

Middle Village Preparatory Charter School

Auditors' Communication on Internal Control

June 30, 2018

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, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

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

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

PKF O'Connor Davies, LLP

Harrison, New York
October 3, 2018

Middle Village Preparatory Charter School

Financial Statements

June 30, 2018 and 2017

Independent Auditors' Report

Board of Trustees Middle Village Preparatory Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Middle Village Preparatory Charter School, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Middle Village Preparatory Charter School as of June 30, 2018 and 2017 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2018 on our consideration of Middle Village Preparatory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Middle Village Preparatory Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Middle Village Preparatory Charter School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP
October 3, 2018

Middle Village Preparatory Charter School

Statements of Financial Position

| | June 30, | |
|---------------------------------------|--------------|--------------|
| | 2018 | 2017 |
| ASSETS | | |
| Cash and cash equivalents | \$ 3,380,708 | \$ 2,407,258 |
| Grants and accounts receivable | 176,636 | 188,242 |
| Investments | 2,398,952 | 1,800,001 |
| Prepaid expenses and other assets | 34,534 | 46,627 |
| Restricted cash | 75,095 | 75,070 |
| Property and equipment, net | 406,246 | 499,261 |
| | \$ 6,472,171 | \$ 5,016,459 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 365,351 | \$ 367,653 |
| Deferred revenue | - | 4,009 |
| Total Liabilities | 365,351 | 371,662 |
| Net Assets, Unrestricted | | |
| Undesignated | 1,664,257 | 809,750 |
| Board designated | 4,442,563 | 3,835,047 |
| Total Net Assets, Unrestricted | 6,106,820 | 4,644,797 |
| | \$ 6,472,171 | \$ 5,016,459 |

See notes to financial statements

Middle Village Preparatory Charter School

Statements of Activities

| | Year Ended June 30, | |
|---|---------------------|---------------------|
| | <u>2018</u> | <u>2017</u> |
| REVENUE AND SUPPORT | | |
| Public School District - | | |
| State and local per pupil operating revenue | \$ 6,262,717 | \$ 6,168,498 |
| Government grants and contracts | 1,212,963 | 1,106,745 |
| Interest and dividend revenue | 64,165 | 6,616 |
| Net realized and unrealized loss on investments | (56,623) | - |
| Other income | <u>22,014</u> | <u>5,279</u> |
| Total Revenue and Support | <u>7,505,236</u> | <u>7,287,138</u> |
| | | |
| EXPENSES | | |
| Program services | 5,249,650 | 4,878,275 |
| Management and general | <u>793,563</u> | <u>617,757</u> |
| Total Expenses | <u>6,043,213</u> | <u>5,496,032</u> |
| | | |
| Change in Net Assets | 1,462,023 | 1,791,106 |
| | | |
| NET ASSETS, UNRESTRICTED | | |
| Beginning of year | <u>4,644,797</u> | <u>2,853,691</u> |
| | | |
| End of year | <u>\$ 6,106,820</u> | <u>\$ 4,644,797</u> |

See notes to financial statements

Middle Village Preparatory Charter School

Statement of Functional Expenses
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

| | No. of Positions | No. of Students | 2018 | | | | 2017 | |
|-----------------------------------|---------------------|--------------------|----------------------|----------------------|---------------------|---------------------------|---------------------|---------------------|
| | | | Program services | | | Management and General | Total | Total |
| | | | Regular Education | Special Education | Total | | | |
| | | 386 | 342 | 44 | | | | |
| Personnel Services Costs | | | | | | | | |
| Administrative Staff Personnel | 11 | | \$ 372,857 | \$ 233,036 | \$ 605,893 | \$ 326,250 | \$ 932,143 | \$ 692,560 |
| Instructional Personnel | 26 | | 1,257,019 | 517,897 | 1,774,916 | - | 1,774,916 | 1,765,146 |
| Non-instructional Personnel | 1 | | 65,807 | 8,538 | 74,345 | - | 74,345 | 67,435 |
| Total Salaries and Staff | 38 | | 1,695,683 | 759,471 | 2,455,154 | 326,250 | 2,781,404 | 2,525,141 |
| Fringe benefits and payroll taxes | | | 233,333 | 104,507 | 337,840 | 44,894 | 382,734 | 385,827 |
| Retirement | | | 45,658 | 20,449 | 66,107 | 8,785 | 74,892 | 64,015 |
| Legal service | | | - | - | - | 71,941 | 71,941 | 57,879 |
| Accounting/audit services | | | - | - | - | 47,300 | 47,300 | 57,466 |
| Building and land rent/lease | | | 449,922 | 201,513 | 651,435 | 86,565 | 738,000 | 720,000 |
| Repairs and maintenance | | | 246,225 | 110,281 | 356,506 | 47,374 | 403,880 | 410,239 |
| Insurance | | | 67,547 | 30,253 | 97,800 | 12,996 | 110,796 | 93,805 |
| Utilities | | | 153,632 | 68,809 | 222,441 | 29,559 | 252,000 | 243,000 |
| Supplies/materials | | | 231,995 | 30,099 | 262,094 | - | 262,094 | 171,769 |
| Equipment/furnishings | | | 26,307 | 11,783 | 38,090 | 5,062 | 43,152 | 29,317 |
| Staff development | | | 37,678 | 4,888 | 42,566 | - | 42,566 | 21,813 |
| Marketing and recruitment | | | 87,510 | 18,940 | 106,450 | 4,588 | 111,038 | 36,600 |
| Technology | | | 2,312 | 1,036 | 3,348 | 445 | 3,793 | 6,426 |
| Food service | | | 105,239 | 47,135 | 152,374 | 20,248 | 172,622 | 174,610 |
| Student services | | | 65,912 | 21,167 | 87,079 | 40,255 | 127,334 | 104,100 |
| Office expense | | | 18,786 | 8,414 | 27,200 | 3,614 | 30,814 | 31,796 |
| Depreciation and amortization | | | 173,986 | 77,925 | 251,911 | 33,475 | 285,386 | 299,655 |
| Other | | | 67,011 | 24,244 | 91,255 | 10,212 | 101,467 | 62,574 |
| Total Expenses | | | <u>\$ 3,708,736</u> | <u>\$ 1,540,914</u> | <u>\$ 5,249,650</u> | <u>\$ 793,563</u> | <u>\$ 6,043,213</u> | <u>\$ 5,496,032</u> |

Middle Village Preparatory Charter School

Statement of Functional Expenses
Year Ended June 30, 2017

| | No. of Positions | No. of Students | Program services | | | Management and General | Total |
|-----------------------------------|---------------------|--------------------|----------------------|----------------------|---------------------|---------------------------|---------------------|
| | | | Regular Education | Special Education | Total | | |
| | | 375 | 322 | 53 | | | |
| Personnel Services Costs | | | | | | | |
| Administrative Staff Personnel | 10 | | \$ 277,024 | \$ 173,140 | \$ 450,164 | \$ 242,396 | \$ 692,560 |
| Instructional Personnel | 24 | | 1,060,070 | 705,076 | 1,765,146 | - | 1,765,146 |
| Non-instructional Personnel | 3 | | 57,874 | 9,561 | 67,435 | - | 67,435 |
| Total Salaries and Staff | 37 | | 1,394,968 | 887,777 | 2,282,745 | 242,396 | 2,525,141 |
| Fringe benefits and payroll taxes | | | 213,143 | 135,648 | 348,791 | 37,036 | 385,827 |
| Retirement | | | 35,364 | 22,506 | 57,870 | 6,145 | 64,015 |
| Legal service | | | - | - | - | 57,879 | 57,879 |
| Accounting/audit services | | | - | - | - | 57,466 | 57,466 |
| Building and land rent/lease | | | 397,751 | 253,134 | 650,885 | 69,115 | 720,000 |
| Repairs and maintenance | | | 226,629 | 144,230 | 370,859 | 39,380 | 410,239 |
| Insurance | | | 51,820 | 32,980 | 84,800 | 9,005 | 93,805 |
| Utilities | | | 134,241 | 85,433 | 219,674 | 23,326 | 243,000 |
| Supplies/materials | | | 147,415 | 24,354 | 171,769 | - | 171,769 |
| Equipment/furnishings | | | 16,196 | 10,307 | 26,503 | 2,814 | 29,317 |
| Staff development | | | 18,720 | 3,093 | 21,813 | - | 21,813 |
| Marketing and recruitment | | | 31,411 | 5,189 | 36,600 | - | 36,600 |
| Technology | | | 3,550 | 2,259 | 5,809 | 617 | 6,426 |
| Food service | | | 96,460 | 61,389 | 157,849 | 16,761 | 174,610 |
| Student services | | | 63,378 | 21,662 | 85,040 | 19,060 | 104,100 |
| Office expense | | | 17,565 | 11,179 | 28,744 | 3,052 | 31,796 |
| Depreciation and amortization | | | 165,539 | 105,351 | 270,890 | 28,765 | 299,655 |
| Other | | | 42,027 | 15,607 | 57,634 | 4,940 | 62,574 |
| Total Expenses | | | <u>\$ 3,056,177</u> | <u>\$ 1,822,098</u> | <u>\$ 4,878,275</u> | <u>\$ 617,757</u> | <u>\$ 5,496,032</u> |

Middle Village Preparatory Charter School

Statements of Cash Flows

| | Year Ended June 30, | |
|--|------------------------|---------------------|
| | <u>2018</u> | <u>2017</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from per pupil operating revenue and government grants and contracts | \$ 7,483,277 | \$ 7,271,528 |
| Cash receipts from interest and dividend revenue | 64,165 | 6,616 |
| Other income | 22,014 | 5,279 |
| Total Cash Received | <u>7,569,456</u> | <u>7,283,423</u> |
| Cash paid for payroll and benefits | 3,256,445 | 3,050,013 |
| Cash paid to vendors | 2,491,591 | 2,252,933 |
| Total Cash Paid | <u>5,748,036</u> | <u>5,302,946</u> |
| Net Cash from Operating Activities | <u>1,821,420</u> | <u>1,980,477</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (2,922,375) | (1,800,001) |
| Sale of investments | 2,266,801 | - |
| Purchases of property and equipment | (192,371) | (66,296) |
| Deposits to restricted cash | (25) | (38) |
| Net Cash from Investing Activities | <u>(847,970)</u> | <u>(1,866,335)</u> |
| Net Change in Cash and Cash Equivalents | 973,450 | 114,142 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>2,407,258</u> | <u>2,293,116</u> |
| End of year | <u>\$ 3,380,708</u> | <u>\$ 2,407,258</u> |
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,462,023 | \$ 1,791,106 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 285,386 | 299,655 |
| Net realized and unrealized loss on investments | 56,623 | - |
| Change in operating assets and liabilities | | |
| Grants and accounts receivable | 11,606 | (7,724) |
| Prepaid expenses and other assets | 12,093 | (13,203) |
| Accounts payable and accrued expenses | (2,302) | (93,366) |
| Deferred revenue | (4,009) | 4,009 |
| Net Cash from Operating Activities | <u>\$ 1,821,420</u> | <u>\$ 1,980,477</u> |

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status

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

The School operates in Middle Village, New York. On January 1, 2013, the Board of Regents of the University of the State of New York (the "Board of Regents") granted the School a provisional charter valid for a term of five years and renewable upon expiration. During the year ended June 30, 2018, the Board of Regents renewed the School's charter for a period of five years expiring July 31, 2023. The School opened with its first academic year in the fall of 2013 and provided education to 386 and 375 students in sixth through eighth grade during the 2017-2018 and 2016-2017 academic years.

The School's primary sources of revenue are from 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 Assets Presentation

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

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees. Board designated net assets were established by the Board of Trustees to provide a cash and cash equivalents reserve for unseen operating and capital expenses.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

Net Assets Presentation (continued)

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had neither temporarily or permanently restricted net assets at June 30, 2018 and 2017.

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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Investment Valuation

Investments are carried at fair value.

Restricted Cash

Included in restricted cash is an escrow fund of \$75,095 as of June 30, 2018 and \$75,070 as of June 30, 2017 to cover debts in the event of the School's dissolution. According to Section 2851(2)(t) of the Charter School Law, the School will maintain no less than \$75,000 in an escrow account.

Property and Equipment

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

Impairment of Long-Lived Assets

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized at June 30, 2018 and 2017.

Revenue Recognition

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

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

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

Revenue Recognition (continued)

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

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

Investment Income Recognition

Purchases and sales of securities are recorded on a trade date basis. Interest income 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

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

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

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

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

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

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Marketing and recruitment costs for the years ended June 30, 2018 and 2017 was \$111,038 and \$36,600.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

Operating Leases

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

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing authorities for the years prior to June 30, 2015.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through October 3, 2018, which is the date that the financial statements were available to be issued.

Reclassification

Certain accounts in the 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation.

3. Concentration of Credit Risk and Revenue

Financial instruments that potentially subject the School to concentrations of credit risk consists primary 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, 2018 and 2017, the uninsured portion of this balance was \$2,630,708 and \$3,154,661. The investment portfolio is diversified by types of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of risk.

The School receives a majority of its revenues from the New York State Education Department through the Charter Schools Institute of the State of New York. The Charter Schools Institute of the State of New York provides general operating support to the School based upon the location and the number of students enrolled. State and local per pupil education and special education revenue provided to the School totaled \$6,262,717 and \$6,168,498 for the years ended June 30, 2018 and 2017. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

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

4. Grants and Accounts Receivable

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

5. Investments

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

| | 2018 | | 2017 | |
|---|--|--------------|--|--------------|
| | 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 | \$ 1,057,821 | \$ 1,057,821 | \$ - | \$ - |
| Corporate bonds | 265,634 | 265,634 | - | - |
| Common stocks | 27,600 | 27,600 | - | - |
| Mutual funds | 1,034,699 | 1,034,699 | - | - |
| Money market funds | - | - | 1,800,001 | 1,800,001 |
| | \$ 2,385,754 | 2,385,754 | \$ 1,800,001 | 1,800,001 |
| Cash equivalents | | 13,198 | | - |
| | | \$ 2,398,952 | | \$ 1,800,001 |

During the years ended June 30, 2018 and 2017, there were no transfers in or out of Levels 1, 2 or 3 of the fair value hierarchy.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2018 and 2017

6. Property and Equipment

Property and equipment consist of the following at June 30:

| | 2018 | 2017 | Estimated Useful Lives |
|--|-------------|-------------|---------------------------|
| Computers and other equipment | \$ 680,056 | \$ 507,728 | 3 |
| Furniture and fixtures | 325,323 | 305,280 | 7 |
| Leasehold improvements | 754,892 | 754,892 | 5 |
| | 1,760,271 | 1,567,900 | |
| Accumulated depreciation and amortization | (1,354,025) | (1,068,639) | |
| | \$ 406,246 | \$ 499,261 | |

7. Board Designated Net Assets

For the years ended June 30, 2018 and 2017, the School designated \$607,516 and \$3,835,047 as a reserve for future capital projects.

The board designated net assets activity for the years ended June 30, 2018 and 2017 is as follows:

| | Balance June 30, 2017 | Additions | Released | Balance June 30, 2018 |
|-------------------------|-----------------------------|--------------|----------|-----------------------------|
| Future capital projects | \$ 3,835,047 | \$ 607,516 | \$ - | \$ 4,442,563 |
| | Balance June 30, 2016 | Additions | Released | Balance June 30, 2017 |
| Future capital projects | \$ - | \$ 3,835,047 | \$ - | \$ 3,835,047 |

8. Operating Leases

Effective February 1, 2013, the School entered into a sublease agreement with a not-for-profit third party for a period of five years and five months terminating on June 30, 2018. The lease may be renewed for an additional five years with the same terms. The rate of rent will not increase during the term of the lease, but, as the space utilization increases, the rent increases proportionately. The rent for additional space is calculated and charged in proportion to the increase in floor space.

Middle Village Preparatory Charter School

Notes to Financial Statements
June 30, 2018 and 2017

8. Operating Leases (continued)

Effective July 1, 2018, the School entered into a new sublease agreement with a not-for-profit third party 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 \$738,000 and \$720,000 for the years ended June 30, 2018 and 2017. Additional fees related to care and maintenance totaled \$653,184 and \$633,456 for the years ended June 30, 2018 and 2017.

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

| | |
|------|---------------------|
| 2019 | \$ 1,475,912 |
| 2020 | 1,495,644 |
| 2021 | 1,515,372 |
| 2022 | 1,535,100 |
| 2023 | <u>1,554,828</u> |
| | <u>\$ 7,576,856</u> |

9. 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, 2018 and 2017, the School expended and contributed \$74,892 and \$64,015 to the plan.

10. Contingency

The School is currently a subtenant of Christ the King Regional High School ("Christ the King"), which is a party to a lease for a school building previously owned by the Roman Catholic Diocese of Brooklyn (the "Diocese"). The Diocese is attempting to evict the School. Currently, the School is not a party to the suit which was commenced in 2013. However, if the School is evicted, it would not affect the ability of the School to continue as a going concern. The School is seeking to intervene as a party, and the parties are currently disputing this issue. If the School is evicted, it will have to locate to an alternative, potentially more expensive space in which to run its program. Pending the resolution of this matter, the School is fully functional and operating its program in the building. The School is confident that it will prevail in this matter, but it is unclear what the outcome will be.

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

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Middle Village Preparatory Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, 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 3, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PKF O'Connor Davies, LLP

October 3, 2018