

MERRICK ACADEMY-QUEENS PUBLIC  
CHARTER SCHOOL, INC.

FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2010

MERRICK ACADEMY-QUEENS PUBLIC CHARTER SCHOOL, INC

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# KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Merrick Academy-Queens Public Charter School, Inc. as of June 30, 2010, and the related statements of activities and cash flows for 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 present fairly, in all material respects, the financial position of Merrick Academy-Queens Public Charter School, Inc. as of June 30, 2010, and the results of its operations 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, 2010 on our consideration of Merrick Academy-Queens Public Charter School, Inc.'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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying schedule of functional expenses is presented for purpose 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.

*Koch Group & Company, LLP*

Certified Public Accountants

New York, New York  
October 27, 2010

MERRICK ACADEMY-QUEENS PUBLIC CHARTER SCHOOL, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

ASSETS

CURRENT ASSETS	
Cash	\$ 322,249
Restricted cash	75,009
Due from government agencies	247,295
Prepaid expenses	<u>110,686</u>
Total Current Assets	755,239
Security deposits	49,750
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	<u>870,996</u>
Total Assets	<u><u>\$ 1,675,985</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 864,961
Obligation under capital lease	16,325
Due to management company	195,665
Unearned income	<u>8,000</u>
Total Current Liabilities	1,084,951
Obligation under capital lease	<u>16,195</u>
Total Liabilities	1,101,146
NET ASSETS - UNRESTRICTED	<u>574,839</u>
Total Liabilities and Net Assets	<u><u>\$ 1,675,985</u></u>

See notes to financial statements.

MERRICK ACADEMY-QUEENS PUBLIC CHARTER SCHOOL, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

UNRESTRICTED NET ASSETS

REVENUE, GAINS AND OTHER SUPPORT

Public School District	
Resident student enrollment	\$ 6,150,575
Grants and Contracts	
Federal - Title and IDEA	208,684
Federal - Other	135,242
Contribution - Foundations/Individual/Corporation	2,091
Interest and other income	1,561
Food Service/Child Nutrition Program	166,991
	<hr/>
Total Revenue, Gains and Other Support	6,665,144

EXPENSES

Program Expenses	
Regular education	4,956,546
Special education	270,943
	<hr/>
	5,227,489
Supporting Services	
Management and general	1,367,594
	<hr/>
Total Expenses	6,595,083

CHANGE IN NET ASSETS 70,061

NET ASSETS

Beginning of year	<hr/>
	504,778
End of year	<hr/>
	\$ 574,839

See notes to financial statements.

MERRICK ACADEMY-QUEENS PUBLIC CHARTER SCHOOL, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 70,061
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	148,712
Changes in Assets and Liabilities	
Restricted cash	(20)
Due from government agencies	(129,928)
Grants receivable	133,002
Prepaid expenses	(27,939)
Due to management company	97,067
Unearned income	1,629
Accounts payable and accrued expenses	161,244
Net Cash Provided by Operating Activities	<u>453,828</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of fixed assets	<u>(82,998)</u>
Net Cash Used in Investing Activities	<u>(82,998)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Obligation under capital lease	3,350
Loan repayments	<u>(117,714)</u>
Net Cash Used by Financing Activities	<u>(114,364)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	256,466
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>65,783</u>
End of year	<u>\$ 322,249</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash Paid for Interest	<u>\$ 6,444</u>

See notes to financial statements.

MERRICK ACADEMY-QUEENS PUBLIC CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

1. Organization

Merrick Academy-Queens Public Charter School, Inc. (“The School”), a 501(c)(3) tax-exempt organization, is a public charter school for children in grades kindergarten through sixth grade located in Queens Village, New York. The mission of the School is to become one of the finest public schools in America, and to provide an extended day, a high degree of individualized instruction and an innovative research-based academic curriculum. The School was chartered during July 2000 and the first classes were offered during the 2000-2001 school year.

2. Summary of Significant Accounting Policies

a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

b) Financial Statement Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Furthermore, information is required to segregate program service expenses from support expenses.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

c) Donated Services

No amounts are reflected in the financial statements for donated services, as the services do not meet the specialized skill requirements prescribed under accounting principles generally accepted in the United States of America.

MERRICK ACADEMY-QUEENS PUBLIC CHARTER SCHOOL, INC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

2. Summary of Significant Accounting Policies (Continued)

d) Functional Allocation of Expenses

Costs and expenses of various programs and other activities have been analyzed on a functional basis. Accordingly, all costs and expenses incurred have been allocated among the programs and supporting services benefited.

e) Leasehold Improvements and Equipment

Leasehold improvements and equipment are being depreciated using the straight-line method based on their estimated useful lives.

f) Cash and cash equivalents

The School maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and equivalents.

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

g) 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.

h) Government Grant Income

The School applies for various government grants each year that are 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, 2010

3. Restricted Cash

Pursuant to an addendum to the Charter Agreement dated August 4, 2008, from the New York City Department of Education (“NYCDOE”), the NYCDOE requires the school to establish an escrow of at least \$70,000. In the event of termination of the charter, whether prematurely or otherwise, the School shall establish and follow procedures consistent with those required by Section 2851(2)(t) of the New York State Education Law in its use of the escrow.

4. Pupil Enrollment and Other Revenues From Government Agencies

Under the Charter School Agreement and the Charter Schools Act, the School is entitled to receive funding from governmental sources that are available to public schools. The funds include state pupil enrollment funds, federal food subsidies, and the Titles I, II, IIA and IV 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 received could vary significantly.

The amount due from government agencies and included in the statement of activities in the amount of \$115,909 is all federal title grants.

This amount is based upon actual amounts received as well as estimates by the management based upon the best information available at the time. However, actual amounts received, as determined by the funding source, could vary based on changes in the factors used to calculate the amounts owed.

MERRICK ACADEMY-QUEENS PUBLIC CHARTER SCHOOL, INC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

5. Property and Equipment

At June 30, 2010, property and equipment consisted of the following:

		Estimated Useful Life
Leasehold improvements	\$1,539,889	5 years
Furniture and fixtures	209,712	7 years
Computer equipment	130,848	5 years
Office equipment	<u>226,207</u>	5-7 years
	2,106,656	
Less: Accumulated depreciation	<u>(1,235,660)</u>	
Total	<u>\$ 870,996</u>	

Depreciation expense for the year ended June 30, 2010 was \$148,712

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of amounts due to vendors and for payroll earned by the staff during the school year but paid out over the summer months.

7. Loans and Line of Credit

The School has an overdraft line of credit with a bank, allowing it to cover shortages in its cash account. No amount was outstanding under this line as of June 30, 2010.

8. Defined Contribution Plan

The School offers a 401(k) plan for 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 a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employee's annual compensation. The employer contribution recognized in the statement of activities was \$32,030 for the year ended June 30, 2010. Such 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, 2010

9. Commitments

The School is a lessee under operating leases, principally used for classroom space and administrative offices. The lease, which expires in 2020, increases 3% annually after the fourth year and requires payment of all real estate taxes.

Future minimum lease payments for the next 5 years are as follows:

Years ending June 30,

2011	\$ 486,860
2012	501,466
2013	516,510
2014	532,005
2015	547,966

10 Management

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 Agreement, 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.

In providing the above, Victory is paid a service fee in the amount equal to total full-time equivalent enrollment of students multiplied by \$2,739 on yearly basis. The Per Pupil Fee is 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 as calculated by the New York State Department of Education annually.

Victory is entitled to receive the fees on a bi-monthly basis. Any fee not paid within 30 days of its due date bears interest at 7.5% per annum until such amount is paid in full.

For the year ended June 30, 2010 the service fee was \$1,354,003. There was no interest charged on the management fees deferred during the year.

MERRICK ACADEMY-QUEENS PUBLIC CHARTER SCHOOL, INC

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

11. Contingency

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. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

12. Concentration of Risk

Victory is responsible for all operations of the School. Additionally, Victory has allowed the School to repay some management fee 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.

13. Capital Lease

In March 2009, 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 the years ending June 30 for the aforementioned lease are as follows:

2011	\$ 16,325
2012	<u>16,195</u>
Obligation under capital lease	<u>\$ 32,520</u>

14. Subsequent Events

There were no significant subsequent events noted. Subsequent events reviewed through October 22, 2010, the date at which the financial statements were available for issuance.

MERRICK ACADEMY-QUEENS PUBLIC CHARTER SCHOOL, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010

	Regular Education	Special Education	Total Programs	Management & General	Total
<u>Personnel Expenses</u>					
Salaries and wages	\$ 2,602,861	\$ 141,904	\$ 2,744,765	\$ -	\$ 2,744,765
Payroll taxes	221,685	12,086	233,771	-	233,771
Fringe benefits	350,076	19,086	369,162	-	369,162
 Total Personnel Expenses	 <u>3,174,622</u>	 <u>173,076</u>	 <u>3,347,698</u>	 <u>-</u>	 <u>3,347,698</u>
<u>Operating Expenses</u>					
Contracted services - financial and administrative	-	-	-	1,354,003	1,354,003
Consultant - other	144,588	7,883	152,471	-	152,471
Administrative	28,436	1,550	29,986	-	29,986
Advertising	6,988	381	7,369	-	7,369
Food service	165,387	9,017	174,404	-	174,404
Insurance	40,806	2,225	43,031	-	43,031
Legal and professional	93,778	5,821	99,599	12,999	112,598
Repairs and maintenance	110,192	6,008	116,200	-	116,200
Occupancy	780,289	42,540	822,829	-	822,829
Postage and shipping	6,759	369	7,128	-	7,128
Instructional materials	88,261	4,812	93,073	-	93,073
Staff development	17,548	957	18,505	-	18,505
Student services	24,063	1,312	25,375	-	25,375
Supplies and materials	58,084	3,167	61,251	-	61,251
Equipment and furnishings	9,235	504	9,739	-	9,739
Telephone and internet services	38,634	2,106	40,740	-	40,740
Interest expense	6,111	333	6,444	-	6,444
Depreciation	141,024	7,688	148,712	-	148,712
Other expenses	21,741	1,194	22,935	592	23,527
 Total Operating Expenses	 <u>1,781,924</u>	 <u>97,867</u>	 <u>1,879,791</u>	 <u>1,367,594</u>	 <u>3,247,385</u>
 TOTAL EXPENSES	 <u>\$ 4,956,546</u>	 <u>\$ 270,943</u>	 <u>\$ 5,227,489</u>	 <u>\$ 1,367,594</u>	 <u>\$ 6,595,083</u>



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INDEPENDENT AUDITOR'S 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. as of and for the year ended June 30, 2010, and have issued a report thereon dated October 27, 2010. 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**

In planning and performing our audit, we considered Merrick Academy-Queens Public Charter School, Inc.'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 Merrick Academy-Queens Public Charter School, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Merrick Academy-Queens Public Charter School, Inc.'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 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 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 Merrick Academy-Queens Public Charter School, Inc.'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, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Rock Group & Company, LLP*

Certified Public Accountants

New York, New York  
October 27, 2010