

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

Audited Financial Statements In Accordance
With Government Auditing Standards

June 30, 2014

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.

Report on the Financial Statements

We have audited the accompanying financial statements of Merrick Academy – Queens Public Charter School, Inc. (the “School”), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

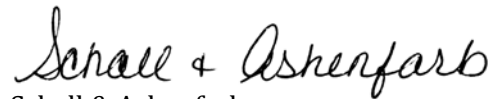
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Merrick Academy – Queens Public Charter School, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 2, 2014

MERRICK ACADEMY - QUEENS PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2014
(With comparative totals for June 30, 2013)

	<u>6/30/14</u>	<u>6/30/13</u>
Assets		
Cash and cash equivalents (Notes 2b and 2c)	\$931,965	\$2,290,696
Restricted cash (Note 3)	75,087	75,053
Grant receivable - New York City (Note 5)	0	1,189
Government grants receivable (Note 2f)	71,233	81,823
Prepaid expenses	102,127	109,050
Other assets	177,520	172,810
Property and equipment, net (Notes 2d and 4)	422,915	806,691
	<u> </u>	<u> </u>
Total assets	<u>\$1,780,847</u>	<u>\$3,537,312</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$91,204	\$61,551
Accrued payroll and benefits	583,774	589,993
Advance payable - New York City (Note 5)	12,411	0
Deferred rent (Note 2e)	98,006	378,386
	<u> </u>	<u> </u>
Total liabilities	<u>785,395</u>	<u>1,029,930</u>
 Net Assets: (Note 2a)		
Unrestricted	<u>995,452</u>	<u>2,507,382</u>
	<u> </u>	<u> </u>
Total net assets	<u>995,452</u>	<u>2,507,382</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$1,780,847</u>	<u>\$3,537,312</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, 2014

(With comparative totals for the year ended June 30, 2013)

	<u>6/30/14</u>	<u>6/30/13</u>
Unrestricted:		
Public Support and Revenue:		
Public school district revenue: (Notes 2f and 5)		
Resident student enrollment	\$6,673,694	\$6,664,969
Students with special education services	204,651	39,672
Total public school district revenue	<u>6,878,345</u>	<u>6,704,641</u>
Grants:		
Federal - Title and IDEA	173,769	216,619
Federal - Other	2,073	11,877
Total grants	<u>175,842</u>	<u>228,496</u>
Food service for child nutrition program	78,506	140,996
Other income	7,118	6,525
Total public support and revenue	<u>7,139,811</u>	<u>7,080,658</u>
Expenses:		
Program services:		
Regular education	6,261,725	5,176,765
Special education	529,151	412,335
Total program services	<u>6,790,876</u>	<u>5,589,100</u>
Supporting services:		
Management and general	1,045,807	1,300,672
Total supporting services	<u>1,045,807</u>	<u>1,300,672</u>
Total expenses	<u>7,836,683</u>	<u>6,889,772</u>
Change in net assets from operations	(696,872)	190,886
Non operating gains/(losses)		
Loss on asset abandonment (Note 4)	(643,479)	0
Surrender of lease, net of reversal of deferred rent (Note 9)	(171,579)	0
Total non operating gains/(losses)	<u>(815,058)</u>	<u>0</u>
Change in net assets	(1,511,930)	190,886
Net assets - beginning of year	<u>2,507,382</u>	<u>2,316,496</u>
Net assets - end of year	<u><u>\$995,452</u></u>	<u><u>\$2,507,382</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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014
(With comparative totals for the year ended June 30, 2013)

	Program Services			Supporting Services	Total Expenses 6/30/14	Total Expenses 6/30/13
	Regular Education	Special Education	Total	Management and General		
Personnel Service Costs:						
Administrative staff personnel	\$582,923	\$74,734	\$657,657	\$89,680	\$747,337	\$574,682
Instructional personnel	2,100,807	153,604	2,254,411		2,254,411	2,476,621
Non-instructional personnel			0	210,969	210,969	148,329
Total salaries and staff	2,683,730	228,338	2,912,068	300,649	3,212,717	3,199,632
Fringe benefits and payroll taxes	740,444	62,999	803,443	82,949	886,392	919,599
Professional development	138,937	11,821	150,758	15,565	166,323	232,117
Legal service			0	85,895	85,895	37,298
Management company fees	521,256	44,350	565,606	58,394	624,000	600,000
Professional fees - other	98,627	8,391	107,018	171,697	278,715	19,056
Student and staff recruitment			0	7,392	7,392	8,351
Curriculum and classroom supplies	129,956	9,502	139,458		139,458	190,911
Supplies and materials	46,694	3,973	50,667	5,231	55,898	41,165
Food services	157,334	11,504	168,838		168,838	152,845
Student transportation services	14,614	1,069	15,683		15,683	26,574
Postage, printing and copying	2,042	174	2,216	229	2,445	3,670
Insurance	78,082	6,643	84,725	8,748	93,473	76,594
Information technology	31,251	2,659	33,910	3,501	37,411	44,013
Non-capitalized equipment	42,592	3,624	46,216	4,771	50,987	48,638
Repairs and maintenance	342,701	29,158	371,859	38,391	410,250	122,278
Occupancy and facility costs	914,834	77,836	992,670	102,489	1,095,159	637,899
Utilities	188,296	16,021	204,317	21,094	225,411	253,342
Other	130,335	11,089	141,424	14,601	156,025	75,871
Total expenses before depreciation	6,261,725	529,151	6,790,876	921,596	7,712,472	6,689,853
Depreciation			0	124,211	124,211	199,919
Total expenses	\$6,261,725	\$529,151	\$6,790,876	\$1,045,807	\$7,836,683	\$6,889,772

*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, 2014

(With comparative totals for the year ended June 30, 2013)

	6/30/14	6/30/13
Cash Flows from Operating Activities:		
Change in net assets	(\$1,511,930)	\$190,886
Adjustments to reconcile change in net assets to net cash (used for)/provided by operating activities:		
Depreciation expense	124,211	199,919
Loss on asset abandonment	643,479	0
Reversal of deferred rent	(363,067)	0
(Increase)/decrease in assets:		
Restricted cash	(34)	(38)
Grant receivable - New York City	1,189	(1,189)
Government grants receivable	10,590	(505)
Prepaid expenses	6,923	70,374
Other assets	(4,710)	(123,060)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	29,653	(167,245)
Accrued payroll and benefits	(6,219)	86,154
Deferred rent	82,687	(750)
Advance payable - New York City	12,411	(41,122)
Total adjustments	537,113	22,538
Net cash (used for)/provided by operating activities	(974,817)	213,424
Cash Flows from Investing Activities:		
Purchase of furniture and equipment	(383,914)	(33,207)
Net cash used for investing activities	(383,914)	(33,207)
Cash Flows from Financing Activities:		
Obligations under capital lease	0	(1,280)
Net cash used for financing activities	0	(1,280)
Net (decrease)/increase in cash and cash equivalents	(1,358,731)	178,937
Cash and cash equivalents - beginning of year	2,290,696	2,111,759
Cash and cash equivalents - end of year	\$931,965	\$2,290,696
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, 2014

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 through sixth grade levels. The School completed the 2013-2014 fiscal year with an average enrollment of approximately 493 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 which is the process of recognizing revenue and expenses when earned or incurred rather than when received or paid. All significant receivables, payables and other liabilities have been reflected.

The School’s 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, 2014.
- *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, 2014.

b. 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.

c. Concentration of Credit Risk

Financial instruments which potentially subject the School to concentration of credit risk consist of cash and money market accounts, which have been placed with a financial institution that management deems 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.

d. Fixed Assets

Fixed assets are stated at cost or at fair 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.

e. 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.

f. Revenue Recognition

Public school district 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.

The terms of each government grant are reviewed to determine if they contain traits more closely associated with contributions or exchange transactions. Management has determined that all existing government grants are exchange transactions because they contain traits more similar to contracts for service. The difference between grant revenue earned and cash received is reflected as grants receivable or advance payable.

Contributions are recorded as revenue at the earlier of the receipt of cash or when pledges are considered unconditional in nature. Contributions are considered available for unrestricted use, unless specifically restricted by the donor, in which case they are recorded in one of the restricted classes of net assets.

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 does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2011 and later are subject to examination by applicable taxing authorities.

k. Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

l. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 2, 2014, 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

At year-end, fixed assets consisted of the following:

	<u>6/30/14</u>	<u>6/30/13</u>
Leasehold improvements	\$353,032	\$1,766,645
Furniture and fixtures	262,005	255,785
Computer equipment	456,661	443,939
Office equipment	<u>208,047</u>	<u>196,107</u>
Total fixed assets – cost	1,279,745	2,662,476
Less: accumulated depreciation	<u>(856,830)</u>	<u>(1,855,785)</u>
Furniture and equipment, net	<u>\$422,915</u>	<u>\$806,691</u>

The School moved to new classroom space and administrative offices during the year and entered into a new operating lease. The effect of this move resulted in the abandonment of leasehold improvements and a loss of \$643,479 which has been recognized on the statement of activities as non-operating gains and losses.

Note 5 - Advance Payable/Grant Receivable – New York City Department of Education

	<u>6/30/14</u>	<u>6/30/13</u>
Beginning grant receivable/(advance payable)	\$1,189	(\$41,122)
Payments received	(1,189)	0
Funding based on allowable FTE's	6,878,345	6,704,641
Advances received	<u>(6,890,756)</u>	<u>(6,662,330)</u>
Ending (advance payable)/grant receivable	<u>(\$12,411)</u>	<u>\$1,189</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 years ended June 30, 2014 and 2013, approximately 96 % and 95% of the School's total public support and revenue was realized from NYCDOE.

Note 7 - 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 expenses for the years ended June 30, 2014 and 2013 were \$46,097 and \$40,159, respectively.

Note 8 - Management Services

On August 5, 2004, the School entered into an agreement with Victory Schools ("Victory") to provide services related to certain educational management and operations of the School. Victory serves as an advisor regarding functions associated with the educational services to be provided to the students at the School and consults with the School with respect to its legal and operational compliance in accordance with the terms of the charter and the Charter Schools Act.

For the years ended June 30, 2014 and 2013, the service fees were \$624,000 and \$600,000, respectively.

Note 9 - Commitments and Contingencies

- a. 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.
- b. In the normal course of business, the School is involved in proceedings, lawsuits and other claims. These matters are subject to many uncertainties, and outcomes are not predictable with a high degree of assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of June 30, 2014 cannot be ascertained. Management believes that the final outcome of these matters will not have a material impact on the financials of the School.
- c. In fiscal year 2013, the School entered into a new operating lease for classroom space and administrative offices that expires in December 2022. The School moved to its new space in December 2013. As a result, the remaining balance of deferred rent of \$363,067 reflecting the difference between rent expense on the straight-line method and actual rent paid on the previously existing lease was reversed and is reflected as other gains on the statement of activities.

In 2014, the School entered into a surrender and assignment of lease agreement on the previous space and agreed to pay \$534,646 in early termination fees.

Future minimum lease payments for all leases are as follows:

For the year ended:	June 30, 2015	\$766,279
	June 30, 2016	785,436
	June 30, 2017	805,072
	June 30, 2018	825,199
	June 30, 2019	845,829
Thereafter		<u>3,127,544</u>
		<u>\$7,155,359</u>

**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.

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Merrick Academy – Queens Public Charter School, Inc. (the “School”), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 2, 2014.

Internal Control over Financial Reporting

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

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

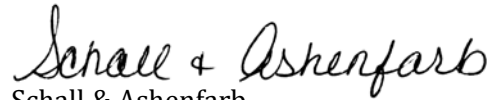
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during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

Compliance and Other Matters

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

Purpose of this Report

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


Schall & Ashenfarb
Certified Public Accountants, LLC

October 2, 2014

**MERRICK ACADEMY – QUEENS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

Current Year:

None

Prior Year:

None