

Middle Village Preparatory Charter School

Financial Statements

June 30, 2022 and 2021

Independent Auditors' Report

Board of Trustees
Middle Village Preparatory Charter School

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Middle Village Preparatory Charter School (the "School") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2022 on our consideration of the 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 the 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 the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

October 13, 2022

Middle Village Preparatory Charter School

Statements of Financial Position

	June 30	
	2022	2021
ASSETS		
Cash and cash equivalents	\$ 4,578,772	\$ 5,928,067
Grants and accounts receivable	205,997	98,461
Investments	9,148,836	6,402,419
Prepaid expenses and other assets	57,532	371,917
Restricted cash	75,227	75,207
Property and equipment, net	674,145	844,685
	<u>\$ 14,740,509</u>	<u>\$ 13,720,756</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 445,128</u>	<u>\$ 515,508</u>
Net Assets Without Donor Restrictions		
Undesignated	3,759,196	5,418,963
Board designated	<u>10,536,185</u>	<u>7,786,285</u>
Total Net Assets Without Donor Restrictions	<u>14,295,381</u>	<u>13,205,248</u>
	<u>\$ 14,740,509</u>	<u>\$ 13,720,756</u>

See notes to financial statements

Middle Village Preparatory Charter School

Statements of Activities

	Year Ended June 30	
	<u>2022</u>	<u>2021</u>
REVENUE AND SUPPORT		
Public School District -		
State and local per pupil operating revenue	\$ 7,201,664	\$ 6,954,105
Government grants and contracts	1,839,896	1,522,032
Interest and dividend revenue	222,560	189,841
Net realized and unrealized gain (loss) on investments	(1,471,929)	548,689
Other income	36,594	2,357
Total Revenue and Support	<u>7,828,785</u>	<u>9,217,024</u>
 EXPENSES		
Program services	5,783,247	5,648,345
Management and general	955,405	593,423
Total Expenses	<u>6,738,652</u>	<u>6,241,768</u>
 Change in Net Assets	1,090,133	2,975,256
 NET ASSETS WITHOUT DONOR RESTRICTIONS		
Beginning of year	<u>13,205,248</u>	<u>10,229,992</u>
 End of year	<u>\$ 14,295,381</u>	<u>\$ 13,205,248</u>

See notes to financial statements

Middle Village Preparatory Charter School

Statement of Functional Expenses Year Ended June 30, 2022

		2022					2021
	No. of Positions	No. of Students	Program Services			Management and General	Total
			Regular Education	Special Education	Total		
		397	357	40			
Personnel Services Costs							
Administrative staff personnel	7		\$ 324,132	\$ 202,582	\$ 526,714	\$ 283,615	\$ 810,329
Instructional personnel	27		1,518,905	580,016	2,098,921	-	2,098,921
Non-instructional personnel	1		11,598	1,302	12,900	-	12,900
Total Personnel Services Costs	35		1,854,635	783,900	2,638,535	283,615	2,922,150
Fringe benefits and payroll taxes			253,545	107,569	361,114	38,971	400,085
Retirement			73,235	31,071	104,306	11,257	115,563
Legal service			-	-	-	3,027	3,027
Accounting/audit services			-	-	-	75,933	75,933
Building and land rent/lease			962,611	408,398	1,371,009	147,959	1,518,968
Repairs and maintenance			36,403	15,444	51,847	5,595	57,442
Insurance			116,160	49,282	165,442	17,854	183,296
Supplies/materials			156,855	17,611	174,466	-	174,466
Equipment/furnishings			45,180	19,168	64,348	6,944	71,292
Staff development			46,898	5,265	52,163	-	52,163
Marketing and recruitment			30,030	12,264	42,294	4,381	46,675
Technology			19,616	8,322	27,938	3,015	30,953
Food service			119,998	50,910	170,908	18,444	189,352
Student services			42,596	23,182	65,778	289,188	354,966
Office expense			16,799	7,127	23,926	2,582	26,508
Depreciation and amortization			248,749	105,535	354,284	38,231	392,515
Other			87,844	27,045	114,889	8,409	123,298
Total Expenses			\$ 4,111,154	\$ 1,672,093	\$ 5,783,247	\$ 955,405	\$ 6,738,652

See notes to financial statements

Middle Village Preparatory Charter School

Statement of Functional Expenses Year Ended June 30, 2021

	No. of Positions	No. of Students	Program Services			Management and General	Total
			Regular Education	Special Education	Total		
		406	362	44			
Personnel Services Costs							
Administrative staff personnel	9		\$ 309,909	\$ 193,693	\$ 503,602	\$ 271,170	\$ 774,772
Instructional personnel	26		1,590,197	648,018	2,238,215	-	2,238,215
Non-instructional personnel	<u>1</u>		<u>65,732</u>	<u>8,018</u>	<u>73,750</u>	<u>-</u>	<u>73,750</u>
Total Personnel Services Costs	36		1,965,838	849,729	2,815,567	271,170	3,086,737
Fringe benefits and payroll taxes			308,864	133,506	442,370	42,605	484,975
Retirement			80,590	34,835	115,425	11,117	126,542
Legal service			-	-	-	3,548	3,548
Accounting/audit services			-	-	-	64,364	64,364
Building and land rent/lease			965,086	417,157	1,382,243	133,125	1,515,368
Repairs and maintenance			30,705	5,342	36,047	710	36,757
Insurance			82,191	35,527	117,718	11,337	129,055
Supplies/materials			64,866	7,913	72,779	-	72,779
Equipment/furnishings			15,417	6,664	22,081	2,127	24,208
Staff development			39,630	4,834	44,464	-	44,464
Marketing and recruitment			28,860	10,555	39,415	3,128	42,543
Technology			15,296	6,612	21,908	2,110	24,018
Food service			28,149	12,167	40,316	3,883	44,199
Student services			29,681	16,521	46,202	-	46,202
Office expense			12,562	5,430	17,992	1,733	19,725
Depreciation and amortization			256,172	110,730	366,902	35,338	402,240
Other			<u>46,721</u>	<u>20,195</u>	<u>66,916</u>	<u>7,128</u>	<u>74,044</u>
Total Expenses			<u>\$ 3,970,628</u>	<u>\$ 1,677,717</u>	<u>\$ 5,648,345</u>	<u>\$ 593,423</u>	<u>\$ 6,241,768</u>

See notes to financial statements

Middle Village Preparatory Charter School

Statements of Cash Flows

	Year Ended June 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from per pupil operating revenue and government grants and contracts	\$ 8,934,024	\$ 8,520,373
Cash receipts from interest and dividend revenue	222,560	189,841
Other income	36,594	2,357
Total Cash Received	<u>9,193,178</u>	<u>8,712,571</u>
Cash paid for payroll and benefits	3,556,306	3,615,146
Cash paid to vendors	2,545,826	1,562,466
Total Cash Paid	<u>6,102,132</u>	<u>5,177,612</u>
Net Cash from Operating Activities	<u>3,091,046</u>	<u>3,534,959</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,672,394)	(4,946,346)
Sale of investments	1,454,048	4,761,337
Purchases of property and equipment	(221,975)	(346,165)
Net Cash from Investing Activities	<u>(4,440,321)</u>	<u>(531,174)</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	(1,349,275)	3,003,785
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	<u>6,003,274</u>	<u>2,999,489</u>
End of year	<u>\$ 4,653,999</u>	<u>\$ 6,003,274</u>

See notes to financial statements

Middle Village Preparatory Charter School

Notes to Financial Statements

June 30, 2022 and 2021

1. Nature of the 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 ending June 30, 2023, the Board of Regents renewed the School's charter for a period of five years expiring July 31, 2028. The School opened with its first academic year in the fall of 2013 and provided education to 397 and 406 students in sixth through eighth grade during the 2021-2022 and 2020-2021 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.

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 restrictions - consist of resources available for the general support of the School's operations. Net assets without donor restrictions 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 unforeseen operating and capital expenses.

Middle Village Preparatory Charter School

Notes to Financial Statements

June 30, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation (continued)

With donor restrictions - 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 restrictions 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 restrictions are reclassified to net assets without donor restrictions 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 restrictions at June 30, 2022 and 2021.

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.

Investment Valuation

Investments are carried at fair value.

Restricted Cash

Included in restricted cash is an escrow fund of \$75,227 as of June 30, 2022 and \$75,207 as of June 30, 2021 to cover debts in the event of the School's dissolution. According to Section 2851(2)(t) of the Charter School Law, the School must maintain no less than \$75,000 in an escrow account.

Middle Village Preparatory Charter School

Notes to Financial Statements June 30, 2022 and 2021

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

Restricted Cash (continued)

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the statements of financial position that sum to the totals of the same such amounts presented in the statements of cash flows at June 30:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,578,772	\$ 5,928,067
Restricted cash	<u>75,227</u>	<u>75,207</u>
	<u>\$ 4,653,999</u>	<u>\$ 6,003,274</u>

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 required to be recognized at June 30, 2022 or 2021.

Revenue Recognition

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

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

The School follows U.S. GAAP guidance on accounting for contributions received and contributions made. Accordingly, contributed assets are recorded at fair value at the date of donation.

Middle Village Preparatory Charter School

Notes to Financial Statements

June 30, 2022 and 2021

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

Revenue Recognition (continued)

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

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 attributable 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 educational 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, 2022 and 2021 was \$46,675 and \$42,543.

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.

Middle Village Preparatory Charter School

Notes to Financial Statements

June 30, 2022 and 2021

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

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, 2019.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through October 13, 2022, which is the date that the financial statements were available to be issued.

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, 2022 and 2021, the uninsured portion of this balance was \$4,081,998 and \$5,431,293. 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 \$7,201,664 and \$6,954,105 for the years ended June 30, 2022 and 2021. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances would be materially adversely affected.

The School entered into contractual arrangements with certain governmental funding sources. The governmental agencies may request a 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.

Middle Village Preparatory Charter School

Notes to Financial Statements June 30, 2022 and 2021

5. Investments

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

	2022		2021	
	Quoted Price in Active Markets for Identical Assets (Level 1)	Total	Quoted Price in Active Markets for Identical Assets (Level 1)	Total
Exchange-traded funds and closed-end funds	\$ 1,738,291	\$ 1,738,291	\$ 1,570,121	\$ 1,570,121
Corporate bonds	267,705	267,705	382,907	382,907
Common stocks	2,136,229	2,136,229	701,035	701,035
Mutual funds	841,944	841,944	1,594,416	1,594,416
	<u>\$ 4,984,169</u>	<u>4,984,169</u>	<u>\$ 4,248,479</u>	<u>4,248,479</u>
Cash equivalents, at cost		4,164,667		1,837,496
Certificates of deposit, at cost		-		316,444
		<u>\$ 9,148,836</u>		<u>\$ 6,402,419</u>

During the years ended June 30, 2022 and 2021, there were no transfers in or out of Levels 1, 2 or 3 of the fair value hierarchy.

6. Property and Equipment

Property and equipment consist of the following at June 30:

	2022	2021	Estimated Useful Lives
Computers and other equipment	\$ 1,416,747	\$ 1,235,764	3
Furniture and fixtures	407,921	401,212	7
Leasehold improvements	<u>1,545,080</u>	<u>1,510,797</u>	5
	3,369,748	3,147,773	
Accumulated depreciation and amortization	<u>(2,695,603)</u>	<u>(2,303,088)</u>	
	<u>\$ 674,145</u>	<u>\$ 844,685</u>	

Middle Village Preparatory Charter School

Notes to Financial Statements June 30, 2022 and 2021

7. Board Designated Net Assets

For the years ended June 30, 2022 and 2021, the School designated \$2,749,000 and \$738,495 as an additional reserve for future capital projects.

The board designated net assets activity for the years ended June 30, 2022 and 2021 is as follows:

	Balance June 30, 2021	Additions	Released	Balance June 30, 2022
Future capital projects	\$ 7,786,285	\$ 2,749,900	\$ -	\$ 10,536,185
	Balance June 30, 2020	Additions	Released	Balance June 30, 2021
Future capital projects	\$ 7,047,790	\$ 738,495	\$ -	\$ 7,786,285

8. 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:

	2022	2021
Cash and cash equivalents	\$ 4,578,772	\$ 5,928,067
Grants and contracts receivable	205,997	98,461
Investments	9,148,836	6,402,419
Total Financial Assets	13,933,605	12,428,947
Less amounts unavailable for general expenditure:		
Board designated net assets	10,536,185	7,786,285
Financial Assets at Year End Available to Meet Cash Needs for General Expenditure Within One Year	\$ 3,397,420	\$ 4,642,662

Liquidity Management

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, 2022 and 2021

9. Operating Leases

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 \$1,518,968 and \$1,515,368 for the years ended June 30, 2022 and 2021. There were no care and maintenance fees for the years ended June 30, 2022 and 2021.

Future minimum rental expense to be paid pursuant to the agreement is \$1,554,828 for the year ending June 30, 2023.

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, 2022 and 2021, the School expended and contributed \$115,563 and \$126,542 to the plan.

11. Risks and Uncertainties

The School's operations and financial performance may be affected by the recent COVID-19 outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the School may experience a disruption in operations as well as a decline in revenue activities. Economic uncertainty is related to the potential reduction and/or delays in state and local per pupil operating revenue, shortfalls and variations in enrollment, and operational and other changes that could increase expenses. The outbreak may adversely affect the School's activities, financial condition, results of operations, and cash flows. Management is closely monitoring the impact of COVID-19 and believes the School is taking appropriate actions to mitigate the negative impact. However, management is unable to estimate the financial impact, if any, related to this matter.

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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, 2022, 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 13, 2022.

Report on 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") 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 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 or significant deficiencies may exist that were not identified.

Report on 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 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.

PKF O'Connor Davies, LLP

October 13, 2022

Middle Village Preparatory Charter School

Auditors' Communication on Internal Control

June 30, 2022

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, 2022, 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.

We have an other observation and recommendation that is an opportunity for strengthening internal control and/or operating efficiency, presented in Addendum A to this letter.

This communication is intended solely for the information and use of management, the Board of Trustees, and 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

October 13, 2022

Addendum A

Other Observation and Recommendation for Strengthening Internal Control and/or Operating Efficiency

1. Cybersecurity Awareness Training and Cybersecurity Assessment (*Repeat Finding*)

Observation

During our audit, we noted the School has not implemented a cybersecurity awareness training program, nor performed a cybersecurity assessment.

Recommendation

We recommend that the School develop and implement an employee cybersecurity awareness program. Employees across all business segments pose a significant risk to the security of the network and sensitive data. While technical controls can and should be implemented to limit and control cyber risk, ultimately employee awareness training is proven to be the most effective mitigation. Further, many types of cyber-attacks are specifically designed to commit financial fraud by leveraging employee cyber education weaknesses.

In addition, we recommend that the School establish a process to periodically monitor the design and operating effectiveness of their cybersecurity program. Such a process is becoming a standard to be performed on an annual basis, similar to the financial audit. Cybersecurity is a significant risk facing every business. Businesses of all sizes are under the threat of constant attack. A successful cyber breach could result in significant financial, operations, regulatory and reputational impact. A key control to defend against the multitude of cyber threats is to have a clear understanding of the cyber exposure of the business and the effectiveness of the controls in defending against them.

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