

Middle Village Preparatory Charter School

Financial Statements

June 30, 2019 and 2018

Independent Auditors' Report

Board of Trustees
Middle Village Preparatory Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Middle Village Preparatory Charter School, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a clear basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Middle Village Preparatory Charter School as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Middle Village Preparatory Charter School adopted new accounting guidance resulting in a change in the manner in which it presents net assets and report certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2019 on our consideration of Middle Village Preparatory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Middle Village Preparatory Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Middle Village Preparatory Charter School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

September 25, 2019

Middle Village Preparatory Charter School

Statements of Financial Position

	June 30,	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 3,879,244	\$ 3,380,708
Grants and accounts receivable	72,951	176,636
Investments	3,762,261	2,398,952
Prepaid expenses and other assets	290,394	34,534
Restricted cash	75,132	75,095
Property and equipment, net	<u>509,684</u>	<u>406,246</u>
	<u>\$ 8,589,666</u>	<u>\$ 6,472,171</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 386,314	\$ 365,351
Deferred revenue	<u>7,356</u>	<u>-</u>
Total Liabilities	<u>393,670</u>	<u>365,351</u>
Net Assets Without Donor Restriction		
Undesignated	3,061,672	1,664,257
Board designated	<u>5,134,324</u>	<u>4,442,563</u>
Total Net Assets Without Donor Restriction	<u>8,195,996</u>	<u>6,106,820</u>
	<u>\$ 8,589,666</u>	<u>\$ 6,472,171</u>

See notes to financial statements

Middle Village Preparatory Charter School

Statements of Activities

	Year Ended	
	June 30	
	<u>2019</u>	<u>2018</u>
REVENUE AND SUPPORT		
Public School District -		
State and local per pupil operating revenue	\$ 6,861,805	\$ 6,262,717
Government grants and contracts	1,631,927	1,212,963
Interest and dividend revenue	108,235	64,165
Net realized and unrealized gain (loss) on investments	62,971	(56,623)
Other income	25,742	22,014
Total Revenue and Support	<u>8,690,680</u>	<u>7,505,236</u>
EXPENSES		
Program services	5,873,039	5,271,330
Management and general	728,465	771,883
Total Expenses	<u>6,601,504</u>	<u>6,043,213</u>
Change in Net Assets	2,089,176	1,462,023
NET ASSETS WITHOUT DONOR RESTRICTION		
Beginning of year	<u>6,106,820</u>	<u>4,644,797</u>
End of year	<u>\$ 8,195,996</u>	<u>\$ 6,106,820</u>

See notes to financial statements

Middle Village Preparatory Charter School

Statement of Functional Expenses
Year Ended June 30, 2019

	No. of Positions	No. of Students	2019				2018	
			Program Services			Management and General	Total	Total
			Regular Education	Special Education	Total			
		399	348	51				
Personnel Services Costs								
Administrative staff personnel	10		\$ 388,914	\$ 243,072	\$ 631,986	\$ 340,300	\$ 972,286	\$ 932,143
Instructional personnel	28		1,401,847	615,096	2,016,943	-	2,016,943	1,774,916
Non-instructional personnel	1		87,787	10,527	98,314	-	98,314	74,345
Total Personnel Services Costs	39		1,878,548	868,695	2,747,243	340,300	3,087,543	2,781,404
Fringe benefits and payroll taxes			255,117	117,974	373,091	46,215	419,306	382,734
Retirement			52,824	24,427	77,251	9,569	86,820	74,892
Legal service			-	-	-	17,940	17,940	71,941
Accounting/audit services			-	-	-	53,028	53,028	47,300
Building and land rent/lease			925,007	427,750	1,352,757	167,566	1,520,323	738,000
Repairs and maintenance			1,183	548	1,731	214	1,945	403,880
Insurance			69,243	32,020	101,263	12,543	113,806	110,796
Utilities			-	-	-	-	-	252,000
Supplies/materials			204,154	24,482	228,636	-	228,636	262,094
Equipment/furnishings			25,690	11,880	37,570	4,654	42,224	43,152
Staff development			76,491	9,173	85,664	-	85,664	42,566
Marketing and recruitment			83,758	17,982	101,740	4,199	105,939	111,038
Technology			6,320	2,923	9,243	1,145	10,388	3,793
Food service			110,416	51,059	161,475	20,002	181,477	172,622
Student services			163,145	31,640	194,785	3,419	198,204	102,775
Office expense			20,151	9,318	29,469	3,650	33,119	30,814
Depreciation and amortization			160,296	74,124	234,420	29,039	263,459	285,386
Other			99,252	37,449	136,701	14,982	151,683	126,026
Total Expenses			<u>\$ 4,131,595</u>	<u>\$ 1,741,444</u>	<u>\$ 5,873,039</u>	<u>\$ 728,465</u>	<u>\$ 6,601,504</u>	<u>\$ 6,043,213</u>

See notes to financial statements

Middle Village Preparatory Charter School

Statement of Functional Expenses Year Ended June 30, 2018

	No. of Positions	No. of Students	Program Services			Management and General	Total
			Regular Education	Special Education	Total		
		386	342	44			
Personnel Services Costs							
Administrative staff personnel	11		\$ 372,857	\$ 233,036	\$ 605,893	\$ 326,250	\$ 932,143
Instructional personnel	26		1,257,019	517,897	1,774,916	-	1,774,916
Non-instructional personnel	1		65,807	8,538	74,345	-	74,345
Total Personnel Services Costs	38		1,695,683	759,471	2,455,154	326,250	2,781,404
Fringe benefits and payroll taxes			233,333	104,507	337,840	44,894	382,734
Retirement			45,658	20,449	66,107	8,785	74,892
Legal service			-	-	-	71,941	71,941
Accounting/audit services			-	-	-	47,300	47,300
Building and land rent/lease			449,922	201,513	651,435	86,565	738,000
Repairs and maintenance			246,225	110,281	356,506	47,374	403,880
Insurance			67,547	30,253	97,800	12,996	110,796
Utilities			153,632	68,809	222,441	29,559	252,000
Supplies/materials			231,995	30,099	262,094	-	262,094
Equipment/furnishings			26,307	11,783	38,090	5,062	43,152
Staff development			37,678	4,888	42,566	-	42,566
Marketing and recruitment			87,510	18,940	106,450	4,588	111,038
Technology			2,312	1,036	3,348	445	3,793
Food service			105,239	47,135	152,374	20,248	172,622
Student services			65,912	21,167	87,079	15,696	102,775
Office expense			18,786	8,414	27,200	3,614	30,814
Depreciation and amortization			173,986	77,925	251,911	33,475	285,386
Other			81,985	30,950	112,935	13,091	126,026
Total Expenses			<u>\$ 3,723,710</u>	<u>\$ 1,547,620</u>	<u>\$ 5,271,330</u>	<u>\$ 771,883</u>	<u>\$ 6,043,213</u>

See notes to financial statements

Middle Village Preparatory Charter School

Statements of Cash Flows

	Year Ended	
	June 30	
	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from per pupil operating revenue and government grants and contracts	\$ 8,604,773	\$ 7,483,277
Cash receipts from interest and dividend revenue	108,235	64,165
Other income	<u>25,742</u>	<u>22,014</u>
Total Cash Received	<u>8,738,750</u>	<u>7,569,456</u>
Cash paid for payroll and benefits	3,597,182	3,256,445
Cash paid to vendors	<u>2,975,760</u>	<u>2,491,591</u>
Total Cash Paid	<u>6,572,942</u>	<u>5,748,036</u>
Net Cash from Operating Activities	<u>2,165,808</u>	<u>1,821,420</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,970,655)	(2,922,375)
Sale of investments	670,317	2,266,801
Purchases of property and equipment	(366,897)	(192,371)
Deposits to restricted cash	<u>(37)</u>	<u>(25)</u>
Net Cash from Investing Activities	<u>(1,667,272)</u>	<u>(847,970)</u>
Net Change in Cash and Cash Equivalents	498,536	973,450
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,380,708</u>	<u>2,407,258</u>
End of year	<u>\$ 3,879,244</u>	<u>\$ 3,380,708</u>

See notes to financial statements

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2019 and 2018

1. Organization and Tax Status

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

The School operates in Middle Village, New York. On January 1, 2013, the Board of Regents of the University of the State of New York (the "Board of Regents") granted the School a provisional charter valid for a term of five years and renewable upon expiration. During the year ended June 30, 2018, the Board of Regents renewed the School's charter for a period of five years expiring July 31, 2023. The School opened with its first academic year in the fall of 2013 and provided education to 399 and 386 students in sixth through eighth grade during the 2018-2019 and 2017-2018 academic years.

The School's primary sources of revenue are from state and local per pupil operating revenue and other government funding.

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

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

Change in Accounting Principle

On July 1, 2018, the School adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the School to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restriction and without donor restrictions. In addition, the new guidance requires the School to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2019 and 2018

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

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Without donor restriction - consist of resources available for the general support of the School's operations. Net assets without donor restriction may be used at the discretion of the School's management and Board of Trustees. Board designated net assets were established by the Board of Trustees to provide a cash and cash equivalents reserve for unseen operating and capital expenses.

With donor restriction - represent amounts restricted by donors for specific activities of the School or to be used at some future date and amounts restricted by donors to be maintained in perpetuity. The School records contributions as net assets with donor restriction if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. However, when restrictions on net assets with donor restricted contributions are met in the same accounting period in which they are received, such amounts are reported as net assets without donor restriction.

The School had no net assets with donor restriction at June 30, 2019 and 2018.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt investments, with a maturity of three months or less at the time of purchase.

Fair Value Measurements

The School follows U.S. GAAP guidance on fair value measurements, which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices that are observable, either directly or indirectly, with fair value being determined through the use of models or other valuation methodologies. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Investment Valuation

Investments are carried at fair value.

Restricted Cash

Included in restricted cash is an escrow fund of \$75,132 as of June 30, 2019 and \$75,095 as of June 30, 2018 to cover debts in the event of the School's dissolution. According to Section 2851(2)(t) of the Charter School Law, the School will maintain no less than \$75,000 in an escrow account.

Property and Equipment

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$1,000 with an estimated useful life of more than three years are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets.

Impairment of Long-Lived Assets

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized at June 30, 2019 and 2018.

Revenue Recognition

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

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

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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

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

Investment Income Recognition

Purchases and sales of securities are recorded on a trade date basis. Interest revenue is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function are allocated on the basis of estimates of time and effort.

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

Regular Education Program Services – represents expenses directly associated with regular education.

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

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

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Marketing and recruitment costs for the years ended June 30, 2019 and 2018 was \$105,939 and \$111,038.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2019 and 2018

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

Operating Leases

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

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing authorities for the years prior to June 30, 2016.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through September 25, 2019, which is the date that the financial statements were available to be issued.

Reclassification

Certain accounts in the 2018 financial statements have been reclassified to conform to the 2019 financial statement presentation.

3. Concentration of Credit Risk and Revenue

Financial instruments that potentially subject the School to concentrations of credit risk consists primarily of cash and cash equivalents, investments, and grants and accounts receivable. At times, the cash balance may be in excess of the Federal Deposit Insurance Corporation's Insurance limits. As of June 30, 2019 and 2018, the uninsured portion of this balance was \$3,379,148 and \$2,630,708. The investment portfolio is diversified by types of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of risk.

The School receives a majority of its revenues from the New York State Education Department through the Charter Schools Institute of the State of New York. The Charter Schools Institute of the State of New York provides general operating support to the School based upon the location and the number of students enrolled. State and local per pupil education and special education revenue provided to the School totaled \$6,861,805 and \$6,262,717 for the years ended June 30, 2019 and 2018. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances would be materially adversely affected.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2019 and 2018

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

A majority of the grants and accounts receivable as of June 30, 2019 and 2018 are owed from New York State Education Department and are expected to be collected in the normal course of business operations.

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

4. Grants and Accounts Receivable

Grants and accounts receivable are deemed to be fully collectible by management and consist of income from the federal government and New York State.

5. Investments

Major categories of investments categorized by the fair value hierarchy are as follows at June 30:

	2019			2018	
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total	Quoted Price in Active Markets for Identical Assets (Level 1)	Total
Exchange-traded funds and closed-end funds	\$ 1,125,637	\$ -	\$ 1,125,637	\$ 1,057,821	\$ 1,057,821
Corporate bonds	275,623	1,221,142	1,496,765	265,634	265,634
Common stocks	26,173	-	26,173	27,600	27,600
Mutual funds	931,738	-	931,738	1,034,699	1,034,699
	<u>\$ 2,359,171</u>	<u>\$ 1,221,142</u>	3,580,313	<u>\$ 2,385,754</u>	2,385,754
Cash equivalents, at cost			181,948		13,198
			<u>\$ 3,762,261</u>		<u>\$ 2,398,952</u>

During the years ended June 30, 2019 and 2018, there were no transfers in or out of Levels 1, 2 or 3 of the fair value hierarchy.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2019 and 2018

6. Property and Equipment

Property and equipment consist of the following at June 30:

	2019	2018	Estimated Useful Lives
Computers and other equipment	\$ 946,046	\$ 680,056	3
Furniture and fixtures	379,159	325,323	7
Leasehold improvements	801,963	754,892	5
	2,127,168	1,760,271	
Accumulated depreciation and amortization	(1,617,484)	(1,354,025)	
	\$ 509,684	\$ 406,246	

7. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 3,879,244
Grants and contracts receivable	72,951
Investments	3,762,261
Total Financial Assets	7,714,456
Less amounts unavailable for general expenditure:	
Board designated net assets	5,134,324
Financial assets at year end available to meet cash needs for general expenditure within one year	\$ 2,580,132

As part of its liquidity management plan, the School invests cash in excess of daily requirements in short-term investments. Although the School does not intend to spend from its board designated net assets other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation, amounts could be made available if necessary.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2019 and 2018

8. Board Designated Net Assets

For the years ended June 30, 2019 and 2018, the School designated \$672,659 and \$607,516 as a reserve for future capital projects.

The board designated net assets activity for the years ended June 30, 2019 and 2018 is as follows:

	Balance June 30, 2018	Additions	Released	Balance June 30, 2019
Future capital projects	<u>\$ 4,442,563</u>	<u>\$ 691,761</u>	<u>\$ -</u>	<u>\$ 5,134,324</u>
	Balance June 30, 2017	Additions	Released	Balance June 30, 2018
Future capital projects	<u>\$ 3,835,047</u>	<u>\$ 607,516</u>	<u>\$ -</u>	<u>\$ 4,442,563</u>

As part of its liquidity management plan, the School invests cash in excess of daily requirements in short-term investments. Although the School does not intend to spend from its board designated net assets other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation, amounts could be made available if necessary.

9. Operating Leases

Effective February 1, 2013, the School entered into a sublease agreement with a not-for-profit third party for a period of five years and five months, which terminated on June 30, 2018.

Effective July 1, 2018, the School renewed its sublease agreement for a period of five years terminating on June 30, 2023. The sublease may be renewed for an additional five years with the same terms. The rate of rent will increase during the term of the lease by approximately 1% annually. The rent for additional space shall also be calculated and charged in proportion to the increase in floor space. The rental expense totaled \$1,520,323 and \$738,000 for the years ended June 30, 2019 and 2018. Additional fees related to care and maintenance totaled \$653,184 for the year ended June 30, 2018. There were no care and maintenance fees for the year ended June 30, 2019.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2019 and 2018

9. Operating Leases (continued)

Future minimum rental expense to be paid pursuant to the agreement is as follows for the years ending June 30:

2020	\$ 1,495,644
2021	1,515,372
2022	1,535,100
2023	<u>1,554,828</u>
	<u>\$ 6,100,944</u>

10. Employee Benefit Plan

The School maintains a deferred compensation plan for all qualified employees. The School elects to make contributions to the plan on a discretionary basis. For the years ended June 30, 2019 and 2018, the School expended and contributed \$86,820 and \$74,892 to the plan.

11. Contingency

The School is currently a subtenant of Christ the King Regional High School ("Christ the King"), which is a party to a lease for a school building previously owned by the Roman Catholic Diocese of Brooklyn (the "Diocese"). The Diocese is attempting to evict the King. The School sought to intervene as a party to the suit which commenced in 2013, and the School won its appeal to intervene, and Christ the King won its appeal to over-turn the summary judgment granted to the Diocese. In lieu of the matter returning to court for trial, the Diocese and Christ the King are now in negotiations to allow Christ the King to remain on the premises. However, if Christ the King and therefore the School as well is evicted, it would not affect the ability of the School to continue as a going concern. If the School is evicted, it will have to locate to an alternative, potentially more expensive space in which to run its program. Pending the resolution of this matter, the School is fully functional and operating its program within Christ the King. The School is confident that it and Christ the King will prevail in this matter, but it is unclear what the outcome will be.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Middle Village Preparatory Charter School (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness the School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

September 25, 2019

Middle Village Preparatory Charter School

Auditors' Communication on Internal Control

June 30, 2019

Board of Trustees
Middle Village Preparatory Charter School

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of Middle Village Preparatory Charter School (the "School") as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

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

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

PKF O'Connor Davies, LLP

September 25, 2019

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