

Merrick Academy – Queens Public Charter School

Independent Auditor's Reports and Financial Statements

June 30, 2021 and 2020



Merrick Academy – Queens Public Charter School

June 30, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
Merrick Academy – Queens Public Charter School
Laurelton, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Merrick Academy – Queens Public Charter School, which comprise the statements of financial position as of June 30, 2021 and 2020, 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.

Auditor's 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Merrick Academy – Queens Public Charter School as of June 30, 2021 and 2020, 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.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information within the statements of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated October 25, 2021, on our consideration of Merrick Academy – Queens Public 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 Merrick Academy – Queens Public 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 Merrick Academy – Queens Public Charter School's internal control over financial reporting and compliance.

BKD, LLP

New York, New York
October 25, 2021

Merrick Academy – Queens Public Charter School
Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash	\$ 3,137,188	\$ 2,487,033
Grants and contracts receivable	24,425	173,156
Prepaid expenses	<u>102,243</u>	<u>101,440</u>
Total current assets	3,263,856	2,761,629
Security deposits	127,770	127,770
Cash – reserve	76,037	75,829
Fixed assets – net	<u>1,062,536</u>	<u>715,954</u>
Total assets	<u><u>\$ 4,530,199</u></u>	<u><u>\$ 3,681,182</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 294,940	\$ 157,012
Accrued salaries and related liabilities	792,927	752,002
Deferred revenue	9,306	25,223
Loan payable	<u>-</u>	<u>459,518</u>
Total current liabilities	<u>1,097,173</u>	<u>1,393,755</u>
Deferred rent	126,505	184,877
Loan payable	<u>-</u>	<u>737,015</u>
Total long term liabilities	<u>126,505</u>	<u>921,892</u>
Total liabilities	1,223,678	2,315,647
Net Assets, Without Donor Restrictions	<u>3,306,521</u>	<u>1,365,535</u>
Total liabilities and net assets	<u><u>\$ 4,530,199</u></u>	<u><u>\$ 3,681,182</u></u>

Merrick Academy – Queens Public Charter School

Statements of Activities

Years Ended June 30, 2021 and 2020

	2021	2020
Operating Revenues and Other Support		
Resident student enrollment	\$ 9,534,157	\$ 8,803,300
Students with disabilities	1,514,496	1,479,114
Total state and local per-pupil operating revenues	11,048,653	10,282,414
Government grants and contracts	330,704	231,169
Contributions	49,458	-
Interest	177	288
Miscellaneous income	-	31,996
Forgiveness of PPP Loan	1,204,975	-
Total operating revenues and other support	12,633,967	10,545,867
Expenses		
Program services		
Education	5,769,702	5,916,097
Special education	3,371,092	2,739,896
Total program services	9,140,794	8,655,993
Supporting services		
Management and general	1,552,187	1,603,612
Total expenses	10,692,981	10,259,605
Change in Net Assets	1,940,986	286,262
Net Assets Without Donor Restrictions, Beginning of Year	1,365,535	1,079,273
Net Assets Without Donor Restrictions, End of Year	\$ 3,306,521	\$ 1,365,535

Merrick Academy – Queens Public Charter School

Statement of Functional Expenses

Year Ended June 30, 2021

	** No. of Positions	Program Services			Supporting Services	Total
		Education	Special Education	Total	Management and General	
Personnel service costs						
Administrative staff personnel	11	\$ 468,939	\$ 293,087	\$ 762,026	\$ 410,322	\$ 1,172,348
Instructional personnel	53	2,737,250	1,645,843	4,383,093	-	4,383,093
Noninstructional personnel	25	-	-	-	479,504	479,504
Salaries		3,206,189	1,938,930	5,145,119	889,826	6,034,945
Payroll taxes and employee benefits		838,099	506,837	1,344,936	107,258	1,452,194
Retirement		95,608	57,819	153,427	12,236	165,663
Legal service		-	-	-	88,518	88,518
Accounting/audit services		-	-	-	150,384	150,384
Other purchased/professional/ consulting services		177,485	91,165	268,650	102,829	371,479
Building and land rent/lease		485,157	293,397	778,554	62,089	840,643
Repairs and maintenance		59,786	36,155	95,941	7,651	103,592
Insurance		52,996	32,049	85,045	6,782	91,827
Utilities		65,685	39,723	105,408	8,406	113,814
Supplies/materials		127,043	36,737	163,780	3,313	167,093
Equipment/furnishings		11,886	7,188	19,074	1,521	20,595
Staff development		178,692	68,290	246,982	10,027	257,009
Marketing/recruitment		27,325	8,065	35,390	765	36,155
Technology		27,119	16,400	43,519	3,470	46,989
Student services		34,360	7,160	41,520	-	41,520
Office expense		93,410	56,489	149,899	11,954	161,853
Depreciation		230,255	139,246	369,501	29,468	398,969
Bad debt expense		-	-	-	39,748	39,748
Interest		-	-	-	8,442	8,442
Other		58,607	35,442	94,049	7,500	101,549
Total expenses		<u>\$ 5,769,702</u>	<u>\$ 3,371,092</u>	<u>\$ 9,140,794</u>	<u>\$ 1,552,187</u>	<u>\$ 10,692,981</u>

** Supplemental information

Merrick Academy – Queens Public Charter School

Statement of Functional Expenses

Year Ended June 30, 2020

	** No. of Positions	Program Services			Supporting Services	
		Education	Special Education	Total	Management and General	Total
Personnel service costs						
Administrative staff personnel	18	\$ 615,322	\$ 384,576	\$ 999,898	\$ 538,412	\$ 1,538,310
Instructional personnel	50	2,757,449	1,216,058	3,973,507	-	3,973,507
Noninstructional personnel	8	-	-	-	357,494	357,494
Salaries		3,372,771	1,600,634	4,973,405	895,906	5,869,311
Payroll taxes and employee benefits		862,221	409,189	1,271,410	137,639	1,409,049
Retirement		84,713	40,203	124,916	13,523	138,439
Legal service		-	-	-	37,343	37,343
Accounting/audit services		-	-	-	159,810	159,810
Other purchased/professional/ consulting services		244,281	85,733	330,014	175,266	505,280
Building and land rent/lease		508,592	241,365	749,957	81,188	831,145
Repairs and maintenance		53,609	25,442	79,051	8,558	87,609
Insurance		33,061	15,690	48,751	5,278	54,029
Utilities		66,981	31,788	98,769	10,692	109,461
Supplies/materials		123,036	34,195	157,231	4,275	161,506
Equipment/furnishings		6,039	2,866	8,905	964	9,869
Staff development		139,896	48,004	187,900	10,655	198,555
Marketing/recruitment		17,232	7,623	24,855	2,399	27,254
Technology		27,904	13,243	41,147	4,454	45,601
Student services		27,075	18,443	45,518	-	45,518
Office expense		104,364	49,529	153,893	16,660	170,553
Depreciation		197,412	93,687	291,099	31,514	322,613
Other		46,910	22,262	69,172	7,488	76,660
Total expenses		<u>\$ 5,916,097</u>	<u>\$ 2,739,896</u>	<u>\$ 8,655,993</u>	<u>\$ 1,603,612</u>	<u>\$ 10,259,605</u>

** Supplemental information

Merrick Academy – Queens Public Charter School

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 1,940,986	\$ 286,262
Items not requiring (providing) operating cash flows		
Depreciation	398,969	322,613
Bad debt expense	39,748	-
Gain on forgiveness of loan	(1,204,975)	-
Noncash interest expense	8,442	-
Changes in		
Grants and contracts receivable	108,983	66,400
Prepaid expenses	(803)	(18,084)
Accounts payable and accrued expenses	81,456	(37,635)
Accrued salaries and related liabilities	40,925	(25,259)
Deferred revenue	(15,917)	25,223
Deferred rent	(58,372)	(36,698)
Net cash provided by operating activities	1,339,442	582,822
Investing Activities		
Fixed asset acquisitions	(689,079)	(245,557)
Net cash used in investing activities	(689,079)	(245,557)
Financing Activities		
Proceeds from loan	-	1,196,533
Net cash provided by financing activities	-	1,196,533
Net Change in Cash and Restricted Cash	650,363	1,533,798
Cash and Restricted Cash, Beginning of Year	2,562,862	1,029,064
Cash and Restricted Cash, End of Year	\$ 3,213,225	\$ 2,562,862
Cash and Cash Equivalents and Restricted Cash Consist of:		
Cash	\$ 3,137,188	\$ 2,487,033
Cash - reserve	76,037	75,829
	\$ 3,213,225	\$ 2,562,862
Noncash Investing Activities		
Property and equipment in accounts payable	\$ 64,383	\$ 7,912

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2021 and 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Merrick Academy – Queens Public Charter School (the School) is an educational corporation that operates as a charter school in the borough of Queens, New York City. On January 1, 2000, the Board of Regents and the Board of Trustees of the University of the State of New York, for and on behalf of the State Education Department, granted the School a charter from grades K-6. The charter has been renewed until June 30, 2025. During the fiscal years ended June 30, 2021 and 2020, the School operated classes for approximately 570 and 530 students in grades K-5, respectively.

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, the School is subject to federal income tax on any unrelated business taxable income. The School is supported primarily by state and local per-pupil operating revenues.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and change in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Restricted Cash

As part of the School's charter agreement, the School agreed to establish a long-term reserve account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

At June 30, 2021, the School's cash accounts exceeded federally insured limits by approximately \$2,900,000.

Grants and Contracts Revenue and Receivables

Revenues from government grants and contracts to which the School is entitled are recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by the School. Receivables are recorded when the revenue is earned.

Allowance for Doubtful Accounts

Management determines whether an allowance for doubtful accounts should be provided for tuition, contributions, or grants receivable. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. Such estimates are based upon management's assessment of the aged basis of its receivables, historical information, expected collections, business and economic conditions and collections subsequent to year-end. Interest income is not accrued or recorded on receivables. Management deemed no allowance necessary for the years ended June 30, 2021 and 2020.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2021 and 2020

Property and Equipment

Property and equipment acquisitions over \$1,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Leasehold improvements	5-20 years
Furniture and fixtures	7 years
Office and classroom equipment	3 years
Computer equipment	3 years
Software	3 years

Long-Lived Asset Impairment

The School evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2021 and 2020.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor- or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

At June 30, 2021 and 2020, all net assets are without donor restrictions and are available to be used for operations.

State and Local Per-Pupil Operating Revenues

Revenues from the state and local governments resulting from the School's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. These grants are recorded as revenue by the School when services are rendered.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2021 and 2020

Contributions

Contributions are provided to the School either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the School overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

As of June 30, 2021 and 2020, \$9,306 and \$25,223 of proceeds received from conditional contributions were recorded as a liability as the conditions had not been met, respectively.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2021 and 2020

Leases

Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Operating lease payments are charged to equipment and auto leases expense. Operating lease expense is recorded on the straight-line basis over the life of the lease, unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property, in which case that basis shall be used. Deferred rent is recorded for the difference between the fixed payment and the rent expense. In 2021 and 2020, all leases were classified as operating leases.

Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the School is subject to federal income tax on any unrelated business taxable income. The School is exempt from filing tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the separate statements of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. All of these expense line items are allocated based on staffing allocations to the main functional areas of the school: general education, special education and management/general.

Note 2: Property and Equipment

	2021	2020
Leasehold improvements	\$ 1,509,566	\$ 1,154,298
Furniture and fixtures	557,590	491,124
Office and classroom equipment	420,262	389,538
Computer equipment	1,035,145	819,124
Software	246,421	169,349
	3,768,984	3,023,433
Accumulated depreciation and amortization	(2,706,448)	(2,307,479)
	<u>\$ 1,062,536</u>	<u>\$ 715,954</u>

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2021 and 2020

Note 3: Loan Payable

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act*. On May 4, 2020, the School received a loan in the amount of \$1,196,533 pursuant to the Paycheck Protection Program. The School has elected to account for the funding as a loan in accordance with ACS Topic 470, *Debt*. The loan is due two years from the date of the first disbursement under the loan and has a fixed interest rate of 1 percent per year. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized. On January 13, 2021, the Small Business Administration forgave the balance of the loan.

Note 4: Lease Commitments

The School has a lease on the school building which will expire on December 31, 2022. Rent expense for the years ended June 30, 2021 and 2020 was \$830,277. The lease for the building is being straight-lined over the life of the lease. The deferred rent liability as of June 30, 2021 and 2020 was \$126,505 and \$184,877, respectively.

The School entered into noncancelable lease agreements for office equipment expiring at various dates through June 2024. Rent expense for the years ended June 30, 2021 and 2020 was \$101,592 and \$105,926, respectively.

The future minimum lease payments as of June 30, 2021 are:

<u>Year Ending</u> <u>June 30</u>	
2022	\$ 1,003,554
2023	517,115
2024	<u>22,840</u>
	<u>\$ 1,543,509</u>

Note 5: Contingencies and Concentrations

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

A significant portion of the School's operating revenue is paid by New York State Education Department.

In addition, all grants and contracts receivable due at year-end were all due from the New York State Education Department.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2021 and 2020

Note 6: Retirement Plan

The School sponsors a 401(k) retirement plan for its employees. All employees are immediately eligible to participate in the plan. Employees can make pretax contributions up to a maximum of 100 percent of the annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4 percent of the employee's annual compensation. Pension expense under this plan for the years ended June 30, 2021 and 2020 was \$165,663 and \$138,439, respectively.

Note 7: Liquidity and Availability

The School's financial assets available within one year of the balance sheet date for general expenditures as of June 30, 2021 and 2020 are:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end		
Cash	\$ 3,137,188	\$ 2,487,033
Grants and contracts receivable	<u>24,425</u>	<u>173,156</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,161,613</u>	<u>\$ 2,660,189</u>

The financial assets of the School without donor restrictions or restricted by state laws, are available for general expenditures. As part of liquidity management, the School invests cash in excess of daily requirements in short-term investments. Although the School does not intend to spend from its 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. During the years ended June 30, 2021 and 2020, the level of liquidity and reserves was managed within the policy requirements.

Note 8: Subsequent Events

Subsequent events have been evaluated through October 25, 2021, which is the date the financial statements were available to be issued.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2021 and 2020

Note 9: Future Changes in Accounting Principles

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and non lease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The School is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

**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 Auditor's Report

Board of Trustees
Merrick Academy – Queens Public Charter School
Laurelton, New York

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, the financial statements of Merrick Academy – Queens Public Charter School, which comprise the statement of financial position as of June 30, 2021, 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 October 25, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Merrick Academy – Queens Public Charter 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 Merrick Academy – Queens Public Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Merrick Academy – Queens Public 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 Merrick Academy – Queens Public Charter 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 financial statements. 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 entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

New York, New York
October 25, 2021

Merrick Academy – Queens Public Charter School
Schedule of Findings and Responses
Year Ended June 30, 2021

Findings Required to be Reported by *Government Auditing Standards*

No matters are reportable.

Merrick Academy – Queens Public Charter School
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

Reference Number	Summary of Finding	Status
No matters are reportable.		

Board of Trustees, Audit Committee and Management
Merrick Academy – Queens Public Charter School
Laurelton, New York

As part of our audit of the financial statements of Merrick Academy – Queens Public Charter School (the School) as of and for the year ended June 30, 2021, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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

An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The School's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

No matters are reportable.

Financial Statement Disclosures

No matters are reportable.

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Proposed Audit Adjustment Recorded

- Accrual and forgiveness of interest on PPP loan.

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole.

Auditor's Judgments About the Quality of the School's Accounting Principles

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (attached)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.

OTHER MATTERS

We observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

New Lease Accounting Standard

The Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases* (Topic 842), the long-awaited standard on lease accounting. FASB has issued various ASUs since that date related to Topic 842 as well seeking to clarify guidance and provide more transition relief in certain areas.

Under the ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases and is consistent with the lessee accounting model under existing generally accepted accounting principles (GAAP). One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the income statement and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the standard is fundamentally consistent with existing GAAP.

Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

The School is required to adopt Topic 842 for fiscal year 2023. Early adoption is permitted.

Implementation

The approved delay by FASB of the effective date of the new leases standard *Accounting Standards Codification* (ASC) 842 by one year for private companies and most non-profit organizations is welcome relief as many of these entities continue to work on their implementations of the new revenue standard (ASC 606).

However, there are certain lease implementation items to get moving on sooner rather than later:

1. Educate yourself and key stakeholders about ASC 842.
 - a. Check out **bkd.com** for BKD Thoughtware resources, including articles and webinars related to the new standard and the related implementation efforts.
2. Early decision points:
 - a. Transition method
 - b. Practical expedients and accounting policy elections
3. Accumulate the population of potential leases.
4. Communicate with lenders – expected impact of ASC 842 on existing debt covenants.
5. Systems analysis – Do you need lease software? If so, vendor selection takes time.
6. Start developing the processes and controls necessary for effective implementation of the ASC 842 as well as the ongoing accounting requirements.

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

BKD, LLP

New York, New York
October 25, 2021

Merrick Academy Queens Public Charter School

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" and "Schedule of Uncorrected Misstatements (Notes to the Financial Statements)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE AND QUALITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	3,263,856	6,137	3,269,993	0.19%
Non-Current Assets	1,266,343	0	1,266,343	0.00%
Current Liabilities	(1,105,087)	(6,137)	(1,111,224)	0.56%
Non-Current Liabilities	(126,505)	0	(126,505)	0.00%
Current Ratio	2.95		2.94	-0.34%
Total Assets	4,530,199	6,137	4,536,336	0.14%
Total Liabilities	(1,231,592)	(6,137)	(1,237,729)	0.50%
Net Assets	(3,298,607)	0	(3,298,607)	0.00%
Revenues & Income	(12,626,053)	0	(12,626,053)	0.00%
Costs & Expenses	10,692,981	0	10,692,981	0.00%
Change in Net Assets	(1,933,072)	0	(1,933,072)	0.00%

Misstatements within Notes to the Financial Statements

Client: Merrick Academy Queens Public Charter School
Period Ending: June 30, 2021

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Location or Business Unit	Financial Line Item	Factual (F), Judgmental (J) or Projected (P)	Assets		Liabilities		(X) Non Tax	Revenues & Income		Costs & Expenses		Net Assets	Net Effect on Following Year	
				Current	Noncurrent	Current	Noncurrent							Change in Net	Net Assets
				DR (CR)	DR (CR)	DR (CR)	DR (CR)		DR (CR)	DR (CR)	DR (CR)	DR (CR)		DR (CR)	DR (CR)
Reclass debit balances from accounts payable to prepaid expenses			F	6,137	0	(6,137)	0		0		0		0	0	0
Taxable passed adjustments									0		0		0	0	0
Times (1 - effective tax rate of 00%)									100%		100%		100%		
Taxable passed adjustments net of tax impact									0		0		0		
Nontaxable passed adjustments									6,137		0		0		
Total passed adjustments, net of tax impact (if any)									6,137		0		0		
Impact on Change in Net Assets													0		
Impact on Net Assets													0		

Representation of:
Merrick Academy Charter School
136-25 218th Street
Laurelton, NY 11413

Provided to:
BKD, LLP
Certified Public Accountants
1155 Avenue of the Americas, Suite 1200
New York, NY 10036

The undersigned (“We”) are providing this letter in connection with BKD’s audits of our financial statements as of and for the years ended June 30, 2021 and 2020.

Our representations are current and effective as of the date of BKD’s report: October 25, 2021.

Our engagement with BKD is based on our contract for services dated: June 30, 2021.

Our Responsibility and Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to BKD’s report in conformity with accounting principles generally accepted in the United States of America.

We are also responsible for adopting sound accounting policies; establishing and maintaining effective internal control over financial reporting, operations, and compliance; and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Confirmation of Matters Specific to the Subject Matter of BKD’s Report

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation, and maintenance of:
 - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.
3. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We

acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

4. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of meetings of the governing body held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
 - e. All significant contracts and grants.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
 - a. Misappropriation of assets.
 - b. Misrepresented or misstated assets, liabilities or net assets.
7. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
8. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to BKD any and all known reportable tax transactions.
9. We have no knowledge of any known or suspected fraudulent financial reporting or misappropriation of assets involving:
 - a. Management or employees who have significant roles in internal control, or
 - b. Others, where activities of others could have a material effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, customers, regulators, suppliers, or others.
11. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.

12. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

We understand that the term related party refers to an affiliate, management and members of their immediate families, component units, and any other party with which the entity may deal if the entity can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.

13. Except as reflected in the financial statements, there are no:
- a. Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - b. Material transactions omitted or improperly recorded in the financial records.
 - c. Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - d. Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - e. Agreements to purchase assets previously sold.
 - f. Restrictions on cash balances or compensating balance agreements.
 - g. Guarantees, whether written or oral, under which the entity is contingently liable.
14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
15. We have no reason to believe the entity owes any penalties or payments under the Employer Shared Responsibility Provisions of the *Patient Protection and Affordable Care Act* nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
16. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.
17. Adequate provisions and allowances have been accrued for any material losses from:
- a. Uncollectible receivables, including pledges.
 - b. Purchase commitments in excess of normal requirements or above prevailing market prices.

18. Except as disclosed in the financial statements, the entity has:

- a. Satisfactory title to all recorded assets, and they are not subject to any liens, pledges, or other encumbrances.
 - b. Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
19. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
20. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
21. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
22. With respect to any nonattest services you have provided us during the year, including assisting with the preparation of the financial statements and preparation of information returns:
 - a. We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - b. We have established and monitored the performance of the nonattest services to ensure they meet our objectives.
 - c. We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - d. We have evaluated the adequacy of the services performed and any findings that resulted.
23. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.
24. We are an entity exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.
25. We acknowledge the entity is not a conduit debt obligor whose debt securities are listed, quoted, or traded on an exchange or an over-the-counter market. As a result, we acknowledge the entity

does not meet the definition of a “public entity” under generally accepted accounting principles for certain accounting standards.

26. As an entity subject to *Government Auditing Standards*:

- a. We acknowledge that we are responsible for compliance with applicable laws, regulations, and provisions of contracts and grant agreements, including those pertaining to REAC electronic submission
- b. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
- c. We have identified and disclosed to you any violations or possible violations of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
- d. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts, or violations of provisions of contracts or grant agreements that you or other auditors report.
- e. We have a process to track the status of audit findings and recommendations.
- f. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements, or other studies.
- g. We have provided our views on any findings, conclusions, and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.

27. With regard to supplementary information:

- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
- b. We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
- c. The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
- e. If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended

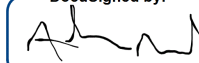
users of the supplementary information no later than the date such information and the related auditor's report are issued.

28. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.
29. We acknowledge the current economic volatility presents difficult circumstances and challenges for not-for-profit organizations. Not-for-profit organizations are potentially facing declines in the fair values of investments and other assets, declines in the volume of business/contributions, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for contributions receivable, etc. that could negatively impact the Organization's ability to meet debt covenants or maintain sufficient liquidity.

We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the entity's financial statements. Further, management and governance are solely responsible for all aspects of managing the entity, including questioning the quality and valuation of investments and other assets, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.

30. We have responded fully and truthfully to all your inquiries.

DocuSigned by:



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