been determined on the same basis as they are reported by the TPAF.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

The employer contributions for the Charter School are legally required to be funded by the State in accordance with N.J.S.A 18:66-33. Therefore, the Charter School (employer) is considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a non-employer contributing entity. Since the Charter School (employer) does not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the Charter School. However, the state's portion of the net pension liability that was associated with the Charter School was \$2,389,286 as measured on June 30, 2016 and \$-0- as measured on June 30, 2015, respectively.

For the year ended June 30, 2017, the Charter School recognized pension expense of \$179,522 and revenue of \$179,522 for support provided by the State. The measurement period for the pension expense and revenue reported in the Charter School's financial statements (A-2) at June 30, 2017 is based upon changes in the collective net pension liability with a measurement period of June 30, 2015 through June 30, 2016. Accordingly, the pension expense and the related revenue associated with the support provided by the State are based upon the changes in the collective net pension liability between July 1, 2015 and June 30, 2016.

Although the Charter School does not report net pension liability or deferred outflows or inflows related to the TPAF, the following schedule illustrates the collective net pension liability and deferred items and the State's portion of the net pension liability associated with the Charter School. The collective amounts are the total of all New Jersey local governments participating in the TPAF plan.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures - *continued*

Teachers' Pension and Annuity Fund (TPAF) - *continued*

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension - continued

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Collective deferred outflows of resources	\$ 17,414,701,002	\$ 7,521,378,257
Collective deferred inflows of resources	\$ 134,532,594	\$ 554,399,005
Collective net pension liability (non-employer State of New Jersey)	\$78,666,367,052	\$63,204,270,305
State's portion of the net pension liability that was associated with the Charter School	\$ 2,389,286	\$ -
State's portion of the net pension liability that was associated with the Charter School as a percentage of the collective net pension liability	0.003037%	0.000000%

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	2.5%
Salary increases: 2012-2021	Varies based on experience
Salary increases: thereafter	Varies based on experience
Investment rate of return	7.65%

Pre-retirement, post retirement and disabled mortality rates were based on the experience of TPAF members reflecting mortality improvement on a generational basis based on a 60-year average of Social Security data from 1953 to 2013.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures - *continued*

Teachers' Pension and Annuity Fund (TPAF) - *continued*

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
US Cash	5.00%	0.39%
US Government Bonds	1.50%	1.28%
US Credit Bonds	13.00%	2.76%
US Mortgages	2.00%	2.38%
US Inflation-Indexed Bonds	1.50%	1.41%
US High Yield Bonds	2.00%	4.70%
US Equity Market	26.00%	5.14%
Foreign-Developed Equity	13.25%	5.91%
Emerging Market Equities	6.50%	8.16%
Private Real Estate Property	5.25%	3.64%
Timber	1.00%	3.86%
Farmland	1.00%	4.39%
Private Equity	9.00%	8.97%
Commodities	0.50%	2.87%
Hedge Funds - MultiStrategy	5.00%	3.70%
Heage Funds - Equity Hedge	3.75%	4.72%
Hedge Funds - Distressed	3.75%	3.49%

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures - *continued*

Teachers' Pension and Annuity Fund (TPAF) - *continued*

Discount Rate

The discount rate used to measure the State's total pension liability was 3.22% and 4.13% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers (State of New Jersey) will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2029. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2029, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Charter School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Since the Charter School's has no proportionate share of the net pension liability because of the special funding situation, the Charter School would not be sensitive to any changes in the discount rate. Detailed information about the pension plan's sensitivity of the collective net pension liability to changes in the discount rate is available in the separately issued State of New Jersey Divisions of Pensions and Benefits financial report at: <http://www.nj.gov/treasury/pensions/pdf/financial/gasb68-tpaf17.pdf>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Divisions of Pensions and Benefits financial report at: <http://www.nj.gov/treasury/pensions/financial-rprts-home.shtml>.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures - *continued*

Public Employees' Retirement System (PERS)

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2017, the Charter School reported a liability of \$523,242 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2015. The Charter School's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2016 and 2015. At June 30, 2016, the Charter School's proportion was 0.0017666876% which was a decrease from its proportion measured as of June 30, 2015 which was 0.0059967538%.

For the year ended June 30, 2017, the Charter School recognized pension expense of \$100,921. At June 30, 2017, the Charter School reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures - continued

Public Employees’ Retirement System (PERS) - continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension - continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,731	\$ -
Changes in assumptions	108,388	-
Net difference between projected and actual earnings on pension plan investments	19,952	-
Changes in proportion and differences between Charter School's contributions and proportionate share of contributions	-	-
Charter School's contributions subsequent to the measurement date	750,739	689,359
	16,230	-
Total	\$ 905,040	\$ 689,359

\$16,230 reported as deferred outflows of resources related to pensions resulting from school Charter School contributions subsequent to the measurement date (i.e. for the school year ending June 30, 2017, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net pension liability measured as of June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	Pension Expense
2017	\$ 44,905
2018	44,905
2019	52,023
2020	43,707
2021	13,911
Thereafter	-
	\$ 199,451

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures - continued

Public Employees’ Retirement System (PERS) - continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension - continued

	June 30, 2016	June 30, 2015
Collective deferred outflows of resources	\$ 8,685,338,380	\$ 3,578,755,666
Collective deferred inflows of resources	\$ 870,133,595	\$ 993,410,455
Collective net pension liability (Non-State Local Group)	\$ 29,617,131,759	\$ 22,447,996,119
Charter School's portion of the net pension liability	\$ 523,242	\$ 1,346,151
Charter School's proportion (percentage)	0.00176669%	0.00599675%

Actuarial Assumptions

The collective total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions:

Inflation rate	3.08%
Salary increases: through 2026	1.65-4.15% based on age
Salary increases: thereafter	2.65-5.15% based on age
Investment rate of return	7.65%

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary’s modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set-back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary’s modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures - *continued*

Public Employees’ Retirement System (PERS) - *continued*

Long-Term Expected Rate of Return

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements. In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS’s target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	50.00%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures - *continued*

Public Employees’ Retirement System (PERS) - *continued*

Discount Rate

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034.

Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Charter School’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Charter School’s proportionate share of the net pension liability measured as of June 30, 2016 and 2015, respectively, calculated using the discount rate of 3.98% and 4.90%, respectively, as well as what the Charter School’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

7 Pension Plans – GASB 68 Disclosures - continued

Public Employees’ Retirement System (PERS) - continued

Sensitivity of the Charter School’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - continued

	2016		
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Charter School's proportionate share of the pension liability	\$ 641,172	\$ 523,242	\$ 425,881
	2015		
	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
Charter School's proportionate share of the pension liability	\$ 1,673,101	\$ 1,346,151	\$ 1,072,039

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued State of New Jersey Divisions of Pensions and Benefits financial report at: <http://www.nj.gov/treasury/pensions/financial-rprts-home.shtml>

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

8 Post Retirement Benefits

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those state employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired state employees and retired educational employees.

As of June 30, 2016, there were 110,512 retirees receiving post-retirement medical benefits, and the State contributed \$1.37 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to P.L. 1992, c.126, which provides employer paid health benefits to members of PERS and the Alternate Benefit Program (APB) who retired from a board of education or county college with 25 years of service. The State paid \$231.2 million toward Chapter 126 benefits for 20,045 eligible retired members in Fiscal Year 2016.

9 Compensated Absences

The Charter School accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "Accounting for Compensated Absences".

A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Charter School employees are granted varying amounts of vacation and sick leave in accordance with the Charter School's personnel policy. The Charter School's policy permits employees to accumulate unused sick and personal days and carry forward the full amount to subsequent years. Upon termination or upon retirement, employees are currently not paid for accrued vacation or unused sick and personal days. The Board of the Charter School is currently reviewing the exiting compensated absences policies with the intent of addressing the issues of accumulation and payments upon termination.

As of June 30, 2017, Charter School-wide compensated absences amounted to \$-0-

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

10 Deferred Compensation

The Charter School was in the process of offering its employees a choice of deferred compensation plans created in accordance with Internal Revenue Section 403(b). However, it should be noted that the school's charter was revoked as of June 30, 2017.

11 Economic Dependency

The Charter School receives a substantial amount of its support from federal and state governments. A significant reduction in the level of support, if it were to occur, could have an effect on the Charter School's programs and activities. The school's charter was revoked during the year ended June 30, 2017 effective as of that date.

12 Contingent Liabilities

The Charter School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Charter School may be required to reimburse the grantor government. As of June 30, 2017, significant amounts of grant expenditures have not been audited by the various grantor agencies but the Charter School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the Charter School.

The Charter School's attorney's letter advises that there were no litigation, pending litigation claims, contingent liabilities, unasserted claims for assessments or statutory violations which involved the Charter School and which might materially affect the Charter School's financial position.

13 Risk Management

The Charter School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance - The Charter School maintains commercial insurance coverage for property, liability and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section (UNAUDITED) of this Comprehensive Annual Financial Report.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

14 Management Agreement – Touchstone Education, Inc. and Assignment of Contract to Matchbook Learning Solutions, Inc.

A Network Services Agreement (the “Agreement”) was executed on July 1, 2012 by the Charter School and Touchstone Education, Inc. (“Touchstone”), a Pennsylvania non-profit corporation. The terms of the Agreement included a stipulation that the Charter School will utilize the Touchstone Method to deliver the educational program of the school. Touchstone annual fee is equal to 15% of ‘reliable’ annual public entitlement aid, including state, local, and federal funding.

On June 30, 2014 (previous year), Touchstone assigned all of its right, title and interest in and duties under the Agreement to Matchbook Learning Solutions, Inc., a Georgia non-profit corporation. During the year ended June 30, 2017, Matchbook was paid a total of \$992,361 in fees and other charges.

15 Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2017 is as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 38,846
Special Revenue Fund	-	-
Enterprise Fund	-	-
Trust and Agency Fund	38,846	-
	\$ 38,846	\$ 38,846

The above balances are the results of revenues earned or other financing sources received in one fund which are due to another fund and/or expenditures paid by one fund on behalf of another fund and/or to cover cash balances which were in negative position. Liquidation of this interfund balances is expected within the next fiscal year.

16 Receivables

Receivables as of June 30, 2017 consisted of accounts, intergovernmental, grants and miscellaneous items. All receivables are considered collectible in full. A summary of the principal items of intergovernmental and other receivables are as follows:

State aid	\$ 384,948
Federal aid	427,877
Other	-
Total receivables	\$ 812,825

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

17 Subsequent Events

The Charter School has evaluated all subsequent events occurring through the date of the independent auditor's report which is the date the financial statements were available to be issued. Based on this evaluation, the Charter School has determined that no subsequent events require disclosure in the financial statements except the following:

Pursuant to New Jersey statutes and as a consequence of the charter revocation (discussed in Note 19), the Charter School appointed an independent Dissolution Trustee and the appointment was approved by the New Jersey Department of Education. Subsequent to year end, the Trustee has been working with the Board of the Charter School and the NJDOE in winding down the affairs of the Charter School including orderly liquidation of outstanding liabilities, collection of all receivables and sale of inventory of assets.

The Dissolution Trustee arranged for the auction sale of the Charter School's inventory of furniture, computers and other supplies. The proceeds were received after June 2017.

18 Fund Balance Appropriated – General Fund (Exhibit B- 1)

Of the \$472,350 General Fund balance at June 30, 2017, \$-0- is reserved. \$472,350 is unreserved and undesignated.

19 Revocation of Charter

The Charter School opened its doors in 2012 primarily to the students of City of Newark in New Jersey. It was in its fifth year of operation during the year ended June 30, 2017.

In the prior year ended June 30, 2016, (as of February 29, 2016), New Jersey Department of Education (NJDOE) granted the Charter School a "conditional" charter renewal for another five-year term through the 2020-2021 school-year. The Charter School was originally placed on academic probation on February 26, 2015 due to unsatisfactory academic performance on the PARCC examinations in 2014 school year as noted by NJDOE. As a condition of probation, the Charter School submitted a remedial plan to NJDOE on March 19, 2015. The Charter School then partnered with Matchbook Learning (a management company) to assemble new leadership and turn the school around. NJDOE determined that the Charter School was working to implement its comprehensive remedial plan to address the concerns regarding its academic performance. The probationary period was extended through February 28, 2017 to give the Charter School enough time to demonstrate not only effective implementation of the remedial plan but demonstrable growth on state assessment data.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to the Basic Financial Statements
Year Ended June 30, 2017

19 Revocation of Charter - *continued*

By its letter dated February 28, 2017, NJDOE noted that the Charter School had previously been placed on probation for academic issues on two separate occasions. The letter further noted that the school's academic outcomes had been dismal, with little progress made towards student achievements.

The letter concluded that after a thorough and rigorous review of student achievement data and the school's operations, Merit Prep Charter School had not met the standard for renewal. Merit Prep Charter School was directed to cease operations as of June 30, 2017.

20 Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Fund Balance Sheet (B-1) and the Government-wide Statement of Net Position (A-1).

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the Government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including deferred pension liability are not due and payable in the current period and therefore are not reported in the funds. The reconciliation is as follows:

Fund balance per B-1	\$ 472,350
Capital net assets	-
Pension deferred outflows	888,810
Pension deferred inflows	(689,359)
Deferred pension liability as of June 30, 2017	(523,242)
Net position (per A-1) as of June 30, 2017	<u>\$ 148,559</u>

Required Supplementary Information

Part II

Budgetary Comparison

**MERIT PREPARATORY CHARTER SCHOOL
General Fund**

C-1

Budget Comparison Schedule

Year ended June 30, 2017

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Revenues					
Local Sources:					
Local tax levy	\$ 926,957	\$ -	\$ 926,957	\$ 926,957	\$ -
Miscellaneous	-		-	27,989	27,989
Total revenues -local sources	926,957	-	926,957	954,946	27,989
State sources:					
State aid	7,098,091	-	7,098,091	7,098,091	-
Reimbursed TPAF-Social Security (non-budgeted)	-	-	-	99,274	99,274
TPAF pension and post retirement medical	-	-	-	-	-
benefits on-behalf payments (non-budgeted)	-	-	-	172,371	172,371
	7,098,091	-	7,098,091	7,369,736	271,645
Total revenues	8,025,048	-	8,025,048	8,324,682	299,634
Expenditures					
Current expense:					
Instruction					
Salaries of teachers	1,741,347	\$ (122,200)	1,619,147	1,619,147	-
Other salaries for instruction	716,050	(350,416)	365,634	365,634	-
Purchased professional technical services	885,983	37,374	923,357	923,357	-
Other purchased services	65,000	52,456	117,456	117,456	-
General educational supplies	127,926	373,508	501,434	501,434	-
Textbooks	-	-	-	-	-
Miscellaneous expenses	11,900	82,453	94,353	94,353	-
	3,548,206	73,175	3,621,381	3,621,381	-

**MERIT PREPARATORY CHARTER SCHOOL
General Fund**

C-1

Budget Comparison Schedule

Year ended June 30, 2017

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Administrative cost:					
Salaries	987,128	25,734	1,012,862	1,012,862	-
Total benefit costs	1,253,118	(575,074)	678,044	638,653	39,391
Professional /Technical service	577,877	118,246	696,123	713,311	(17,188)
Other purchased services	-	13,982	13,982	13,982	-
Communications and Telephones	85,135	(17,397)	67,738	67,738	-
Supplies and materials	28,800	29,980	58,780	58,780	-
Miscellaneous expenses	14,400	50,962	65,362	65,362	-
	<u>2,946,458</u>	<u>(353,567)</u>	<u>2,592,891</u>	<u>2,570,688</u>	<u>22,203</u>
Support services:					
Salaries	241,250	23,066	264,316	264,316	-
Purchased prof/tech service	33,500	109,637	143,137	143,137	-
Other purchased services	117,804	177,264	295,068	295,068	-
Rent on land and buildings	1,091,384	(104,881)	986,503	986,503	-
Insurance-fidelity, liability property	55,000	(16,153)	38,847	38,847	-
Supplies and materials	15,000	24,873	39,873	39,873	-
Energy & Utilities	235,608	(103,240)	132,368	132,368	-
Miscellaneous expenses	-	-	-	-	-
Transportation other than to/from school	10,000	355,825	365,825	365,825	-
Total support services	<u>1,799,546</u>	<u>466,391</u>	<u>2,265,937</u>	<u>2,265,937</u>	<u>-</u>

**MERIT PREPARATORY CHARTER SCHOOL
General Fund**

C-1

Budget Comparison Schedule

Year ended June 30, 2017

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Capital outlay:					
Instructional equipment	350,000	(350,000)	-	-	-
Non-instructional equipment	-	-	-	-	-
Purchase land/improvements	18,750	36,737	55,487	55,487	-
Lease purchased agreement - principal	-	-	-	-	-
Total capital outlay	<u>368,750</u>	<u>(313,263)</u>	<u>55,487</u>	<u>55,487</u>	<u>-</u>
Reimbursed TPAF-Social Security (non-budgeted)	-	-	-	99,274	(99,274)
TPAF pension and post retirement medical	-	-	-	-	-
benefits on-behalf payments (non-budgeted)	-	-	-	172,371	(172,371)
Total expenditures	<u>8,662,960</u>	<u>(127,264)</u>	<u>8,535,696</u>	<u>8,785,138</u>	<u>(249,442)</u>
Excess (deficiency) of revenues over (under) expenditures before other financing sources	(637,912)	127,264	(510,648)	(460,456)	549,076
Other financing sources:					
Transfer to cover food deficit	(11,421)	(127,264)	(138,685)	(138,685)	-
Excess (deficiency) of revenues over (under) expenditures before other financing sources	(649,333)	-	(649,333)	(599,141)	549,076
Fund balances, beginning of year	<u>1,071,491</u>	<u>-</u>	<u>1,071,491</u>	<u>1,071,491</u>	<u>-</u>
Fund balances, end of year	<u>\$ 422,158</u>	<u>\$ -</u>	<u>\$ 422,158</u>	<u>\$ 472,350</u>	<u>\$ 549,076</u>

**MERIT PREPARATORY CHARTER SCHOOL
Special Revenue Fund**

C-2

**Budget Comparison Schedule
Budgetary Basis
Year ended June 30, 2017**

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
Revenues					
Federal sources	\$ 712,524	\$ -	\$ 712,524	\$ 447,736	\$ 264,788
Local sources	-	-	-	-	-
Total revenues -all sources	<u>712,524</u>	<u>-</u>	<u>712,524</u>	<u>447,736</u>	<u>264,788</u>
Expenditures					
Current Expenditures:					
Instruction:					
Salaries of teachers	476,570	-	476,570	292,173	184,397
Purchased Prof. and technical services	-	-	-	-	-
Other purchased services	-	-	-	-	-
General supplies	-	-	-	-	-
Miscellaneous expenditures	-	-	-	-	-
Total instruction	<u>476,570</u>	<u>-</u>	<u>476,570</u>	<u>292,173</u>	<u>184,397</u>
Support services					
Support services salaries	-	-	-	-	-
Employee benefits	123,956	-	123,956	86,585	37,371
Purchased professional services	108,177	-	108,177	68,978	39,199
Other purchased services	3,821	-	3,821	-	3,821
Supplies	-	-	-	-	-
Miscellaneous expenditures	-	-	-	-	-
Total support services	<u>235,954</u>	<u>-</u>	<u>235,954</u>	<u>155,563</u>	<u>80,391</u>
Capital Outlay:					
Facilities acquisition and construction services					
Instructional equipment	-	-	-	-	-
Noninstructional equipment	-	-	-	-	-
Construction services	-	-	-	-	-
Total facilities acquisition and construction services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 712,524</u>	<u>\$ -</u>	<u>\$ 712,524</u>	<u>\$ 447,736</u>	<u>\$ 264,788</u>

Notes to Required Supplementary Information

MERIT PREPARATORY CHARTER SCHOOL
Note to Required Supplementary Information
Budget to GAAP Reconciliation

C-3

Year ended June 30, 2017

		General Fund	Special Revenue Fund
Sources/inflows of resources			
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule:	[C-1] [C-2]	\$ 8,324,682	\$ 447,736
Difference - budget to GAAP: Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	[B-2]	\$ 8,324,682	\$ 447,736
Uses/outflows of resources			
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	[C-1] [C-2]	\$ 8,785,138	\$ 447,736
Differences - budget to GAAP Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.			-
Transfers to and from other funds are presented as outflows of budgetary resources but are not expenditures for financial reporting purposes. Net transfer (outflows) to general fund		-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	[B-2]	\$ 8,785,138	\$ 447,736

Note 1) The general fund budget basis of the use/outflow of resources is GAAP, therefore no reconciliation is required.

MERIT PREPARATORY CHARTER SCHOOL

Schedule of the Charter School's Proportionate Share of the Net Pension Liability - PERS
Last Four Fiscal Years

	Fiscal Year Ended June 30,			
	2016	2015	2014	2013
Charter School's proportion of the net pension liability (assets)	0.0017666876%	0.0059967538%	0.0000000000%	0.0000000000%
Charter School's proportionate share of the net pension liability (assets)	523,242	1,346,151	-	-
Charter School's covered employee payroll	\$ 331,776	\$ 103,575	\$ 195,466	\$ -
Charter School's proportionate share of the net pension liability (assets) as a percentage of its covered employee payroll	157.71%	1299.69%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability - local	40.14%	47.93%	52.08%	48.72%

NOTE:

While the Charter School implemented the GASB 68 Pension disclosure during the year ended June 30, 2015, the pension reports provided by the New Jersey Division of Pension did not include the proportional share of the Charter School's liabilities for 2013 and 2014. This is because the Charter School was opened in 2012-2013 school-year and was therefore about four years in the plan. The liabilities information became available starting from 2015.

Note

Until a full ten year trend is compiled, information will be presented for those years for which information is available.

MERIT PREPARATORY CHARTER SCHOOL

Schedule of the Charter School's Contributions - PERS
Last Four Fiscal Years

	Fiscal Year Ended June 30,			2013
	2016	2015	2014	
Contractually required contribution	\$ 16,230	\$ 51,556	\$ -	\$ -
Contribution in relation to the contractually required contribution	<u>(16,230)</u>	<u>(51,556)</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered employee payroll	\$ 331,776	\$ 103,575	\$ 195,466	\$ -
Contributions as a percentage of covered employee payroll	4.89%	49.78%	0.00%	0.00%

NOTE:

While the Charter School implemented the GASB 68 Pension disclosure during the year ended June 30, 2015, the pension reports provided by the New Jersey Division of Pension did not include the proportional share of the Charter School's liabilities for 2013 and 2014. This is because the Charter School was opened in 2012-2013 school-year and was therefore about four years in the plan. The liabilities information became available starting from 2015.

Note

Until a full ten year trend is compiled, information will be presented for those years for which information is available.

MERIT PREPARATORY CHARTER SCHOOL

Schedule of the Charter School's Proportionate Share of the Net Pension Liability - TPAF
Last Four Fiscal Years

	<u>2016</u>	<u>Fiscal Year Ended June 30,</u>		<u>2013</u>
		<u>2015</u>	<u>2014</u>	
Charter School's proportion of the net pension liability (assets)**	N/A	N/A	N/A	N/A
Charter School's proportionate share of the net pension liability (assets)**	N/A	N/A	N/A	N/A
State's proportionate share of the net pension liability (assets) associated with the Charter School	\$ 2,389,286	\$ -	\$ -	\$ -
Total	<u>\$ 2,389,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered employee payroll	\$ 582,539	\$ 419,224	\$ 209,333	\$ -
Charter School's proportionate share of the net pension liability (assets) as a percentage of its covered employee payroll**	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	22.33%	28.71%	33.64%	33.76%

**Note

TPAF is a special funding situation as defined by GASB Statement No. 68 in which the State of New Jersey is 100% responsible for contributions to the plan. Since the Charter School (employer) does not contribute directly to the plan there is no net pension liability to report in the financial statements of the Charter School.

While the Charter School implemented the GASB 68 Pension disclosure during the year ended June 30, 2015, the pension reports provided by the New Jersey Division of Pension did not include the proportional share of the Charter School's liabilities for 2013 and 2014. This is because the Charter School was opened in 2012-2013 school-year and was therefore about four years in the plan. The liabilities information became available starting from 2015.

Note

Until a full ten year trend is compiled, information will be presented for those years for which information is available.

Note to Required Supplementary Information
Pension Schedules
Year ended June 30, 2017

Public Employees' Retirement System (PERS)

Changes of benefit terms. The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

Changes of assumptions. Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) with adjustments for mortality improvements from the base year of 2012 Based on Projection Scale AA.

Teacher's Pension and Annuity Fund (TPAF)

Changes of benefit terms. The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Changes of assumptions. Mortality rates were based on the RP-2000 Health Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA from the base year of 2000 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to

Other Supplementary Information

School Level Schedules

Special Revenue Fund

**MERIT PREPARATORY CHARTER SCHOOL
Special Revenue Fund**

E-1

**Combining Schedule of Program, Revenue and Expenditures
Budgetary Basis**

Year ended June 30, 2017

	<u>Title IA 2016-2017</u>	<u>Title IA 2015-2016</u>	<u>I.D.E.A. 2016-2017</u>	<u>Title IIA 2016-2017</u>	<u>Total</u>
Revenues					
Federal sources	\$ 274,453	\$ 77,118	\$ 90,187	\$ 5,978	\$ 447,736
Local sources	-	-	-	-	-
Total revenues -all sources	<u>\$ 274,453</u>	<u>\$ 77,118</u>	<u>\$ 90,187</u>	<u>\$ 5,978</u>	<u>\$ 447,736</u>
Expenditures					
Instruction					
Salaries of teachers	\$ 217,820	\$ 47,166	\$ 27,187	\$ -	\$ 292,173
Purchased Prof. and technical services	-	-	-	-	-
Other purchased services	-	-	-	-	-
General supplies	-	-	-	-	-
Miscellaneous expenditures	-	-	-	-	-
Total instruction	<u>217,820</u>	<u>47,166</u>	<u>27,187</u>	<u>-</u>	<u>292,173</u>
Support services					
Support services salaries	-	-	-	-	-
Employee benefits	56,633	29,952	-	-	86,585
Purchased professional services	-	-	63,000	5,978	68,978
Other purchased services	-	-	-	-	-
Supplies	-	-	-	-	-
Miscellaneous expenditures	-	-	-	-	-
Total support services	<u>56,633</u>	<u>29,952</u>	<u>63,000</u>	<u>5,978</u>	<u>155,563</u>
Facilities acquisition and construction services					
Instructional equipment	-	-	-	-	-
Noninstructional equipment	-	-	-	-	-
Construction services	-	-	-	-	-
Total facilities acquisition and construction services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 274,453</u>	<u>\$ 77,118</u>	<u>\$ 90,187</u>	<u>\$ 5,978</u>	<u>\$ 447,736</u>

Capital Projects Fund

At June 30, 2017, there was no capital project fund.

Enterprise Fund

MERIT PREPARATORY CHARTER SCHOOL
Enterprise Funds

G-1

Combining Statement of Net Position

June 30, 2017

	<u>Food Services</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ (101,151)
Accounts receivable:	
Federal	99,916
State	1,235
Interfund receivable - general fund	-
Total current assets	<u>\$ -</u>
Liabilities	
Current liabilities:	
Accounts payable	\$ -
Interfund payable - general fund	-
Total current liabilities	<u>\$ -</u>
Net position	
Unrestricted	-
Total net position	<u><u>\$ -</u></u>

MERIT PREPARATORY CHARTER SCHOOL
Enterprise Fund

G-2

Combining Statement of Revenues, Expenditures and Changes in Net Position

Year ended June 30, 2017

	Food Services
Operating revenues:	
Charges for services:	
Daily sales - nonreimbursable programs	\$ -
Daily sales - reimbursable programs	-
Miscellaneous revenue	-
Total operating revenues	-
Operating expenses:	
Cost of sales - nonreimbursable programs	327,284
Cost of sales - reimbursable programs	-
Salaries	969
Employee benefits	-
Professional /technical service	-
Supplies and materials	-
Depreciation	-
Miscellaneous	-
Total operating expenses	328,253
Operating income (loss)	(328,253)
Nonoperating revenues:	
State sources:	
State School Lunch Program	2,551
Federal sources:	-
National School Lunch Program	139,182
National School Breakfast Program	47,835
Federal Snacks Program	-
Total nonoperating revenues	189,568
Net income/(loss) before contributions & transfers	(138,685)
Other financing sources:	
Transfer in/(out) - board contribution	138,685
	138,685
Change in net position	-
Total net position-beginning of year	-
Total net position-end of year	\$ -

MERIT PREPARATORY CHARTER SCHOOL
Enterprise Fund

G-3

Statement of Cash Flows

Year ended June 30, 2017

Cash flows from operating activities

Operating loss	\$ (328,253)
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(30,489)
Due to general fund	97,016
Accounts payable	(22,018)
Net cash provided by operating activities	<u>44,509</u>

Cash flows from noncapital financing activities

Cash received from state reimbursements	2,551
Cash received from federal reimbursements	187,017
Operating subsidies and transfers from other funds	138,685
Net cash provided by noncapital financing activities	<u>328,253</u>

Cash flows from investing activities

	-
Net change in cash and cash equivalents	44,509
Cash and cash equivalents, beginning	(145,660)
Cash and cash equivalents, ending	<u>\$ (101,151)</u>

Fiduciary Fund

MERIT PREPARATORY CHARTER SCHOOL
Fiduciary Funds

H-1

Combining Statement of Fiduciary Net Position

June 30, 2017

	<u>Unemployment Insurance Fund</u>	<u>Agency Fund Payroll</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ -	\$ (38,846)	\$ (38,846)
Interfund receivable	-	38,846	38,846
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities and fund balances			
Liabilities:			
Payroll deductions and withholdings	\$ -	\$ -	\$ -
Interfund payables	-	-	-
Due to students group	-	-	-
Total liabilities	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Net position			
Total liabilities and net position	<u>-</u>	<u>-</u>	<u>\$ -</u>

MERIT PREPARATORY CHARTER SCHOOL
Fiduciary Funds

H-2

Combining Statement of Changes in Fiduciary Net Position

Year ended June 30, 2017

	<u>Unemployment Compensation</u>
Additions:	
Board contributions	\$ -
Employee contributions	32,518
Total additions	<u>32,518</u>
Deductions:	
Unemployment payments	32,518
Total deductions	<u>32,518</u>
Change in net position	-
Net position, beginning	<u>-</u>
Net position, ending	<u><u>\$ -</u></u>

MERIT PREPARATORY CHARTER SCHOOL

H-3

Student Activity Agency Fund
Schedule of Receipts and Disbursements

Year ended June 30, 2017

	<u>Balance June 30, 2016</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Balance June 30, 2017</u>
Assets				
Parent council fund	\$ -	\$ -	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MERIT PREPARATORY CHARTER SCHOOL
Payroll Agency Fund
Schedule of Receipts and Disbursements

H-4

Year ended June 30, 2017

	<u>Balance June 30, 2016</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Balance June 30, 2017</u>
Assets				
Cash and cash equivalents	\$ 47,466	\$ 3,798,516	\$ 3,884,828	\$ (38,846)
Interfund receivable	-	38,846	-	38,846
Total assets	<u>\$ 47,466</u>	<u>\$ 3,837,362</u>	<u>\$ 3,884,828</u>	<u>\$ -</u>
 Liabilities				
Payroll deductions and withholdings	\$ 47,466	\$ 3,837,362	\$ 3,884,828	\$ -
Interfund payable	-	-	-	-
Total liabilities	<u>\$ 47,466</u>	<u>\$ 3,837,362</u>	<u>\$ 3,884,828</u>	<u>\$ -</u>

Long Term Debt
At June 30, 2017, there was no long term debt.

MERIT PREPARATORY CHARTER SCHOOL
 Long-Term Debt
 Schedule of Obligations Under Renovation Loan

I-2

Year ended June 30, 2017

<u>Interest Rate Payable</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding June 30, 2016</u>	<u>Acquired Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding June 30, 2017</u>
		\$ -	\$ -	\$ -	\$ -

NONE

Statistical Section

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-1

Net Position By Component
Last Five Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year Ended June 30,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Unrestricted	148,559	832,926	912,221	559,187	157,000
Total governmental activities net position	<u>\$ 148,559</u>	<u>\$ 832,926</u>	<u>\$ 912,221</u>	<u>\$ 559,187</u>	<u>\$ 157,000</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Unrestricted	-	-	-	-	-
Total business-type activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School-wide					
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Unrestricted	148,559	832,926	912,221	559,187	157,000
Total charter school net position	<u>\$ 148,559</u>	<u>\$ 832,926</u>	<u>\$ 912,221</u>	<u>\$ 559,187</u>	<u>\$ 157,000</u>

Notes

GASB requires that ten year of statistical data be presented. However, only five years of data is available. Each year thereafter, an additional year's data will be included until ten years of data is presented.

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-2

Changes In Net Position
Last Five Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
Expenses					
Governmental activities					
Instruction					
Regular	\$ 3,913,554	\$ 2,418,364	\$ 2,312,153	\$ 1,181,953	\$ 402,397
Support Services:					
General administration	2,788,874	2,255,082	1,459,376	1,353,186	347,955
School administrative services	2,460,911	1,641,966	1,104,999	1,029,307	398,360
On-behalf TPAF/FICA Reimbursements	99,274	36,324	36,334	-	-
Capital outlay	-	-	-	-	-
Unallocated depreciation	55,487	54,405	60,285	-	-
Total governmental activities expenses	<u>9,318,100</u>	<u>6,406,141</u>	<u>4,973,147</u>	<u>3,564,446</u>	<u>1,148,712</u>
Business-type activities:					
Food service	328,253	320,831	249,217	202,533	68,890
Child Care	-	-	-	-	-
Total business-type activities expense	<u>328,253</u>	<u>320,831</u>	<u>249,217</u>	<u>202,533</u>	<u>68,890</u>
Total charter school expenses	<u>\$ 9,646,353</u>	<u>\$ 6,726,972</u>	<u>\$ 5,222,364</u>	<u>\$ 3,766,979</u>	<u>\$ 1,217,602</u>
Program Revenues					
Governmental activities:					
Charges for services:					
Operating grants and contributions	\$ 447,736	\$ 303,732	\$ 401,463	\$ 313,378	\$ 76,180
Capital grants and contributions	-	-	-	-	-
Total governmental activities program revenues	<u>447,736</u>	<u>303,732</u>	<u>401,463</u>	<u>313,378</u>	<u>76,180</u>
Business-type activities:					
Charges for services					
Food service	-	956	-	-	1,643
Child care	-	-	-	-	-
Operating grants and contributions	189,568	168,855	136,860	103,229	39,505
Capital grants and contributions	-	-	-	-	-
Total business type activities program revenues	<u>189,568</u>	<u>169,811</u>	<u>136,860</u>	<u>103,229</u>	<u>41,148</u>
Total charter school program revenues	<u>\$ 637,304</u>	<u>\$ 473,543</u>	<u>\$ 538,323</u>	<u>\$ 416,607</u>	<u>\$ 117,328</u>

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-2

Changes In Net Position
Last Five Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
Net (Expense)/Revenue					
Governmental activities	\$ (8,870,364)	\$ (6,102,409)	\$ (4,571,684)	\$ (3,251,068)	\$ (1,072,532)
Business-type activities	(138,685)	(151,020)	(112,357)	(99,304)	(27,742)
Total charter school-wide net expense	<u>\$ (9,009,049)</u>	<u>\$ (6,253,429)</u>	<u>\$ (4,684,041)</u>	<u>\$ (3,350,372)</u>	<u>\$ (1,100,274)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
Property taxes levied for general purposes, net	\$ 926,957	\$ 868,474	\$ 702,873	\$ 521,886	\$ 158,789
Grants and contributions	7,369,736	5,285,610	4,314,882	3,158,682	1,018,278
Miscellaneous income	27,989	20,050	18,863	69,733	82,465
Transfers	(138,685)	(151,020)	(111,900)	(97,046)	(30,000)
Total governmental activities	<u>8,185,997</u>	<u>6,023,114</u>	<u>4,924,718</u>	<u>3,653,255</u>	<u>1,229,532</u>
Business-type activities:					
Transfers	138,685	151,020	112,357	97,046	30,000
Total business-type activities	<u>138,685</u>	<u>151,020</u>	<u>112,357</u>	<u>97,046</u>	<u>30,000</u>
Total charter school-wide	<u>\$ 8,324,682</u>	<u>\$ 6,174,134</u>	<u>\$ 5,037,075</u>	<u>\$ 3,750,301</u>	<u>\$ 1,259,532</u>
Change in Net Position					
Governmental activities	\$ (545,682)	\$ 71,725	\$ 465,391	\$ 499,233	\$ 187,000
Business-type activities	(138,685)	(151,020)	(112,357)	(99,304)	(27,742)
Total charter school	<u>\$ (684,367)</u>	<u>\$ (79,295)</u>	<u>\$ 353,034</u>	<u>\$ 399,929</u>	<u>\$ 159,258</u>

Notes

GASB requires that ten year of statistical data be presented. However, only five years of data is available. Each year thereafter, an additional year's data will be included until ten years of data is presented.

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-3

Fund Balances - Governmental Funds
Last Five Fiscal Years
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
General Fund					
Unreserved	\$ 472,350	\$ 1,071,491	\$ 912,221	\$ 559,187	\$ 157,000
Total general fund	\$ 472,350	\$ 1,071,491	\$ 912,221	\$ 559,187	\$ 157,000
All Other Governmental Funds					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:					
Special revenue fund	-	-	-	-	-
Capital projects fund	-	-	-	-	-
Debt service fund	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total all other governmental funds	\$ -	\$ -	\$ -	\$ -	\$ -

Notes

GASB requires that ten year of statistical data be presented. However, only five years of data is available. Each year thereafter, an additional year's data will be included until ten years of data is
--

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-4

Changes in Fund Balances - Governmental Funds
Last Five Fiscal Years
(Unaudited)

<u>Function</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues					
Local tax levy	\$ 926,957	\$ 868,474	\$ 702,873	\$ 521,886	\$ 158,789
Miscellaneous	27,989	20,050	18,863	69,733	82,465
State sources	7,197,365	5,232,338	4,314,882	3,158,682	1,018,278
Federal sources	447,736	303,732	401,463	313,378	76,180
Total revenue	<u>8,600,047</u>	<u>6,424,594</u>	<u>5,438,081</u>	<u>4,063,679</u>	<u>1,335,712</u>
Expenditures					
Instruction	3,913,554	2,418,364	2,312,153	1,181,953	402,397
Administration	2,669,962	2,114,265	1,459,376	1,353,186	347,955
Support Services	2,560,185	1,678,290	1,253,233	1,126,353	398,360
Capital Outlay	55,487	54,405	60,285	-	-
Total expenditures	<u>9,199,188</u>	<u>6,265,324</u>	<u>5,085,047</u>	<u>3,661,492</u>	<u>1,148,712</u>
Net change in fund balances	<u>\$ (599,141)</u>	<u>\$ 159,270</u>	<u>\$ 353,034</u>	<u>\$ 402,187</u>	<u>\$ 187,000</u>

Source: Charter School's Records

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-5

General Fund Other Local Revenue by Source
Last Five Fiscal Years
(Unaudited)

<u>Function</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Other local revenues					
Miscellaneous	\$ 27,989	\$ 20,050	\$ 18,863	\$ 69,733	\$ 82,465
	-	-	-	-	-
Total other local revenue	<u>\$ 27,989</u>	<u>\$ 20,050</u>	<u>\$ 18,863</u>	<u>\$ 69,733</u>	<u>\$ 82,465</u>

Source: Charter School's Records

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-10

Ratio of Outstanding Debt By Type
Last Five Fiscal Years

Fiscal Year Ended June 30,	Governmental Activities				Business-Type Activities	Total Charter School	Percentage of Personal Income ^a	Per Capita ^a
	General Obligation Bonds ^b	Certificates of Participation	Capital Leases	Anticipation Notes (BANs)	Capital Leases			
2013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -
2014	-	-	-	-	-	-	0.00%	-
2014	-	-	-	-	-	-	0.00%	-
2014	-	-	-	-	-	-	0.00%	-
2014	-	-	-	-	-	-	0.00%	-

NO LONG TERM DEBT FOR THE CHARTER SCHOOL

Note: Details regarding the Charter School's outstanding debt can be found in the notes to the financial statements.

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-14

Demographic and Economic Statistics
Last Five Fiscal Years
(Unaudited)

<u>Year</u>	<u>Population ^a</u>	<u>Personal Income ^b</u>	<u>County Per Capita Personal Income ^c</u>	<u>Unemployment Rate ^d</u>
2013	279,499	15,565,858,308	55,692	15.00%
2014	280,980	16,386,472,620	58,319	15.00%
2015	281,944	16,925,098,320	60,030	15.00%
2016	281,764	16,914,292,920	60,030	7.90%
2017	281,764	16,914,292,920	60,030	7.90%

Source:

^a Population information provided by the NJ Dept of Labor and Workforce Development

^b Personal income has been estimated based upon the municipal population and per capita personal income presented

^c Personal capital income by municipality estimated based upon the 2010 Cesus published by the US Bureau of Economic Analysis.

^d Unemployment data provided by the NJ Dept of Labor and Workforce Development

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-15

Principal Employers
Current Year
(Unaudited)

	2017		
<u>Employer</u>	<u>Employees</u>	<u>Rank</u> <u>[Optional]</u>	<u>Percentage of</u> <u>Total Municipal</u> <u>Employment</u>
Newark Liberty International Airport	24,000	1	17.14%
Verizon Communications	17,100	2	12.21%
Prudential Financial, Inc.	16,850	3	12.04%
Continental Airlines	11,000	4	7.86%
University of Medicines/Dentistry	11,000	5	7.86%
Public Service Enterprise Group	10,800	6	7.71%
Prudential Insurance	4,492	7	3.21%
City of Newark	3,984	8	2.85%
Horizon Blue Cross & Blue Shield	3,900	9	2.79%
	103,126		73.66%

Source: Web Site: <http://www.city-data.com/us-cities/The-Northeast/Newark-Economy.html>

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-16

Full-Time Equivalent Charter School Employees by Function/Program
Last Five Fiscal Years
(Unaudited)

<u>Function/Program</u>	Fiscal Year Ended June 30,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Instruction					
Regular	13	13	10	8	5
Special education	3	3	2	1	1
Other instruction	5	5	5	5	1
Support Services:					
General administration	3	3	3	3	3
Other support services	3	3	3	3	2
Total	<u>27</u>	<u>27</u>	<u>23</u>	<u>20</u>	<u>12</u>

Source: Charter School Personnel Records

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-17

Operating Statistics

**Last Five Fiscal Years
(Unaudited)**

Fiscal Year	Enrollment	Operating Expenditures^a	Cost Per Pupil	Percentage Change	Teaching Staff^b	Pupil/Teacher Ratio	Average Daily Enrollment (ADE)^c	Average Daily Attendance (ADA)^c	% Change in Average Daily Enrollment	Student Attendance Percentage
2013	80	\$ 1,148,712	\$ 14,359	N/A	7	1:12	82	75	N/A	91.83%
2014	236	3,661,492	15,515	8.05%	14	1:12	236	224	187.80%	95.00%
2015	316	5,024,762	15,901	2.49%	17	1:12	316	290	33.90%	91.77%
2016	375	6,210,919	16,562	4.16%	21	1:12	375	356	18.67%	94.93%
2017	487	9,143,701	18,776	13.36%	21	1:12	487	463	29.87%	95.00%

Sources: Charter School records

Note: Enrollment based on annual June Charter School count.

a Operating expenditures equal total expenditures less debt service and capital outlay.

b Teaching staff includes only full-time equivalents of certificated staff.

c Average daily enrollment and average daily attendance

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-18

School Building Information
Last Five Fiscal Years
(Unaudited)

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
Square Feet	36,271	30,226	30,226	18,675	7,830
Capacity (students)	500	400	400	250	100
Enrollment	487	375	316	236	80

Source: School Records

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-19

Schedule of Required Maintenance Expenditures
By School Facility*
Last Five Fiscal Years
(Unaudited)

2013	\$ 320,167
2014	780,142
2015	976,401
2016	1,259,167
2017	1,635,796
	<hr/>
Total	<u>\$ 4,971,673</u>

* School facilities as defined under EFCFA.
(N.J.A.C. 6A:26-1.2 and N.J.A.C. 6A:26A-1.3)

Source: Charter School records

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-20

Insurance Schedule

June 30, 2017
(Unaudited)

	Coverage
Commercial property and general liability:	
Property:	
Business Personal Property	\$ 225,000
Building Improvements	200,000
Computer Equipment	220,000
Loss of Income	750,000
Crime Coverage:	
Employee Dishonesty - Each Occurrence Limit	100,000
Comprehensive General Liability:	
General Aggregate	2,000,000
Bodily Injury & Property Damage - Each Occurrence	1,000,000
Fire & Water Damage Legal Liability	100,000
Sexual Abuse Liability	1,000,000
Social Workers Liability	1,000,000
Medical Liability	1,000,000
Personal & Advertising Injury (Annual Aggregate)	1,000,000
Non-Owned & Hired Automobile Liability	1,000,000
Medical Expense	5,000
Employee Benefits Administration	1,000,000
Educators Legal Liability	
Educators Management	1,000,000
Employment Practices Liability	1,000,000
Supplementary Payments (IEP Hearings)	50,000
Supplementary Payments Aggregate Limit	100,000
Umbrella Liability	
Aggregate	2,000,000
Occurrence	2,000,000
Sexual Abuse & Molestation	2,000,000
Medical Professional Liability	2,000,000
Social Workers Professional Liability	2,000,000
Hired & Non-Owned Auto Liability	2,000,000
Student Accident	
Maximum Medical Benefit per claim	10,000
Accidental Death & Dismemberment Claim	100,000
Workers' Compensation	
Estimated Payroll	2,000,000
Bodily Injury by Accident	500,000
Bodily Injury by Disease (Policy Limit)	500,000
Bodily Injury by Disease (Each Employee)	500,000

Source: Charter School Records

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-21

Charter School Performance Framework Financial Indicators
New Term Indicators

June 30, 2017
(Unaudited)

	2017	2016	2015
Cash	\$ 70,612	\$ 1,040,627	\$ 431,908
Current assets	812,825	661,853	673,564
Capital assets, net	-	-	-
Total assets	883,437	1,702,480	1,105,472
Current liabilities	411,087	630,989	193,251
Long term liabilities	-	-	-
Total liabilities	411,087	630,989	193,251
Net position	\$ 472,350	\$ 1,071,491	\$ 912,221
Total revenue	\$ 9,100,671	\$ 6,798,697	\$ 5,037,075
Total expenses	(9,699,812)	(6,639,427)	(4,684,041)
Change in net position	\$ (599,141)	\$ 159,270	\$ 353,034
Depreciation expense	\$ 55,487	\$ 54,405	\$ 60,285
Interest expense	-	-	-
Principal payments	-	-	-
Interest payments	-	-	-
Final average daily enrollment	487	375	316
March 30th budgeted enrollment	500	400	350

	2017	2016	2015	Three Year Cumulative
NEAR TERM INDICATORS:				
Current ratio	2.15	2.70	5.72	10.57
Unrestricted days cash	2.66	57.21	33.66	93.52
Enrollment variance	97%	94%	90%	281%
Default	N/A	N/A	N/A	N/A

Source: Charter School Records

MERIT PREPARATORY CHARTER SCHOOL
County of Essex, New Jersey

J-21

Charter School Performance Framework Financial Indicators
Sustainability Indicators

June 30, 2017
(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash	\$ 70,612	\$ 1,040,627	\$ 431,908
Current assets	812,825	661,853	673,564
Capital assets, net	-	-	-
Total assets	<u>883,437</u>	<u>1,702,480</u>	<u>1,105,472</u>
Current liabilities	411,087	630,989	193,251
Long term liabilities	-	-	-
Total liabilities	<u>411,087</u>	<u>630,989</u>	<u>193,251</u>
Net position	<u>\$ 472,350</u>	<u>\$ 1,071,491</u>	<u>\$ 912,221</u>
Total revenue	\$ 9,100,671	\$ 6,798,697	\$ 5,037,075
Total expenses	(9,699,812)	(6,639,427)	(4,684,041)
Change in net position	<u>\$ (599,141)</u>	<u>\$ 159,270</u>	<u>\$ 353,034</u>

Depreciation expense	\$ 55,487	\$ 54,405	\$ 60,285
Interest expense	-	-	-
Principal payments	-	-	-
Interest payments	-	-	-
	-	-	-
Final average daily enrollment	487	375	316
March 30th budgeted enrollment	500	400	350

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Three Year Cumulative</u>
SUSTAINABILITY INDICATORS:				
Total margin	-7%	2%	7%	3%
Debt to asset	N/A	N/A	N/A	N/A
Cash flow	\$ (970,015)	\$ 608,719	\$ (220,422)	\$ (581,718)
Debt service coverage ratio	N/A	N/A	N/A	N/A

Source: Charter School Records

Single Audit Section

Olugbenga Olabintan

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K-1

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 Honorable Chairperson and
Members of the Board of Trustees
Merit Preparatory Charter School
County of Essex
Newark, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey*, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Merit Preparatory Charter School ("the Charter School"), in the County of Essex, State of New Jersey, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon, dated November 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter 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 Charter School's 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 and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey*.

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 Charter School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey* in considering the Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Olugbenga Olabintan, CPA

November 16, 2018
Newark, New Jersey

OLUGBENGA OLABINTAN
Certified Public Accountant/Consultant



Olugbenga Olabintan, CPA
Licensed Public School Accountant
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K-2

Independent Auditor's Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance Required by the State of New Jersey OMB's Circular Letter 15-08

The Honorable Chairperson and
Members of the Board of Trustees
Merit Preparatory Charter School
County of Essex,
Newark, New Jersey

Compliance

We have audited the Merit Preparatory Charter School ("the Charter School"), in the County of Essex, State of New Jersey's ("the Charter School's") compliance with the types of compliance requirements described in the *State of New Jersey Department of Treasury Circular 15-08-OMB Compliance Supplement* that could have a direct and material effect on each of the Charter School's major state programs for the year ended June 30, 2017. The Charter School's major state 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 state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Charter School's major state 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; the audit requirements of New Jersey Department of the Treasury Circular Letter 15-08 OMB *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*; and *audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey*.

Those standards, State of New Jersey Department of Treasury Circular 15-08-OMB and *audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey* 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 state program occurred. An audit includes examining, on a test basis, evidence about the Charter 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 state program. However, our audit does not provide a legal determination of the Charter School's compliance.

Basis for Qualified Opinion on New Jersey State Aid Public – Equalization Aid

As described in the accompanying schedule of findings and questioned costs, the Charter School did not comply with requirements regarding New Jersey State Aid Public – Equalization Aid, Grant # 17-495-034-5120-078 as described in finding number 2017-001 for eligibility. Compliance with such requirements is necessary, in our opinion, for the Charter School to comply with the requirements applicable to that program.

Qualified Opinion on New Jersey State Aid Public – Equalization Aid

In our opinion, except for the noncompliance described in the basis for Qualified Opinion paragraph, the Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on New Jersey State Aid Public – Equalization Aid for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State of New Jersey Department of Treasury Circular 15-08-OMB, 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 Charter 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 state 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 state 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 state 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 State of New Jersey Department of Treasury Circular 15-08-OMB and *audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey*. Accordingly, this report is not suitable for any other purpose.

Olugbenga Olabintan, CPA

November 16, 2018
Newark, New Jersey

OLUGBENGA OLABINTAN
Certified Public Accountant/Consultant



Olugbenga Olabintan, CPA
Licensed Public School Accountant
No. 20CS00230200

MERIT PREPARATORY CHARTER SCHOOL

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

Federal Grant/ Pass-Through Grantor/ Program Title	Federal C.F.D.A No.	Federal Award Identification Number	Grant Period	Award Amount	(Accounts Receivable) at June 30, 2016	Deferred Revenue at June 30, 2016	Due to Grantor at June 30, 2016	Adjustments	Carryover (Walkover) Amount	Cash Received	Budgetary Expenditures	Repayment of Prior Years' Balances	(Accounts Receivable) at June 30, 2017	Deferred Revenue at June 30, 2017	Due to Grantor at June 30, 2017
Special Revenue Fund:															
U.S. Department of Education:															
Passed-Through State Department of Education															
Title I Part A - FY 2016-2017	84.010A	S010A160030	7/1/16-6/30/17	\$ 274,453	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (274,453)	\$ -	\$ (274,453)	\$ -	\$ -
IDEA Part B - FY 2016-2017	84.027	H027A160100	7/1/16-6/30/17	108,177	-	-	-	-	27,187	13,313	(90,187)	-	(49,687)	-	-
Title II A - FY 2016-2017	84.367A	S367A160029	7/1/16-6/30/17	3,821	-	-	-	-	2,157	-	(5,978)	-	(3,821)	-	-
					-	-	-	-	-	-	-	-	-	-	-
Title I Part A - FY 2015-2016	84.010A	S010A150030	7/1/15-6/30/16	326,260	-	77,118	-	-	-	-	(77,118)	-	-	-	-
IDEA Part B - FY 2015-2016	84.027	H027A150100	7/1/15-6/30/16	79,508	-	27,187	-	-	(27,187)	-	-	-	-	-	-
Title II A - FY 2015-2016	84.367A	S367A150029	7/1/15-6/30/16	2,157	-	2,157	-	-	(2,157)	-	-	-	-	-	-
Total for U.S. Department of Education					-	106,462	-	-	-	13,313	(447,736)	-	(327,961)	-	-
Enterprise Fund:															
U.S. Department of Agriculture															
Passed-Through New Jersey Dept of Agriculture															
National School lunch program	10.555	171NJ304N1099	7/1/16-6/30/17	139,182	-	-	-	-	-	71,806	(139,182)	-	(67,376)	-	-
National School lunch program	10.555	16161NJ304N1099	7/1/15-6/30/16	111,342	(49,636)	-	-	-	-	49,636	-	-	-	-	-
National School breakfast program	10.553	171NJ304N1099	7/1/16-6/30/17	47,835	-	-	-	-	-	15,295	(47,835)	-	(32,540)	-	-
National School breakfast program	10.553	16161NJ304N1099	7/1/15-6/30/16	55,063	(19,812)	-	-	-	-	19,812	-	-	-	-	-
Total Enterprise Fund/Total U.S. Department of Agriculture					(69,448)	-	-	-	-	156,549	(187,017)	-	(99,916)	-	-
Total Expenditures of Federal Awards					\$ (69,448)	\$ 106,462	\$ -	\$ -	\$ -	\$ 169,862	\$ (634,753)	\$ -	\$ (427,877)	\$ -	\$ -

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

MERIT PREPARATORY CHARTER SCHOOL

Schedule of Expenditures of State Awards

Year ended June 30, 2017

State Grantor/Program Title	Grant or State Project Number	Grant Period	Award Amount	(Accounts Receivable) at June 30, 2016	Deferred Revenue at June 30, 2016	Due to Grantor at June 30, 2016	Adjustments	Carryover (Walkover) Amount	Cash Received	Budgetary Expenditures	Repayment of Prior Years' Balances	(Accounts Receivable) at June 30, 2017	Deferred Revenue at June 30, 2017	Due to Grantor at June 30, 2017
State Department of Education														
General Fund:														
Equalization Aid	17-495-034-5120-078	7/1/16-6/30/17	\$ 6,264,435	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,768,941	\$ (6,264,435)	\$ -	\$ (349,969)	\$ -	\$ 145,525
Equalization Aid	16-495-034-5120-078	7/1/15-6/30/16	5,691,520	(487,136)	-	67,368	-	-	487,136	-	(67,368)	-	-	-
Special Education Aid	17-495-034-5120-089	7/1/16-6/30/17	216,057	-	-	-	-	-	216,057	(216,057)	-	-	-	-
Security Aid	17-495-034-5120-084	7/1/16-6/30/17	111,306	-	-	-	-	-	111,306	(111,306)	-	-	-	-
State Adjustment Aid	17-495-034-5120-085	7/1/16-6/30/17	1,433,250	-	-	-	-	-	1,421,580	(1,433,250)	-	(11,670)	-	-
TPAF/FICA Reimbursements	17-495-034-5094-003	7/1/16-6/30/17	99,274	-	-	-	-	-	77,200	(99,274)	-	(22,074)	-	-
TPAF/FICA Reimbursements	16-495-034-5094-003	7/1/15-6/30/16	36,334	(7,039)	-	-	-	-	7,039	-	-	-	-	-
TPAF Post Retirement Medical Contribution	17-495-034-5094-001	7/1/16-6/30/17	77,755	-	-	-	-	-	77,755	(77,755)	-	-	-	-
TPAF Pension Contribution - Normal & NCGI	17-495-034-5094-002	7/1/16-6/30/17	93,319	-	-	-	-	-	93,319	(93,319)	-	-	-	-
TPAF Pension Contribution - Long-Term Disability Insurance	17-495-034-5094-004	7/1/16-6/30/17	1,297	-	-	-	-	-	1,297	(1,297)	-	-	-	-
Total General Fund				(494,175)	-	67,368	-	-	8,261,630	(8,296,693)	(67,368)	(383,713)	-	145,525
State Department of Agriculture														
Enterprise Fund:														
State School lunch program	17-100-010-3350-023	7/1/16-6/30/17	2,551	-	-	-	-	-	1,316	(2,551)	-	(1,235)	-	-
State School lunch program	16-100-010-3350-023	7/1/15-6/30/16	2,099	(936)	-	-	-	-	936	-	-	-	-	-
Total Enterprise Fund				(936)	-	-	-	-	2,252	(2,551)	-	(1,235)	-	-
Total State Financial Assistance				<u>\$ (495,111)</u>	<u>\$ -</u>	<u>\$ 67,368</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,263,882</u>	<u>(8,299,244)</u>	<u>\$ (67,368)</u>	<u>\$ (384,948)</u>	<u>\$ -</u>	<u>\$ 145,525</u>
Less Amounts Not Subject to Single Audit:														
TPAF Post Retirement Medical Contribution										77,755				
TPAF Pension Contribution - Normal & NCGI										93,319				
TPAF Pension Contribution - Long-Term Disability Insurance										1,297				
Total Expenditures of State Financial Assistance Subject to Single Audit										<u>\$ (8,126,873)</u>				

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)

Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2017

1. General

The accompanying schedules of expenditures of federal awards and state financial assistance present the activity of all expenditures of federal awards and state financial assistance of the Charter School. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies is included on the schedule of expenditures of federal awards and state financial assistance.

2. Basis of Accounting

The accompanying schedules of expenditures of federal awards and state financial assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the enterprise fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Note 1 to the Charter School's basic financial statements. The information in these schedules is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the provisions of New Jersey Department of the Treasury Circular Letter 15-08 OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Therefore, some amounts presented in the schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. Relationship to Basic Financial Statements

Amounts reported in the accompanying schedules agree with amounts reported in the Charter School's basic financial statements. The basic financial statements present the general fund and special revenue fund on a GAAP basis. Budgetary comparison statements and schedules (RSI) are presented for the general fund and special revenue fund to demonstrate finance-related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the fiscal year, whereas for GAAP reporting, revenue is not recognized until the subsequent year or expenditures have been made. The general fund is presented in the accompanying schedules on the modified accrual basis. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis, which recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. The net adjustment to reconcile from the budgetary basis to GAAP basis is \$-0- for the general fund and \$-0- for the special revenue fund. See Note 1 (the Notes to Required Supplementary Information) for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds (C-3).

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2017

3. Relationship to Basic Financial Statements - *continued*

Federal awards and state financial assistance revenues are reported in the Charter School's basic financial statements on a GAAP basis as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	\$ -	\$ 8,296,693	\$ 8,296,693
Special Revenue Fund	447,736	-	447,736
Enterprise Fund	187,017	2,551	189,568
Total	<u>\$ 634,753</u>	<u>\$ 8,299,244</u>	<u>\$ 8,933,997</u>

4. Relationship to Federal and State Financial Reports

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

5. Other Information

TPAF Social Security contribution in the amount of \$99,274 represents the amount reimbursed by the State for the employer's share of social security contributions for TPAF members for the fiscal year ended June 30, 2017. The amount reported as TPAF Pension System Contributions, TPAF Post-Retirement Medical Benefits Contributions and TPAF Long-Term Disability Insurance Premium Contributions in the amount of \$172,371 represents the amount paid by the State on behalf of the Charter School for the fiscal year ended June 30, 2017.

6. On Behalf Programs Not Subject to State Single Audit

On-behalf State Programs for TPAF Pension and Post-Retirement Medical Benefits Contributions are not subject to a State single audit and, therefore, are excluded from major program determination. The Schedule of State Financial Assistance provides a reconciliation of State financial assistance reported in the Charter School's financial statements and the amount subject to State single audit and major program determination.

7. De Minimis Indirect Cost

The Charter School has not elected to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Part I Summary of Auditors' Results

Financial Statements Section

Type of auditors' report issued: Modified

Internal control over financial reporting:

Material weaknesses identified? _____ Yes No

Significant deficiencies identified? _____ Yes None reported

Noncompliance material to basic financial statements noted? _____ Yes No

Federal Awards:

In accordance with the new 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), the audit threshold was raised from \$500,000 to \$750,000. Thus, for fiscal years ending after December 26, 2015, organizations that expend less than \$750,000 in federal awards during a year are exempt from the single audit requirement for that year.

For the fiscal year ended June 30, 2017, the Charter School was determined to expend less than \$750,000 in federal awards and was therefore exempt from the federal single audit requirements for 2017.

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Part I Summary of Auditors' Results

State Financial Assistance Section

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

Auditee qualifies as low-risk auditee? _____ Yes No

Type of auditor's report on compliance for major programs: Modified

Internal control over major programs:

Material weakness(es) identified? yes _____ No

Significant deficiency(cies) identified that are not considered to be material weaknesses? _____ Yes None reported

Any audit findings disclosed that are required to be reported in accordance with NJ OMB Circulars 15-08 as applicable? _____ Yes No

Identification of Major Programs:

<u>State Grant/Program Number(s)</u>	<u>Name of State Program or Cluster</u>
17-495-034-5120-078	Equalization Aid
17-495-034-5120-089	Special Education Aid
17-495-034-5120-084	Security Aid
17-495-034-5120-085	State Adjustment Aid

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Part II – Schedule of Financial Statement Findings

NONE

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Part III –Federal Awards Findings and Questioned Cost

NOT APPLICABLE FOR 2017

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Part III – State Financial Assistance Findings and Questioned Cost

2017-001 – Enrollment Counts Test Work - Limitations

Information on State Financial Assistance

New Jersey Department of Education

Equalization Aid

State Grant #: 17-495-034-5120-078

Compliance Requirement –Eligibility

Material Non-Compliance

Material Weakness in Internal Control over Compliance

Criteria:

New Jersey Administrative Code, Title 6A Chapter 6A:23A-15 establishes that charter schools are required to conduct enrollment counts on October 15 and the last day of school year. The annual auditors are required to conduct an audit of the two enrollment counts.

Condition/Context:

As part of our audit we were required to conduct an audit of the two enrollment counts – October 15, 2016 and the last day of the school year in June 2017. The enrollment counts audit also included a review of the food program eligibility form for each student. All of the food program eligibility forms were not available for our audit. Further, special education folders for the special education students were not available for our audit. It is pertinent to note that the school's charter was revoked and it ceased operation as of June 30, 2017. This led to the return of all enrollment related documents to the respective resident districts of all students prior to June 30, 2017. Therefore, the documents were not readily available for the audit which was scheduled after June 30, 2017.

Questioned Costs:

None

MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Part III – State Financial Assistance Findings and Questioned Cost

2017-001 – Enrollment Counts Test Work – Limitations - *continued*

Cause:

The cause is attributable to the non-renewal of the school's charter and the cessation of operation as of June 30, 2017.

Recommendation:

None

Management's Response/Views of Responsible Officials and Planned Corrective Action:

None

**MERIT PREPARATORY CHARTER SCHOOL
(County of Essex)
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2017**

There were no prior year's audit findings.