MERIT ACADEMY

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2022

MERIT ACADEMY
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Hoelting & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Merit Academy

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Merit Academy, as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Merit Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Merit Academy, as of June 30, 2022 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Merit Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Merit Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

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misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Merit Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Merit Academy's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hoelting & Company, Inc.

Colorado Springs, Colorado
December 5, 2022

MERIT ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

As management of Merit Academy (the School) we offer readers of the School's annual financial report this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2022. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- Assets and deferred outflows of the school exceeded the liabilities and deferred inflows of the school by $213,851 during the fiscal year resulting in a positive net position balance.

- The School's total net position increased $167,655. This was the School's first year of operations.

- Long-term liabilities of consist of a $804,765 loans and leases outstanding.

- As of the close of the current fiscal year, the School's general fund reported an ending fund balance surplus of $384,265.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serve as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances as a whole, in a manner similar to a private-sector business and include two statements:

The *statement of net position* presents information on all of the School's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information reporting how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Accrued interest expense is an example of this type of item.

Both government-wide financial statements distinguish functions of the School that are principally supported by per pupil revenues and district mill levy revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School include the running of a K-8 charter school in Woodland Park, Colorado.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The fund financial statements provide more detailed information about the School's operations, focusing on its most significant funds, not the School as a whole.

Governmental Funds. The School's basic services are included in this governmental fund, which focuses on (1) how money flows into and out of the fund and (2) the balances left at year-end that are available for spending or reserves. Consequently, the governmental fund statements provide a detailed short-term view that helps determine the status of financial resources that can be spent in the near future to finance the School's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Thus, readers may better understand the long-term impact of the School's near-term financing decisions. To facilitate this comparison between governmental funds and governmental activities, reconciliations are provided for both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the School. The School adopts an annual appropriated budget for the general fund. A budgetary comparison schedule has been provided to demonstrate compliance with the budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, total assets and deferred outflows exceeded liabilities and deferred inflows by $213 thousand as of June 30, 2022 resulting in a positive net position balance.

A portion of the School's net position represents resources that are subject to external restrictions on how they may be used. $63 thousand of these funds are restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. The remaining balance of $321 thousand is unrestricted.

Condensed Statement of Net Position

	2022	2021
Current and other assets	$ 576,975	$ n/a
Capital assets	634,351	
Total assets	1,211,326	
Deferred Outflows	0	
Long-term liabilities	804,765	
Other liabilities	192,710	
Total liabilities	997,475	
Deferred Inflows	0	
Net position:		
Net investment in capital assets	(170,414)	
Restricted	63,000	
Unrestricted	321,265	
Total net position	$ 213,851	

Condensed Statement of Activities

	2022	2021
Revenues:		
General revenues:		
Per pupil revenue	$ 1,979,137	$ n/a
Unrestricted grants and contributions	505,408	
Other	10,256	
Program Revenue:		
Charges for Services	0	
Operating grants and contributions	240,006	
Capital grants and contributions	0	
Total revenues	2,734,807	
Expenses:		
Instruction	1,482,324	
Supporting services	1,056,967	
Interest	27,861	
Total expenses	2,567,152	
Change in net position	167,655	
Net position, beginning	46,196	
Net position, ending	$ 213,851	

Governmental Activities. During the current fiscal year, net position for governmental activities increased $167 thousand from the prior fiscal year for an ending balance of $214 thousand. As noted above, the increase in net position results primarily from this being the School's first year of operations.

ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The General Fund is the principal operating fund of the School. As of June 30, 2022, the total general fund balance was $384 thousand an increase of $341 thousand in comparison with the prior year. $63 thousand of this total was restricted for TABOR emergency reserves and $6 thousand was non-spendable, resulting in a $315 thousand unassigned fund balance.

The general fund balance increase of $340 thousand during the current year is primarily due to proceeds from long-term debt that were received in order to offset capital expenditures associated with the first-year construction activities and the acquisition of assets.

Revenues for the General Fund totaled $3.76 million in fiscal year 2022. This includes an amount of $1.025 million in proceeds from long-term debt. No revenues were recorded for fiscal year 2021. The significant increase in revenue was due this being the first year of school operations. Overall expenditures increased $3.4 million. Instructional and supporting expenditures increased as a result of student enrollment and related staffing, as well as the direct expenses for serving those students.

BUDGETARY HIGHLIGHTS

The School's budget is prepared in accordance with Colorado law. During the year, the School amended its budget primarily to reflect the following changes:

- The final (revised) budget increased total revenues by $276 thousand to update per pupil and local source revenue.
- Supplies and purchased services increased $278 thousand to provide for additional costs from originally anticipated.

Actual General Fund revenue and other financing sources in the 2022 fiscal year was $3.76 million and actual expenditures were $3.42 million which resulted in an increase in fund balance of $341 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The School has $634 thousand in capital assets at June 30, 2022.

Debt Administration

At the end of current fiscal year, the School had $600 thousand in debt outstanding. During the year, the School entered into a $500 thousand operating loan.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary factor driving the School's budget is student enrollment. Enrollment for the 2021-2022 school year is estimated at 184 students. The School has been experiencing a decrease in Per Pupil Revenue (PPR) due to the cutting education funding from $8055.72 in the 2020-2021 school year to $7642.07 for the 2021-2022 school year.

The 2021-2022 School budget has been prepared with the School's strategic plan in mind and with the priority of providing financial resources for the quality education of Merit Academy's students.

REQUESTS FOR INFORMATION

This financial report is designed to provide the School's stakeholders and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gwynne Dawdy-Pekron, Director of Development, Merit Academy, 500 E. Kelley's Drive, Woodland Park, CO 80863.

BASIC FINANCIAL STATEMENTS

MERIT ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2022

	Governmental Activities
ASSETS	
Cash and investments	$ 478,329
Grant receivable	80,501
Deposits	11,458
Prepaid items	6,687
Capital assets, net of accumulated depreciation/amortization	634,351
Total Assets	1,211,326
LIABILITIES	
Accounts payable and other accrued liabilities	37,236
Accrued salaries and benefits	155,474
Long-term liabilities:	
Due within one year	291,923
Due in more than one year	512,842
Total Liabilities	997,475
NET POSITION	
Investment in capital assets	(170,414)
Restricted for TABOR	63,000
Unrestricted	321,265
Total Net Position	$ 213,851

The accompanying notes are an integral part of these financial statements.

MERIT ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

		Program Revenue			Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	$ 1,482,324	$ -	$ 240,006	$ -	$ (1,242,318)
Supporting services	1,056,967	-	-	-	(1,056,967)
Interest	27,861	-	-	-	(27,861)
Total governmental activities	$ 2,567,152	$ -	$ 240,006	$ -	(2,327,146)
General revenues:					
Per pupil revenue					1,979,137
Grants and contributions not restricted to specific programs					505,408
Miscellaneous					10,256
Total general revenues					2,494,801
Change in net position					167,655
Net position - beginning					46,196
Net position - ending					$ 213,851

The accompanying notes are an integral part of these financial statements.

MERIT ACADEMY
BALANCE SHEET
GENERAL FUND
JUNE 30, 2022

ASSETS		
Cash and investments	$	478,329
Grants receivables		80,501
Deposits		11,458
Prepaid items		6,687
Total Assets	$	576,975
LIABILITIES		
Accounts payable and other accrued liabilities	$	37,236
Accrued salaries and benefits		155,474
Total Liabilities		192,710
FUND BALANCE		
Non-spendable		6,687
Restricted for TABOR		63,000
Unassigned		314,578
Total Fund Balance		384,265
Total Liabilities and Fund Balance	$	576,975

The accompanying notes are an integral part of these financial statements.

MERIT ACADEMY
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance of Governmental Funds	$	384,265
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Capital assets, net of accumulated depreciation/amortization		634,351
Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in government funds:		
Long-term debt payable		(804,765)
Total Net Position of Governmental Activities	$	213,851

The accompanying notes are an integral part of these financial statements.

MERIT ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

REVENUES	
Local sources	$ 515,664
State sources	2,058,018
Federal sources	161,125
Total revenues	2,734,807
EXPENDITURES	
Instruction	1,355,850
Supporting services	1,562,074
Debt service:	
Interest	27,860
Principal	473,184
Total expenditures	3,418,968
Excess (deficiency) of revenues over expenditures	(684,161)
OTHER FINANCING SOURCES (USES)	
Proceeds from long-term debt	1,025,000
Total other financing sources (uses)	1,025,000
Net change in fund balance	340,839
Fund balance, beginning	43,426
Fund balance, ending	$ 384,265

The accompanying notes are an integral part of these financial statements.

MERIT ACADEMY
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balance of Governmental Funds		$ 340,839
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	$ 759,046	
Depreciation/amortization expense	(380,413)	378,633
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal repayment	$ 473,183	
Proceeds from long-term debt	(1,025,000)	(551,817)
Change in Net Position of Governmental Activities		$ 167,655

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Merit Academy (the School) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the School are discussed below.

A. REPORTING ENTITY

The School is a state nonprofit corporation that began operations in 2020, pursuant to the Colorado Charter Schools Act, to form and operate a charter school under contract within Colorado. The School contracts with Education ReEnvisioned Board of Cooperative Education Services (BOCES) for funding and administrative support. The School started admitting students in September 2021.

The accompanying financial statements present the School and its component units, entities for which the School is considered to be financially accountable. Blended component units are, in substance, part of the School's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the School.

Based on the application of these criteria, the School does not include additional organizations within its reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School and its component units. Any fiduciary activities are reported only in the fund financial statements. *Governmental activities* are supported by per pupil revenue and intergovernmental revenues.

The statement of activities demonstrates the degree to which direct expenses of given functions or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to students or other service users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as *general revenues* rather than as program revenues.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for interfund services provided and used, the elimination of which would distort the direct costs and program revenues reported for the various functions.

The emphasis of fund financial statements is on major funds. Major individual funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The School reports the following major governmental funds:

The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the School the right to use leased assets, are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Interest and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 120 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the School.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/ FUND BALANCE

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in the bank and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Local government investment pools in Colorado must be organized under Colorado Revised Statutes, which allows certain types of governments within the state to pool their funds for investment purposes. Investments in such pools are reported at net asset value.

Receivables

All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital assets

Capital assets include tangible and intangible assets that are reported in the governmental activities column in the government-wide financial statements. Capital assets, except for lease assets, are defined by the School as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. For lease assets, only those intangible lease assets that cost more than $15,000 are reported as capital assets.

As the School constructs or acquires capital assets each period they are capitalized and reported at historical cost (except for intangible right-to-use lease assets, the measurement of which is discussed in Note 1 D. *Leases* below). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/ FUND BALANCE (CONTINUED)

Land and construction in progress are not depreciated. The other tangible and intangible assets of the School are depreciated/amortized using the straight-line method over the following estimated useful lives:

Buildings and improvements	1 year

Accrued Salaries and Benefits

Salaries and benefits of teachers and other contracted personnel are paid over a twelve-month period, but are earned during a school year of approximately nine months. The salaries and benefits earned, but unpaid, are reported as a liability in the respective funds and have been fully funded as of the fiscal year end.

Unearned Revenue

Unearned revenue includes resources received by the School before the related revenue can be recognized because the earnings process is not complete.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Leases

Lessee: The School is a lessee for noncancellable leases of buildings. The School recognizes a lease liability and an intangible right-to-use lease assets in the government-wide financial statements. The School recognizes lease liabilities with an initial, individual value of $15,000 or more.

At the commencement of a lease, the School initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/ FUND BALANCE (CONTINUED)

Key estimates and judgments related to leases include how the School determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The School uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the School generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the School is reasonably certain to exercise.

The School monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Long-term liabilities

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net position

For government-wide reporting, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/ FUND BALANCE (CONTINUED)

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the School will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal resolution of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the School's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Education or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/ FUND BALANCE (CONTINUED)

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The School would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

E. REVENUES AND EXPENDITURES/EXPENSES

Compensated Absences

Vacation—The School's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from employment. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Sick Leave—Accumulated sick leave lapses when employees leave the employ of the School and, upon separation from service, no monetary obligation exists.

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. UPCOMING ACCOUNTING AND REPORTING CHANGES

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based informational technology arrangements (SBITAs). Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset and a corresponding liability. The requirements of this statement are effective for fiscal years beginning after June 15, 2022.

Management has not yet determined the effect this statement will have on the School's financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Budgetary Information

Budgets are required by State law for all funds, except fiduciary funds. The Head of School submits a proposed budget to the Board of Directors for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. It also includes a statement describing the major objectives of the educational program to be undertaken by the School and the manner in which the budget proposes to fulfill such objectives. Public hearings are conducted by the Board of Directors to obtain public comments.

On or before June 30, the budget is adopted by formal resolution. After the adoption of the budget, the board may review and change the budget at any time prior to January 31 of the fiscal year for which the budget was adopted. After January 31, the board may not review or change the budget except where money for a specific purpose from other than ad valorem taxes becomes available which could not have been reasonable foreseen at the time of the adoption of the budget. Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budgeted amounts between line items within any fund rests with the Head of School. Revisions that alter the total expenditures in any fund must be approved by the Board of Directors. Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances as established by the Board of Directors.

Budgets for all fund types are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). GAAP-basis accounting requires that expenditures of salaries and related benefits be recorded in the fiscal year earned. Thus, the School budgets for all accrued salaries and related benefits earned but unpaid at June 30. Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Head of School and/or Board of Directors throughout the year. All appropriations lapse at the end of each fiscal year.

Excess of Expenditures over Appropriations

For the year ended June 30, 2022, expenditures exceeded appropriations in the General Fund by $237,970. These over-expenditures were funded by greater than anticipated revenues.

NOTE 3 – DEPOSITS AND INVESTMENTS

A summary of deposits and investments as of June 30, 2022 is as follows:

Deposits	$ 478,329

Deposits and investments are reported in the financial statements as follows:

Cash and investments	$ 478,329

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Cash deposits with financial institutions

Custodial Credit Risk—deposits: Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits might not be recovered. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The carrying amount of the School's deposits at June 30, 2022 was $478,329 and the bank balances were $516,867. Of the bank balances, $305,636 were covered by federal deposit insurance, and the remaining balance was uninsured but collateralized in accordance with the provisions of the PDPA.

Investments

The School is authorized by Colorado statutes to invest in the following:

- Obligations of the United States and certain U.S. government agencies' securities;
- Certain international agencies' securities;
- General obligation and revenue bonds of U.S. local government entities;
- Bankers' acceptances of certain banks;
- Certain commercial paper;
- Local government investment pools;
- Written repurchase agreements collateralized by certain authorized securities;
- Certain money market fund;
- Guaranteed investment contracts.

The School had no investments as of June 30, 2022.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	Beginning Balance, As Restated	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Construction in progress	$ 2,770	$ 759,046	$ (761,816)	$ -
Total capital assets not being depreciated	2,770	759,046	(761,816)	-
Capital assets being depreciated:				
Buildings and improvements	-	761,816	-	761,816
Total capital assets being depreciated	-	761,816	-	761,816
Less accumulated depreciation for:				
Buildings and improvements	-	(253,939)	-	(253,939)
Total capital assets being depreciated, net	-	507,877	-	507,877
Lease assets being amortized:				
Buildings and improvements	252,948	-	-	252,948
Total lease assets being amortized	252,948	-	-	252,948
Less accumulated amortization for:				
Buildings and improvements	-	(126,474)	-	(126,474)
Total lease assets being amortized, net	252,948	(126,474)	-	126,474
Capital assets, net of accumulated depreciation/amortization	252,948	381,403	-	634,351
Total governmental activities capital assets	$ 255,718	$ 1,140,449	$ (761,816)	$ 634,351

Depreciation/amortization expense was charged to the functions/programs of the governmental activities of the School as follows:

Governmental Activities	
Instruction	$ 380,413

NOTE 5 – LEASES

School as lessee

The School, as a lessee, has entered into a lease agreement involving educational facilities with a lease term of 1 year. The total costs of these right-to-use lease assets are recorded as $252,948, less accumulated amortization of $126,474. The School has determined that as of June 30, 2022, there is no loss associated with an impairment of the right-to-use lease asset.

The future lease payments under lease agreements as of June 30, 2022 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2023	$ 205,125	$ 9,875	$ 215,000

NOTE 6 – LONG-TERM LIABILITIES

Initial Startup Loan

On May 24, 2021, BOCES issued a $75,000 startup loan. Proceeds of the loan were loaned to the School to provide funding to lease, furnish and renovate the School's educational facilities. The School is required to make monthly payments of $1,000. The loan bears no interest. Principal payments are due monthly starting in July 2022 through 2029.

Supplemental Startup Loan

On September 20, 2021, BOCES issued a $50,000 startup loan. Proceeds of the loan were loaned to the School to provide funding to lease, furnish and renovate the School's educational facilities. The School is required to make monthly payments of $1,000. The loan bears no interest. Principal payments are due monthly starting in July 2022 through 2027.

Construction Loan

On November 5, 2021, BOCES issued a $150,000 construction loan. Proceeds of the loan were loaned to the School to provide funding to lease, furnish and renovate the School's educational facilities. The School is required to make monthly payments of $6,480 until paid in full. The loan bears interest at 3.5%. Principal payments are due monthly starting in January 2022. This loan was paid off during the year.

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

TBK Bank Loan

On January 11, 2022, TBK issued a $500,000 loan. Proceeds of the loan were loaned to the School to provide funding to lease, furnish and renovate the School's educational facilities. The School is required to make monthly payments. Principal and Interest payments are due monthly at an interest rate of 4.75%, with a balloon payment for remaining outstanding principal and interest due January 11, 2024.

Erick B. Christianson Trust Loan

On January 11, 2022, Erick B. Christianson Trust issued a $250,000 loan. Proceeds of the loan were loaned to the School to provide funding to lease, furnish and renovate the School's educational facilities. The School is required to make monthly payments. The loan is an interest only loan accruing at 5.00% monthly with the full principal amount due on or before December 1, 2026. This loan was paid off during the year.

Annual debt service requirements to maturity for loan payable is as follows:

Fiscal Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest
2023	$ 86,798	$ 21,487
2024	435,842	11,171
2025	24,000	-
2026	24,000	-
2027	14,000	-
2028 –2029	15,000	-
Total	$ 599,640	$ 32,658

Changes in the School's long-term liabilities for the year ended June 30, 2022, are as follows:

	Beginning Balance, As Restated	Debt Issued And Additions	Reductions	Ending Balance	Due Within One year
Governmental Activities					
Loans payable	$ -	$ 1,025,000	$ (425,360)	$ 599,640	$ 86,798
Leases	252,948	-	(47,823)	205,125	205,125
Total Governmental Activities	$ 252,948	$ 1,025,000	$ (473,183)	$ 804,765	$ 291,923

All long-term liabilities are liquidated in the General fund.

NOTE 7 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the last three fiscal years.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Grants

The School has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under terms of the grant. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

NOTE 9 - TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments.

The amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The School is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2022 there is a $63,000 reservation of fund balance in the General Fund for the amendment.

The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the amendment. However, the School has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE 10 – ADOPTION OF NEW ACCOUNTING STANDARD

Merit Academy implemented GASB Statement No. 87, *Leases,* effective July 1, 2021. This Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. There is no effect on fund balance or net position as a result of the implementation of this standard. However, beginning lease assets and lease liabilities were restated by $252,948 to reflect the net present value of financing leases as of June 30, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

MERIT ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Local sources	$ 1,208,510	$ 1,268,510	$ 515,664	$ (752,846)
State sources	1,796,700	1,978,148	2,058,018	79,870
Federal sources	149,000	184,000	161,125	(22,875)
Total revenues	3,154,210	3,430,658	2,734,807	(695,851)
EXPENDITURES				
Instruction	1,358,962	1,400,620	1,355,850	44,770
Supporting services	1,450,910	1,679,048	1,562,074	116,974
Debt service:				
Interest	-	-	27,860	(27,860)
Principal	-	-	473,184	(473,184)
Appropriated reserves	93,036	101,330	-	101,330
Total expenditures	2,902,908	3,180,998	3,418,968	(237,970)
Excess (deficiency) of revenues over expenditures	251,302	249,660	(684,161)	(933,821)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	1,025,000	1,025,000
Total other financing sources (uses)	-	-	1,025,000	1,025,000
Net change in fund balances	251,302	249,660	340,839	91,179
Fund balances - beginning	15,938	15,938	43,426	27,488
Fund balance - ending	$ 267,240	$ 265,598	$ 384,265	$ 118,667

See the accompanying Independent Auditors' Report.