

**MERRICK ACADEMY - QUEENS PUBLIC
CHARTER SCHOOL, INC.**

Audited Financial Statements In Accordance
With Government Auditing Standards

June 30, 2011

MERRICK ACADEMY – QUEENS PUBLIC CHARTER SCHOOL, INC.

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INDEPENDENT AUDITORS' REPORT

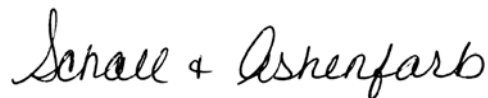
To the Board of Trustees of
Merrick Academy – Queens Public Charter School, Inc.

We have audited the accompanying statement of financial position of Merrick Academy – Queens Public Charter School, Inc. (“the School”) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011 on our consideration of the School’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 27, 2011

MERRICK ACADEMY - QUEENS PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2011

Assets

Cash and cash equivalents (Notes 2c and 2d)	\$1,014,194
Restricted cash (Note 3)	75,016
Government grants receivable	135,079
Prepaid expenses and other receivables	52,706
Property and equipment, net (Notes 2e and 4)	1,076,005
Other assets	49,750
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Total assets	<u><u>\$2,402,750</u></u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$234,743
Accrued payroll and benefits	493,091
Advance payable - New York City (Note 5)	4,737
Deferred rent (Note 2f)	349,662
Obligation under capital lease (Note 7)	16,194
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Total liabilities	<u>1,098,427</u>

Net Assets: (Note 2a)

Unrestricted	<u>1,304,323</u>
Total net assets	<u>1,304,323</u>
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Total liabilities and net assets	<u><u>\$2,402,750</u></u>

*The attached notes and auditors' report
are an integral part of these financial statements.*

MERRICK ACADEMY - QUEENS PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Unrestricted:

Public Support and Revenue:

Public school district revenue: (Note 2b)

Resident student enrollment \$6,670,181

Students with special education services 14,286

Total public school district revenue 6,684,467

Grants:

State and local 28,541

Federal - Title and IDEA 228,976

Total grants 257,517

Food service for child nutrition program 158,875

Other income 32,176

Total revenue and other support 7,133,035

Expenses:

Program services:

Regular education 4,768,501

Special education 202,837

Total program services 4,971,338

Supporting services:

Management and general 1,089,233

Total supporting services 1,089,233

Total expenses 6,060,571

Change in net assets 1,072,464

Prior period adjustment (Note 12) (342,979)

Net assets - beginning of year 574,838

Net assets - end of year \$1,304,323

*The attached notes and auditors' report
are an integral part of these financial statements.*

MERRICK ACADEMY - QUEENS PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Services			Supporting Services	Total Expenses
	Regular Education	Special Education	Total	Management and General	
Personnel Service Costs:					
Administrative staff personnel	\$263,570	\$11,086	\$274,656	\$0	\$274,656
Instructional personnel	1,662,864	77,312	1,740,176	0	1,740,176
Non-instructional personnel	164,640	6,925	171,565	39,484	211,049
Total salaries and staff	2,091,074	95,323	2,186,397	39,484	2,225,881
Fringe benefits and payroll taxes	509,492	21,430	530,922	8,877	539,799
Management company fees	0	0	0	750,000	750,000
Legal service	0	0	0	206,401	206,401
Professional and consulting	472,008	15,472	487,480	24,909	512,389
Rent	579,539	24,377	603,916	10,097	614,013
Repairs and maintenance	262,250	11,031	273,281	4,569	277,850
Insurance	27,044	1,138	28,182	30,786	58,968
Utilities	115,693	4,598	120,291	1,905	122,196
Supplies and materials	119,174	5,013	124,187	2,076	126,263
Equipment and furnishings	40,191	1,691	41,882	700	42,582
Staff development	37,426	1,574	39,000	652	39,652
Marketing and recruitment	12,207	513	12,720	213	12,933
Technology	43,880	1,846	45,726	765	46,491
Student services	181,905	7,651	189,556	3,169	192,725
Office expense	39,717	1,671	41,388	692	42,080
Depreciation	197,913	7,869	205,782	3,259	209,041
Other	38,988	1,640	40,628	679	41,307
Total expenses	<u>\$4,768,501</u>	<u>\$202,837</u>	<u>\$4,971,338</u>	<u>\$1,089,233</u>	<u>\$6,060,571</u>

*The attached notes and auditors' report
are an integral part of these financial statements.*

MERRICK ACADEMY - QUEENS PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Cash Flows from Operating Activities:

Change in net assets	\$1,072,464
Adjustments to reconcile change in net assets to net cash provided by/(used for) operating activities:	
Depreciation expense	209,041
(Increase)/decrease in assets:	
Restricted cash	(7)
Government grants receivable	112,216
Prepaid expenses	57,980
Increase/(decrease) in liabilities:	
Accounts payable and accrued expenses	(137,127)
Due to management company	(195,665)
Advance payable - New York City	(3,263)
Deferred rent	6,683
	49,858
Total adjustments	49,858
Net cash provided by operating activities	1,122,322

Cash Flows from Investing Activities:

Purchase of furniture and equipment	(414,050)
Net cash used for investing activities	(414,050)

Cash Flows from Financing Activities:

Obligations under capital lease	(16,327)
Net cash used for financing activities	(16,327)

Net increase in cash and cash equivalents 691,945

Cash and cash equivalents - beginning of year 322,249

Cash and cash equivalents - end of year \$1,014,194

Supplemental disclosures:

Interest paid - \$0

Taxes paid - \$0

*The attached notes and auditors' report
are an integral part of these financial statements.*

MERRICK ACADEMY – QUEENS PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 - Organization and Nature of Activities

Merrick Academy – Queens Public Charter School, Inc. (“the School”), located in Queens, New York, is a not-for-profit education corporation chartered by the Regents of the University of the State of New York. The School provides a full range of educational services appropriate for kindergarten and first grade levels. The School completed the 2010-2011 fiscal year with an average enrollment of approximately 420 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education (“NYCDOE”).

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar statutes for state and local purposes. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. The School has not been designated as a private foundation.

Note 2 - Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting. As a not-for profit organization, net assets are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted* – represent those resources for which there are no restrictions by donors as to their use.
- *Temporarily restricted* – represent those resources, the uses of which have been restricted by donors to specific purposes or the passage of time. The School did not have any temporary restricted net assets at June 30, 2011.
- *Permanently restricted* – relates to contributions of cash and other assets whereby the assets must remain intact due to restrictions placed by the donor. The School did not have any permanently restricted net assets at June 30, 2011.

b. Revenue Recognition

Program revenue is recognized based on rates established by the School’s funding sources and the amount realizable on the accrual basis in the period during which services are provided. Other government grants that have traits more similar to contracts for service are treated as exchange transactions and are recorded as income when earned. Contributions are recorded as revenue upon receipt of cash or unconditional pledges, and are considered available for unrestricted use, unless specifically restricted by the donor, in which case they are recorded as temporarily restricted.

- c. Cash and Cash Equivalents
Checking and money market accounts with local banks and highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows.
- d. Concentration of Credit Risk
Financial instruments which potentially subject the School to concentration of credit risk consist of cash and money market accounts. The School places its temporary cash and money market accounts with a financial institution they deem to be creditworthy. At year end and at various points throughout the year, material cash balances were in excess of FDIC insurance levels; however, the School has not experienced any losses from these accounts.
- e. Fixed Assets
Fixed assets are stated at cost or at the fair market value at the date of gift, if donated. The School capitalizes fixed assets in excess of pre-defined amounts that have a useful life of more than one year. Depreciation was computed using the straight-line method over the estimated useful lives of the respective assets.
- f. Deferred Rent
Rent expense is recorded on the straight-line basis over the life of the lease. Rent expense recognized in excess of cash payments, primarily due to free rent received at the beginning of the lease, is reflected as deferred rent. As future payments exceed the annual expense recognized, deferred rent will be reduced to zero by the end of the lease term.
- g. Donated Services
Generally accepted accounting principles requires donated services to be recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind.
- h. Functional Allocation of Expenses
The cost of providing various programs and other activities has been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- i. 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 and expenses during the reporting period. Actual results could differ from those estimates.

j. Accounting for Uncertainty in Income Taxes

The School has adopted the provisions of FASB ASC 740, *Income Taxes*, which applies to positions taken or expected to be taken in a tax return. Organizations are required to recognize the effects of tax positions if they are more likely than not of being sustained. The School does not believe its financial statements include any uncertain tax positions.

k. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 27, 2011, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

Note 3 - Restricted Cash

An escrow account has been established to meet the requirement of NYCDOE. The purpose of this account is to ensure sufficient funds are available for an orderly dissolution or transition process in the event of termination of the charter or school closure.

Note 4 - Property and Equipment

Fixed assets consist of the following:

Leasehold improvements	\$1,699,645
Furniture and fixtures	252,291
Computer equipment	371,690
Office equipment	<u>197,079</u>
	2,520,705
Less: accumulated depreciation	<u>(1,444,700)</u>
Furniture and equipment, net	<u>\$1,076,005</u>

Note 5 - Advance Payable – New York City

Advances received that exceed the amount that can be recognized as revenue are recorded as refundable advances. As of June 30, 2011, refundable advances consist of the following:

Advances received – fiscal year 2010-2011	\$6,687,025
Funding based on allowable FTE's	<u>(6,684,467)</u>
Amount due to New York City – fiscal year 2010-2011	2,558
Prior year advance payable	<u>2,179</u>
Total advances payable	<u>\$4,737</u>

Note 6 - Significant Concentration

The School is dependent upon grants from NYCDOE to carry out its operations. The calculation of the amounts to be paid to the School under these programs is determined by the State, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school districts of the children enrolled in the School. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School received could vary significantly. For the year ended June 30, 2011, approximately 93% of the School's total public support and revenue was realized from NYCDOE.

Note 7 - Obligations Under Capital Lease

The School obtained furniture and equipment pursuant to a capital lease agreement. The lease terminates in 2012 and requires monthly lease payments of \$1,360 with no interest. Future lease payments for 2012 are \$16,194.

Note 8 - Defined Contribution Plan

The School offers a voluntary 401(k) plan for substantially all of its employees. Participants are eligible for the plan immediately upon employment. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employees' annual compensation. Employer expense for the year was \$25,010.

Note 9 - Line of Credit

The School has an unused overdraft line of credit in the amount of \$15,000.

Note 10 - Management

On August 5, 2004, the School entered into an agreement with Victory Schools ("Victory") to manage the operations of the School. Victory assumes responsibility for all task and functions associated with the educational services to be provided to the students at the School in accordance with the terms of the charter and the Charter Schools Act, subject to appropriate oversight from the School's Board of Trustees. Victory is responsible for designing the curriculum, acquiring educational materials, hiring all staff, and providing all financial and accounting functions.

For the year ended June 30, 2011, the service fee was \$750,000.

Note 11 - Commitments and Contingencies

Government Grants

Government contracts are subject to audit by the grantor. Management does not believe the results of any such audits will result in disallowed costs that would be material to the financial statements and has not established any reserve for that possibility. Any disallowances will be expensed in the year notified.

Occupancy

The School has an operating lease for classroom space and administrative offices that expires in June, 2019.

Future minimum lease payments are as follows:

June 30, 2012	\$358,216
June 30, 2013	368,962
June 30, 2014	380,031
June 30, 2015	391,432
June 30, 2016	403,175
Thereafter	<u>1,283,558</u>
	<u>\$3,185,374</u>

The School has a second operating lease for additional classroom space and administrative offices that expires in July, 2015, with an option to extend for 5 more years.

Future minimum lease payments are as follows:

June 30, 2012	\$132,504
June 30, 2013	136,479
June 30, 2014	140,573
June 30, 2015	144,791
June 30, 2016	<u>12,095</u>
	<u>\$566,442</u>

UFT and Unionization

The School is negotiating in good faith with the counsel for the United Federation of Teachers. The contract is expected to be finalized by the end of the 2011-2012 school year.

Note 12 - Prior Period Adjustment

A prior period adjustment of \$342,979 has been made to the financial statements to account for the effect of recording the School's non-cancelable lease on the straight line basis.

**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***

To the Board of Trustees of
Merrick Academy – Queens Public Charter School, Inc.

We have audited the financial statements of Merrick Academy – Queens Public Charter School, Inc. (“the School”) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control over financial reporting.

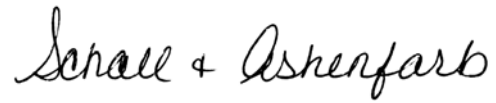
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School’s financial statements are free of 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*.

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



Schall & Ashenfarb
Certified Public Accountants, LLC

October 27, 2011

**MERRICK ACADEMY – QUEENS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

Current Year:

None

Prior Year:

None