

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

**Financial Statements and Supplemental Information
For the Years Ended June 30, 2008 and 2007
With Report of Independent Auditors**

OCT 8 1 2008

**MERRICK ACADEMY—QUEENS PUBLIC
CHARTER SCHOOL**
June 30, 2008 and 2007

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Merrick Academy—Queens Public Charter School, Inc.

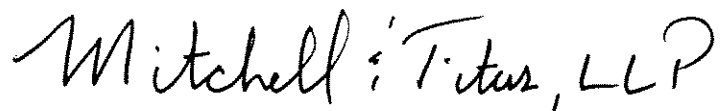
We have audited the accompanying statements of financial position of Merrick Academy—Queens Public Charter School, Inc. (the “School”) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the School’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide 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 the Merrick Academy—Queens Public Charter School, Inc. at June 30, 2008 and 2007, and the change in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008, on our consideration of the School’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements of the School taken as a whole. The accompanying schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



October 28, 2008

**MERRICK ACADEMY—QUEENS PUBLIC
CHARTER SCHOOL, INC.**
Statements of Financial Position
As of June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 13,283	\$ 130,742
Due from government agencies (Note 4)	164,776	70,109
Accounts receivable	-	4,630
Prepaid expenses	60,826	52,747
 Total current assets	 238,885	 258,228
Security deposits	49,750	49,750
Property and equipment, net (Note 5)	966,263	1,083,977
 Total assets	 <u>\$ 1,254,898</u>	 <u>\$ 1,391,955</u>
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities:</i>		
Accounts payable and accrued expenses	\$ 437,367	\$ 314,442
Unearned income	89,636	3,391
Due to management company (Note 11)	251,284	673,357
Obligations under capital lease (Note 7)	-	14,683
Amount outstanding under line of credit (Note 8)	2,915	-
Loan payable—current portion (Note 8)	106,756	96,781
 Total current liabilities	 887,958	 1,102,654
Loan payable—non-current portion (Note 8)	117,759	224,515
 Total liabilities	 1,005,717	 1,327,169
<i>Net Assets:</i>		
Unrestricted	249,181	64,786
 Total liabilities and net assets	 <u>\$ 1,254,898</u>	 <u>\$ 1,391,955</u>

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

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

Statements of Activities
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUE AND SUPPORT		
Resident student enrollment	\$ 5,466,581	\$ 4,961,068
Students with disabilities	34,745	52,064
Food service	155,702	165,314
Federal funding	182,785	245,300
State funding	37,260	39,110
Government grants	11,080	2,500
Interest and other income	15,032	24,316
Total revenue and support	<u>5,903,185</u>	<u>5,489,672</u>
EXPENSES		
<i>Program Expenses:</i>		
Regular education	4,141,363	3,671,434
Special education	277,416	406,608
Total program expenses	<u>4,418,779</u>	<u>4,078,042</u>
<i>Supporting Services:</i>		
Management and general	1,300,011	1,116,432
Total expenses	<u>5,718,790</u>	<u>5,194,474</u>
Change in net assets	184,395	295,198
Unrestricted net assets (deficit), beginning of year	64,786	(230,412)
Unrestricted net assets, end of year	<u><u>\$ 249,181</u></u>	<u><u>\$ 64,786</u></u>

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

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

Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 184,395	\$ 295,198
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	158,503	161,426
(Increase) decrease in due from government agencies	(94,667)	76,663
Decrease in accounts receivable	4,630	7,468
Increase in prepaid expenses	(8,079)	(27,533)
Increase (decrease) in accounts payable and accrued expenses	122,925	(54,323)
Increase (decrease) in unearned income	86,245	(43,770)
Decrease in due to management company	(422,073)	(231,288)
Net cash provided by operating activities	<u>31,879</u>	<u>183,841</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(40,789)	(28,710)
Net cash used in investing activities	<u>(40,789)</u>	<u>(28,710)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments made under capital lease obligation	(14,683)	(10,657)
Loan repayments	(93,866)	(87,738)
Net cash used in financing activities	<u>(108,549)</u>	<u>(98,395)</u>
Net increase in cash and cash equivalents	(117,459)	56,736
Cash and cash equivalents at beginning of year	130,742	74,006
Cash and cash equivalents at end of year	<u>\$ 13,283</u>	<u>\$ 130,742</u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	<u>\$ 31,684</u>	<u>\$ 36,399</u>

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

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

Notes to Financial Statements
June 30, 2008 and 2007

NOTE 1 ORGANIZATION SUMMARY

Merrick Academy—Queens Public Charter School, Inc. (the “School”) is a public charter school for children located in Queens Village, New York. In the 2007–2008 school year, the School operated kindergarten and grades one through six. It educates children on a completely nondiscriminatory and secular basis. The founders and supporters of the School believe that access to a public education of high quality for all children is the foremost issue. The School was chartered during July 2000 and the first classes were offered during the 2000–2001 school year.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States for not-for-profit organizations. Accordingly, the School is required to report its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

The School’s net assets consist of the following:

Unrestricted—Net assets of the School which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of the School.

Cash and Cash Equivalents

The School has defined cash and cash equivalents as cash and short-term, interest-bearing deposits with original maturities of three months or less.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Normal replacement and maintenance costs are charged to earnings as incurred, and major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss for the year is recognized. The School capitalizes assets with a cost of \$500 and over.

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

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Depreciation is calculated based on the useful lives of the assets as follows:

	Useful Life (Years)
Furniture and fixtures	7
Office equipment	3
Computer equipment	3
Leasehold improvements	5

Contributions

The School records contributions of cash and other assets as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of donor restrictions. The School records contributions as temporarily restricted support if they are received with donor stipulations that limit their use through purpose or time restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. All contributions received in the year ended 2008 were unrestricted.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited. Salaries, wages, and fringe benefits were allocated as direct costs to programs; supporting activity and other costs were allocated as direct costs based on actual costs associated with the activity.

Student Enrollment

Enrollment of available class slots is open to all potential student candidates with those residing in the immediate area given first preference. A lottery is held to award these available slots.

Government Grant Income

The School applies for various government grants each year which is based on several factors such as total students enrolled in the School. Reimbursement under per-pupil grants is the result of the calculation of full-time equivalent ("FTE") students attending the School multiplied by a rate determined each year by New York State.

**MERRICK ACADEMY—QUEENS PUBLIC
CHARTER SCHOOL, INC.**
Notes to Financial Statements
June 30, 2008 and 2007

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Comparative Data

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

NOTE 3 CASH AND CASH EQUIVALENTS

The School maintains all of its cash in banks. The accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000, which is the maximum allowed by law. The School's management monitors the balances in excess of the FDIC coverage to limit exposure to loss.

NOTE 4 PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT AGENCIES

Under the School's Charter School Agreement and the Charter Schools Act, the School is entitled to receive funding from both state and federal sources that are available to public schools. These funds include state pupil enrollment funds, federal food subsidies, and Titles I, II, IV, and VI funds. 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 receives could vary significantly.

The amount due from government agencies and included as revenue in the statement of activities consists of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Federal Government	\$ 164,776	\$ 35,361
New York Department of Education (pupil enrollment)	-	34,748
	<u>\$ 164,776</u>	<u>\$ 70,109</u>

**MERRICK ACADEMY—QUEENS PUBLIC
CHARTER SCHOOL, INC.**
Notes to Financial Statements
June 30, 2008 and 2007

NOTE 4 PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT AGENCIES *(continued)*

The amounts are based upon actual amounts received as well as estimates by the management of the School. Management believes these estimates are based upon the best information available at this time. However, actual amounts received, as determined by the state, could vary based on changes in the factors used to calculate the amounts owed.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications as follows:

	2008	2007
Leasehold improvements	\$ 1,462,871	\$ 1,462,871
Furniture and fixtures	203,689	202,257
Computer equipment	159,301	119,944
Office equipment	40,600	40,600
Equipment under capital lease	26,674	26,674
	1,893,135	1,852,346
Less: accumulated depreciation	(926,872)	(768,369)
Total	\$ 966,263	\$ 1,083,977

Depreciation expense for the years ended June 30, 2008 and 2007 was \$158,503 and \$161,426, respectively.

NOTE 6 DEFINED CONTRIBUTION PLAN

The School offers a 401(k) plan (the "Plan") to substantially all of its employees. Employees are eligible for the Plan immediately upon employment, and participation in the Plan is voluntary. Employees can make pretax contributions up to 100% of compensation, subject to Internal Revenue Service guidelines. The School matches the employee contribution 100% up to 4% of the employee's annual compensation. The employer contributions recognized in the statement of activities were \$47,373 and \$49,729 for 2008 and 2007, respectively. The Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries.

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

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 7 COMMITMENTS

The School is a lessee, under a non-cancelable operating lease, for space to be used for classroom instruction and administration activities. The term of the lease commenced January 1, 2004, and presently expires July 31, 2010, with options to renew for two additional five-year periods.

The future minimum annual rent payments are as follows:

2009	\$ 121,260
2010	<u>124,898</u>
	<u>\$ 246,158</u>

NOTE 8 LOAN PAYABLE

Loan payable outstanding consists of the following:

	<u>2008</u>	<u>2007</u>
The School has an outstanding loan payable to Victory Schools Inc. ("Victory"). The unpaid principal amount is payable in monthly installments of \$10,345 and bears interest at 9.85% per annum. The final payment is due on June 1, 2010.	\$ 224,515	\$ 321,296
Less: Current maturity included in current liabilities	<u>(106,756)</u>	<u>(96,781)</u>
Non-current portion	<u>\$ 117,759</u>	<u>\$ 224,515</u>

Interest charged on the loan totaled \$31,684 and \$36,399 for the years ended June 30, 2008 and 2007, respectively.

Future principal payments are as follows:

<u>Fiscal Year</u>	
2009	\$ 106,756
2010	<u>117,759</u>
	<u>\$ 224,515</u>

**MERRICK ACADEMY—QUEENS PUBLIC
CHARTER SCHOOL, INC.**
Notes to Financial Statements
June 30, 2008 and 2007

NOTE 8 **LOAN PAYABLE** *(continued)*

The School has an overdraft line of credit with a bank, allowing it to cover shortages in its cash account. Amounts drawn and outstanding under this line total \$2,915 as of June 30, 2008. Interest at 11% as of June 30, 2008, is charged on the line of credit.

NOTE 9 **MANAGEMENT COMPANY**

Victory Schools (“Victory”) manages the operations of the School under a management agreement entered into by the School and Victory. The agreement was executed on August 5, 2004. Per the terms of the Agreements, Victory assumes responsibility for all tasks and functions associated with the educational services to be provided to the children enrolled as students at the School in accordance with the terms of the Charter and the Charter Schools Act, subject to the 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.

The Agreement calls for Victory to be paid a fee (the “Per Pupil Fee”) of \$2,000 per enrolled pupil. The Per Pupil Fee shall be increased or decreased each year by the percentage increase or decrease in the Final Adjusted Expense Per Pupil for charter schools in the New York City school district as calculated by the New York State Education Department annually.

Victory is entitled to receive the management fees on a bi-monthly basis. Under the Agreement, fees not paid within 30 days of its due date shall bear interest at an annualized rate of 7.5%, provided that such amounts are not the result of the state’s failure to remit the Adjusted Expense Per Pupil to the School.

The management and central services fee expenses for the year ended June 30, 2008 and 2007, amount to \$1,203,426 and \$1,092,253, respectively. No interest was charged to the School by Victory during the year.

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

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 10 CONCENTRATION OF RISK

Victory is responsible for all operations of the School. Additionally, Victory has allowed the School to repay some management fees for the current and prior years on a long-term basis. Victory will accept payment of these deferred management fees when the School is able to pay. If this relationship were to change or cease, such change could have a substantial effect on the School's ability to continue operations.

The School is dependent on various government agencies for funding and is responsible for meeting the requirements of such agencies. If the School were to lose students or the related government funding, there could be a substantial effect on its ability to continue operations.

NOTE 11 RELATED-PARTY TRANSACTIONS

The School has an outstanding loan balance of \$224,515 and \$321,296 as of June 30, 2008 and 2007, respectively, payable to Victory Schools for funds used to renovate a school building. The School is current on its loan payments on the Secured Term Loan.

The amounts due to the management company for the year ended June 30, 2008 and 2007, of \$251,284 and \$673,357, respectively, relate to management and central services fees, as well as expenses paid by Victory on behalf of the School.

NOTE 12 CONTINGENCIES

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. The ultimate liability, if any, from such audits of government contracts by government agencies is presently not determinable, and it should not, in the opinion of the management, have a material effect on the financial position or result of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

MERRICK ACADEMY—QUEENS PUBLIC CHARTER SCHOOL, INC.

Schedule of Functional Expenses

For the Year Ended June 30, 2008

(With Comparative Totals for 2007)

EXPENSES	<u>Regular Education</u>	<u>Special Education</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total 2008</u>	<u>Total 2007</u>
<i>Personnel Expenses:</i>						
Salaries and wages	\$ 2,236,885	\$ 139,893	\$ 2,376,778	\$ -	\$ 2,376,778	\$ 2,143,539
Fringe benefits	433,091	27,085	460,176	-	460,176	431,097
Total personnel expense	<u>2,669,976</u>	<u>166,978</u>	<u>2,836,954</u>	<u>-</u>	<u>2,836,954</u>	<u>2,574,636</u>
<i>Operating Expenses:</i>						
Consultants—other	8,869	18,975	27,844	-	27,844	63,169
Contracted services—management company	-	-	-	1,203,426	1,203,426	1,092,253
Food	186,417	11,658	198,075	-	198,075	186,252
Insurance	-	-	-	54,647	54,647	47,606
Supplies and materials	58,455	3,656	62,111	-	62,111	71,486
Textbooks	86,240	5,393	91,633	-	91,633	113,234
Telephone	15,061	942	16,003	-	16,003	22,391
Occupancy	750,067	46,909	796,976	-	796,976	631,292
Printing	10,047	628	10,675	-	10,675	4,865
Staff development	26,922	1,684	28,606	-	28,606	11,261
Equipments rental/lease	11,100	694	11,794	-	11,794	1,802
Legal	-	-	-	20,480	20,480	385
Accounting/auditing fees	-	-	-	19,430	19,430	23,038
Maintenance and repairs	38,062	2,380	40,442	-	40,442	47,492
Transportation (Student)	486	30	516	-	516	684
Travel	5,332	333	5,665	-	5,665	1,799
Board expenses	-	-	-	2,028	2,028	756
Depreciation	149,174	9,329	158,503	-	158,503	161,426
Interest	29,819	1,865	31,684	-	31,684	36,399
Other	95,336	5,962	101,298	-	101,298	102,248
Total operating expense	<u>1,471,387</u>	<u>110,438</u>	<u>1,581,825</u>	<u>1,300,011</u>	<u>2,881,836</u>	<u>12,619,838</u>
Total expense	<u>\$ 4,141,363</u>	<u>\$ 277,416</u>	<u>\$ 4,418,779</u>	<u>\$ 1,300,011</u>	<u>\$ 5,718,790</u>	<u>\$ 5,194,474</u>

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Merrick Academy—Queens Public Charter School, Inc.
New York, New York

We have audited the financial statements of Merrick Academy—Queens Charter School, Inc. (the “School”) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States 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

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 express no such opinion.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of 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 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 the Board of Trustees, management, pertinent government agencies, and others within the School and is not intended to be and should not be used by anyone other than these specified parties.

Mitchell & Titus, LLP

October 28, 2008