

Merrick Academy – Queens Public Charter School

Independent Auditor's Reports and Financial Statements

June 30, 2020 and 2019



Merrick Academy – Queens Public Charter School

June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 27, 2020, 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 27, 2020

Merrick Academy – Queens Public Charter School
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash	\$ 2,487,033	\$ 953,473
Grants and contracts receivable	173,156	239,556
Prepaid expenses	101,440	83,356
Total current assets	2,761,629	1,276,385
Security deposits	127,770	127,770
Cash – reserve	75,829	75,591
Fixed assets – net	715,954	800,922
Total assets	\$ 3,681,182	\$ 2,280,668
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 157,012	\$ 202,559
Accrued salaries and related liabilities	752,002	777,261
Deferred revenue	25,223	-
Loan payable	459,518	-
Total current liabilities	1,393,755	979,820
Deferred rent	184,877	221,575
Loan payable	737,015	-
Total long term liabilities	921,892	221,575
Total liabilities	2,315,647	1,201,395
Net Assets, Without Donor Restrictions	1,365,535	1,079,273
Total liabilities and net assets	\$ 3,681,182	\$ 2,280,668

Merrick Academy – Queens Public Charter School

Statements of Activities

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues and Other Support		
Resident student enrollment	\$ 8,803,300	\$ 8,231,513
Students with disabilities	<u>1,479,114</u>	<u>1,420,145</u>
Total state and local per-pupil operating revenues	10,282,414	9,651,658
Government grants and contracts	231,169	261,049
Contributions	-	11,000
Interest	288	7,421
Miscellaneous income	<u>31,996</u>	<u>22,125</u>
Total operating revenues and other support	<u>10,545,867</u>	<u>9,953,253</u>
Expenses		
Program services		
Education	5,916,097	6,313,022
Special education	<u>2,739,896</u>	<u>3,016,156</u>
Total program services	<u>8,655,993</u>	<u>9,329,178</u>
Supporting services		
Management and general	<u>1,603,612</u>	<u>1,680,459</u>
Total expenses	<u>10,259,605</u>	<u>11,009,637</u>
Change in Net Assets	286,262	(1,056,384)
Net Assets Without Donor Restrictions, Beginning of Year	<u>1,079,273</u>	<u>2,135,657</u>
Net Assets Without Donor Restrictions, End of Year	<u><u>\$ 1,365,535</u></u>	<u><u>\$ 1,079,273</u></u>

Merrick Academy – Queens Public Charter School
Statement of Functional Expenses
Year Ended June 30, 2020

	** No. of Positions	Program Services			Supporting Services	Total
		Education	Special Education	Total	Management and General	
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
Statement of Functional Expenses
Year Ended June 30, 2019

	** No. of Positions	Program Services			Supporting Services	Total
		Education	Special Education	Total	Management and General	
Personnel service costs						
Administrative staff personnel	15	\$ 579,216	\$ 362,010	\$ 941,226	\$ 506,814	\$ 1,448,040
Instructional personnel	64	3,014,798	1,403,826	4,418,624	-	4,418,624
Noninstructional personnel	7	-	-	-	419,751	419,751
Salaries		3,594,014	1,765,836	5,359,850	926,565	6,286,415
Payroll taxes and employee benefits		867,056	426,008	1,293,064	122,269	1,415,333
Retirement		78,694	38,665	117,359	11,097	128,456
Legal service		-	-	-	55,070	55,070
Accounting/audit services		-	-	-	139,050	139,050
Other purchased/professional/ consulting services		212,938	85,412	298,350	247,616	545,966
Building and land rent/lease		509,794	250,471	760,265	71,827	832,092
Repairs and maintenance		115,846	56,918	172,764	16,336	189,100
Insurance		29,674	14,580	44,254	4,184	48,438
Utilities		73,554	36,139	109,693	10,372	120,065
Supplies/materials		166,598	46,405	213,003	3,885	216,888
Equipment/furnishings		6,093	2,994	9,087	859	9,946
Staff development		99,065	31,722	130,787	4,593	135,380
Marketing/recruitment		49,026	23,099	72,125	6,367	78,492
Technology		47,713	23,443	71,156	6,728	77,884
Student services		82,568	27,568	110,136	-	110,136
Office expense		133,133	65,412	198,545	18,774	217,319
Depreciation		211,289	103,812	315,101	29,795	344,896
Other		35,967	17,672	53,639	5,072	58,711
Total expenses		<u>\$ 6,313,022</u>	<u>\$ 3,016,156</u>	<u>\$ 9,329,178</u>	<u>\$ 1,680,459</u>	<u>\$ 11,009,637</u>

** Supplemental information

Merrick Academy – Queens Public Charter School

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 286,262	\$ (1,056,384)
Items not requiring (providing) operating cash flows		
Depreciation	322,613	344,896
Changes in		
Grants and contracts receivable	66,400	145,090
Prepaid expenses	(18,084)	(13,740)
Accounts payable and accrued expenses	(37,635)	(40,880)
Accrued salaries and related liabilities	(25,259)	82,580
Deferred revenue	25,223	-
Deferred rent	(36,698)	(15,552)
	582,822	(553,990)
Net cash provided by (used in) operating activities		
Investing Activities		
Fixed asset acquisitions	(245,557)	(529,958)
	(245,557)	(529,958)
Net cash used in investing activities		
Financing Activities		
Proceeds from loan	1,196,533	-
	1,196,533	-
Net cash provided by financing activities		
Net Change in Cash and Restricted Cash	1,533,798	(1,083,948)
Cash and Restricted Cash, Beginning of Year	1,029,064	2,113,012
Cash and Restricted Cash, End of Year	\$ 2,562,862	\$ 1,029,064
Cash and Cash Equivalents and Restricted Cash Consist of:		
Cash	\$ 2,487,033	\$ 953,473
Cash - reserve	75,829	75,591
	\$ 2,562,862	\$ 1,029,064
Noncash Investing Activities		
Property and equipment in accounts payable	\$ 7,912	\$ 7,851

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2020 and 2019

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. On February 3, 2015, the School's charter renewal was approved for an additional five years, which expired on June 30, 2020. The charter has been renewed until June 30, 2025. During the fiscal years ended June 30, 2020 and 2019, the School operated classes for approximately 530 and 520 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, 2020, the School's cash accounts exceeded federally insured limits by approximately \$2,279,500.

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.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019.

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, 2020 and 2019.

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.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2020 and 2019

At June 30, 2020 and 2019, 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.

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.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020, \$25,223 of proceeds received from conditional contributions were recorded as a liability as the conditions had not been met.

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, when material, is recorded for the difference between the fixed payment and the rent expense. In 2020 and 2019, 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: Changes in Accounting Principles

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash

During 2020, the School adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the statements of cash flows.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2020 and 2019

This change was applied retrospectively to all periods presented which resulted in the following changes within the 2019 statement of cash flows:

	As Originally Reported	As Reported Under ASU 2016-18	Effect of Change
Investing activities			
Deposit in escrow	\$ (249)	\$ -	\$ 249
Net cash used in investing activities	(530,207)	(529,958)	249
Net change in cash and restricted cash	(1,084,197)	(1,083,948)	249
Cash and restricted cash, beginning of year	2,037,670	2,113,012	75,342
Cash and restricted cash, end of year	953,473	1,029,064	75,591

Note 3: Property and Equipment

	2020	2019
Leasehold improvements	\$ 1,154,298	\$ 1,043,696
Furniture and fixtures	491,124	457,977
Office and classroom equipment	389,538	368,955
Computer equipment	819,124	780,394
Software	169,349	134,766
	3,023,433	2,785,788
Accumulated depreciation and amortization	(2,307,479)	(1,984,866)
	<u>\$ 715,954</u>	<u>\$ 800,922</u>

Note 4: Loans 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. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. 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.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2020 and 2019

Annual maturities as of June 30, 2020 are:

2021	\$ 459,518
2022	<u>737,015</u>
	<u>\$ 1,196,533</u>

Note 5: 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, 2020 and 2019 was \$830,277 and \$832,092, respectively.

The lease for the building is being straight-lined over the life of the lease. The deferred rent liability as of June 30, 2020 and 2019 was \$184,877 and \$221,575, 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, 2020 and 2019 was \$105,926 and \$112,534, respectively.

The future minimum lease payments as of June 30, 2020 are:

<u>Year Ending</u> <u>June 30</u>	
2021	\$ 1,008,573
2022	1,003,554
2023	517,115
2024	<u>22,840</u>
	<u>\$ 2,552,082</u>

Note 6: 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, 2020 and 2019

Note 7: 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, 2020 and 2019 was \$138,439 and \$128,456, respectively.

Note 8: Liquidity and Availability

The School's financial assets available within one year of the balance sheet date for general expenditures as of June 30, 2020 and 2019 are:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end		
Cash	\$ 2,487,033	\$ 953,473
Grants and contracts receivable	<u>173,156</u>	<u>239,556</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,660,189</u>	<u>\$ 1,193,029</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, 2020 and 2019, the level of liquidity and reserves was managed within the policy requirements.

Note 9: Subsequent Events

Subsequent events have been evaluated through October 27, 2020, which is the date the financial statements were available to be issued.

Merrick Academy – Queens Public Charter School

Notes to Financial Statements

June 30, 2020 and 2019

Note 10: 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, 2020, 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 27, 2020.

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 27, 2020

Merrick Academy – Queens Public Charter School
Schedule of Findings and Responses
Year Ended June 30, 2020

Findings Required to be Reported by *Government Auditing Standards*

No matters are reportable.

Merrick Academy – Queens Public Charter School
Schedule of Prior Audit Findings
Year Ended June 30, 2020

Reference Number	Summary of Finding	Status
2019-001	Segregation of Duties – Review of Journal Entries The accounting functions should be properly segregated to ensure proper internal controls over financial reporting, including the review of journal entries made during the year.	Condition resolved

Board of Trustees 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, 2020, 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.

ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

Effective July 1, 2019, the School adopted Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 applies to all grants and contributions received and clarifies the accounting guidance applicable for grant accounting.

Historically, there was diversity in practice for accounting for grants. Some grantees considered grants to be an exchange transaction, whereas others reported grants as donor-restricted contributions. ASU 2018-08 provides guidance that unless the grantor is directly receiving value in the same amount as the services provided (an exchange transaction), the grant should be considered a contribution. In addition, if the grantor incorporates barriers into the contract and has a right of return, the transaction is considered to be a conditional contribution. Under the accounting guidance, conditional contributions are not recorded as revenue until the condition has been met.

In implementing ASU 2018-08, the School was required to evaluate all grant agreements. Adoption of the ASU may cause a change in the timing and classification of grant revenues.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- In connection with the adoption of ASU 2018-08, management has elected an accounting policy that 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.
- The School has elected to account for the PPP funding as a loan in accordance with Accounting Codification Standards (ACS) Topic 470, *Debt*.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Receivables and potential for allowance for doubtful accounts

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.

There was one proposed audit adjustment recorded related to classification of a prepaid expense in accounts payable. There were no proposed audit adjustments not recorded.

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

During the course of the audit, we observed the School applied new accounting pronouncements related to restricted cash and cash equivalents.

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 matter 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, this matter is 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 this matter 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, 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.

BKD, LLP

New York, New York
October 27, 2020

Merrick Academy Charter School est.2000

136-25 218th St. Laurelton, NY 11413
(718) 479-3753 Merrickacademy.org
Stephanie Mauterstock, Executive Director
Samantha Pugh, CAO/Principal



Inquiry, Equity and Excellence

October 27, 2020

BKD, LLP

Certified Public Accountant

1155 Avenue of the Americas, Suite 1200

New York, NY 10036

We are providing this letter in connection with your audits of our financial statements as of and for the years ended June 30, 2020 and 2019. We confirm that we are responsible for the fair presentation of the financial statements 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.

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 engagement letter dated August 21, 2020, 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 internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We acknowledge the Organization 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 Organization does not meet the definition of a "public entity" under generally accepted accounting principles for certain accounting standards.

5. 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.
6. 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 trustees' meetings held through the date of this letter.
 - (e) All significant contracts and grants.
7. All transactions have been recorded in the accounting records and are reflected in the financial statements.
8. We have informed you of all current risks of a material amount that are not adequately prevented or detected by Organization procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net assets.
9. 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.
10. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, customers, regulators, suppliers or others.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. 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, subsidiaries accounted for by the equity method; and any other party with which the Organization may deal if the Organization 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 Organization.

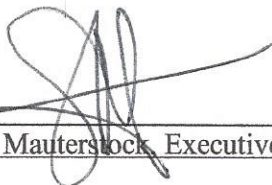
14. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the statement of financial position 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 Organization is contingently liable.
15. 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.
16. We have no reason to believe the Organization 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.
17. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
18. 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.
19. Except as disclosed in the financial statements, the Organization 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.
20. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of financial position date which 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 which 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.
21. 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.
22. 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.
23. 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 that 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.
24. We are an organization 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 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.
26. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

27. 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.
28. 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.
29. 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.
30. We have a process to track the status of audit findings and recommendations.
31. 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.
32. 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*.
33. 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.
34. In connection with the adoption of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, management has elected an accounting policy to record conditional contributions having donor stipulations which are satisfied in the period the gift is received as revenue without donor restrictions.
35. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the Organization'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.

36. We acknowledge the current economic situation presents difficult circumstances and challenges for not-for-profit organizations. Not-for-profit organizations are facing declines in the fair values of assets, declines in 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 Organization's financial statements. Further, management and the Board are solely responsible for all aspects of managing the Organization, including questioning the quality and valuation of assets, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.
37. With regards to our loan obtained under the Paycheck Protection Program (PPP), dated May 4, 2020, we represent the following:
- (a) The Organization, when considered together with all of its affiliates (using the affiliate determinations required by the PPP), had fewer than 500 employees at the date of the loan application.
 - i. In addition, we have determined the number of full-time equivalent employees on payroll (at the time of the application) in a manner that is consistent with the clarification guidance released by the Small Business Administration.
 - (b) During the period beginning on February 15, 2020, and ending on December 31, 2020, we have not received more than one loan under the Paycheck Protection Program. In addition, we have confirmed with our affiliated entities (using the affiliate determinations required by the PPP) that the total of any PPP loans received by us and by those affiliates does not exceed \$20 million in the aggregate.
 - (c) We have not used the proceeds from the PPP loan for expenditures that were covered by other funding sources, *i.e.*, government grants or contracts.
 - (d) The Organization has elected to account for the PPP funding as a loan in accordance with ACS Topic 470, *Debt*.



Stephanie Mauterstock, Executive Director



Josh Moreau, Financial Consultant