

Merrick Academy-Queens Public Charter School, Inc.

**Financial Statements
and
Independent Auditors' Report**

June 30, 2015

Merrick Academy-Queens Public Charter School, Inc.

Financial Statements

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Merrick Academy-Queens Public Charter School, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2015, and the related statements of activities 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.

Auditor's 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 auditor's 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 entity'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 entity'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, 2015, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, 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 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 Merrick Academy-Queens Public Charter School, Inc.'s internal control over financial reporting and compliance.

Vargas & Rivera, LLP

New City, New York

October 22, 2015

Merrick Academy-Queens Public Charter School, Inc.
Statement of Financial Position
June 30, 2015

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 2,157
Restricted Cash (Note 3)	75,123
Due from Government Agencies (Note 4)	108,467
Accounts Receivable	8,281
Prepaid Expenses	<u>111,636</u>

Total Current Assets 305,664

Fixed Assets

Leasehold Improvements	2,259,776
Construction in Progress	15,522
Equipment, Furniture and Fixtures	<u>1,000,782</u>
	3,276,080
Less: Accumulated Depreciation	<u>(2,778,904)</u>

Total Fixed Assets 497,176

Other Assets

Security Deposits	<u>177,520</u>
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Total Other Assets 177,520

Total Assets \$ 980,360

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable and Accrued Expenses	\$ 132,674
Accrued Payroll and Related Expenses	462,131
Deferred Rent	<u>162,004</u>

Total Current Liabilities / Total Liabilities 756,809

Net Assets

223,551

Total Liabilities and Net Assets \$ 980,360

Merrick Academy-Queens Public Charter School, Inc.
Statement of Activities
For the year ended June 30, 2015

<u>PUBLIC SUPPORT AND REVENUE</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Resident Student Enrollment	\$ 7,265,583	\$ -	\$ 7,265,583
Food Service	-	120,603	120,603
Federal Funding	-	176,790	176,790
Corporate Contributions	3,265	-	3,265
Interest Income	1,062	-	1,062
	<u>7,269,910</u>	<u>297,393</u>	<u>7,567,303</u>
Net Assets Released From Restrictions	<u>297,393</u>	<u>(297,393)</u>	<u>-</u>
Total Support and Revenue	<u>7,567,303</u>	<u>-</u>	<u>7,567,303</u>
 <u>EXPENSES</u>			
<u>Program Services</u>			
Regular Education	6,094,208	-	6,094,208
Special Education	1,111,448	-	1,111,448
	<u>7,205,656</u>	<u>-</u>	<u>7,205,656</u>
<u>Supporting Services</u>			
Management and General	1,133,548	-	1,133,548
Total Expenses	<u>8,339,204</u>	<u>-</u>	<u>8,339,204</u>
Change in Unrestricted Net Assets	<u>(771,901)</u>	<u>-</u>	<u>(771,901)</u>
Net Assets, Beginning of Year	<u>995,452</u>	<u>-</u>	<u>995,452</u>
Net Assets, End of Year	<u>\$ 223,551</u>	<u>\$ -</u>	<u>\$ 223,551</u>

Merrick Academy-Queens Public Charter School, Inc.
Statement of Cash Flows
For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Resident Student Enrollment	\$ 7,244,891
Receipts from Grants and Contributions	263,424
Receipts from Other Revenue	1,026
Payments to Employees	(4,655,353)
Payments to Vendors and Suppliers	<u>(3,551,677)</u>
Net Cash Used In Operating Activities	<u>(697,689)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Payments for Leasehold Improvements	(158,049)
Purchases of Equipment, Furniture and Fixtures	<u>(74,070)</u>
Net Cash Used In Investing Activities	<u>(232,119)</u>

NET DECREASE IN CASH	(929,808)
CASH - BEGINNING OF YEAR	<u>931,965</u>
CASH - END OF YEAR	<u><u>\$ 2,157</u></u>

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Change in Unrestricted Net Assets	<u>\$ (771,901)</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	157,858
Changes in Assets and Liabilities (Increase) / Decrease in:	
Restricted Cash	(36)
Due from Government Agencies	(37,234)
Accounts Receivable	(8,281)
Prepaid Expenses	(9,509)
Increase / (Decrease) in:	
Accounts Payable and Accrued Expenses	41,470
Accrued Payroll and Related Expenses	(121,643)
Deferred Revenue	(12,411)
Deferred Rent	<u>63,998</u>
Total Adjustments	<u>74,212</u>
Net Cash Used In Operating Activities	<u><u>\$ (697,689)</u></u>

Merrick Academy-Queens Public Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

NOTE 1 - ORGANIZATION

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 six grade levels. The School completed the 2014-2015 fiscal year with an average enrollment of approximately 496 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE")

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The net assets of the School and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the School and/or the passage of time.

Use of Estimates in the Preparation of Financial Statements

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

The School records contributions received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulation time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All contributions received in the year ended 2015 were unrestricted.

Recognition of Revenue

Government contract revenue is recognized as earned in the period services are provided and costs are incurred.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the School considers all highly liquid investments available for current use with an initial period of three months or less to be cash equivalents.

Income Tax Status

The School is a not-for-profit corporation organized under the laws of the State of New York. It is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code.

Merrick Academy-Queens Public Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold Improvements Furniture and Fixtures, and Equipment

Leasehold improvements, furniture and equipment are valued at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets or the term of the lease agreement. 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 period. The School capitalizes assets with cost of \$500 and over. Depreciation is calculated based on the useful lives of the assets as follows: Leasehold Improvements 5 Years, Equipment and Furniture 3 - 7 Years.

Functional Allocation of Expenses

Expenses relating to more than one function are allocated to program service and management and general based on employee time estimates or other appropriate usage factors.

Contributed Services

Contributed services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

A number of volunteers have made a contribution of their time to the School to develop academic and other programs and to serve on the board of trustees. The value of this contributed time is not reflected in the financial statements as such services either do not require specialized skills or would not typically be purchased had they not been provided as donations.

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 receivable at the beginning of the lease, is reflected as deferred rent. As future payments exceed the annual expense recognized, deferred rent will be reduced by the end of the lease term.

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 – DUE FROM GOVERNMENT AGENCIES

Under the School's Charter School Agreement and the Charter School 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 and Federal food subsidies and Title I, IIA, IID, IV and V 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 district 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.

Merrick Academy-Queens Public Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

NOTE 5 – DEFINED CONTRIBUTION PLAN

The School offers a 401(k) plan (the "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 to the Plan, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employee's annual compensation. The School's contribution recognized in the statement of activities was \$50,203 for 2015. 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.

NOTE 6 – MANAGEMENT FEE

On August 5, 2004, the School entered into an agreement with Victory Schools ("Victory") to provided 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 year ended June 30, 2015, the management fee was \$585,000.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Legal Issues

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, 2015 cannot be ascertained. Management believes that the final outcome of these matters will not have a material impact on the financials of the School.

Operating Lease

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.

Equipment Lease

The School leased a copier for 39 months beginning September 2014 with monthly payments of \$1,690.

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

Year ended June 30,	Occupancy	Equipment	Total
2016	\$ 785,436	\$ 20,280	\$ 805,716
2017	805,072	20,280	825,352
2018	825,199	8,450	833,649
2019	845,829	-	845,829
2020	866,975	-	866,975
Thereafter	2,260,569	-	2,260,569
	<u>\$ 6,389,080</u>	<u>\$ 49,010</u>	<u>\$ 6,438,090</u>

Merrick Academy-Queens Public Charter School, Inc.
Notes to the Financial Statements
June 30, 2015

NOTE 7 – COMMITMENTS AND CONTINGENCIES (continued)

Audits by Funding Sources

The School participates in a number of Federal and State programs. These programs require that the School complies with certain requirement of laws, regulations, contracts, and agreements applicable to the program 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 result of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

NOTE 8 – CONCENTRATION OF RISK

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.

NOTE 9 – SUBSEQUENT EVENTS

The School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 22, 2015, for these

Supplemental Information

Merrick Academy-Queens Public Charter School, Inc.
Schedule of Functional Expenses
For the year ended June 30, 2015

	Regular Education	Special Education	Total Programs	Support Services	Total
<u>Personnel Service Costs</u>					
Salaries					
Administrative Staff Personnel	\$ 505,956	\$ 64,754	\$ 570,710	\$ 137,204	\$ 707,914
Instructional Personnel	2,217,986	395,336	2,613,322	15,773	2,629,095
Non-Instructional Personnel	-	-	-	149,645	149,645
Total Personnel Costs	<u>2,723,942</u>	<u>460,090</u>	<u>3,184,032</u>	<u>302,622</u>	<u>3,486,654</u>
Fringe Benefits	486,769	82,218	568,987	54,079	623,066
Payroll Taxes	292,020	49,324	341,344	32,443	373,787
Retirement Benefits	39,221	6,625	45,846	4,357	50,203
Total Personnel and Related Expenses	<u>3,541,952</u>	<u>598,257</u>	<u>4,140,209</u>	<u>393,501</u>	<u>4,533,710</u>
<u>Operating Expenses</u>					
Professional Development	82,995	13,889	96,884	9,066	105,950
Legal	-	-	-	124,036	124,036
Auditing Fees	-	-	-	11,000	11,000
Management Fee (Note 5)	457,030	77,195	534,225	50,775	585,000
Professional Fees - Other	133,824	10,273	144,097	117,514	261,611
Student and Staff Recruitment	23,659	3,144	26,803	1,609	28,412
Curriculum and Classroom Supplies	321,777	167,903	489,680	-	489,680
Supplies and Materials	-	-	-	117,981	117,981
Food Services	199,219	15,509	214,728	431	215,159
Student Transportation Services	2,100	355	2,455	233	2,688
Postage, printing and copying	3,703	625	4,328	411	4,739
Insurance	105,408	17,804	123,212	11,711	134,923
Information Technology	21,610	3,650	25,260	2,401	27,661
Non-Capitalized Equipment	53,071	8,964	62,035	5,896	67,931
Maintenance and Repairs	370,527	62,584	433,111	41,164	474,275
Occupancy and Facility Costs	648,653	109,561	758,214	72,063	830,277
Utilities	96,708	16,335	113,043	10,744	123,787
Depreciation	-	-	-	157,858	157,858
Other Expenses	31,972	5,400	37,372	5,154	42,526
Total Operating Expenses	<u>2,552,256</u>	<u>513,191</u>	<u>3,065,447</u>	<u>740,047</u>	<u>3,805,494</u>
TOTAL EXPENSES	<u>\$ 6,094,208</u>	<u>\$ 1,111,448</u>	<u>\$ 7,205,656</u>	<u>\$ 1,133,548</u>	<u>\$ 8,339,204</u>

**Independent Auditors' 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.
Queens, New York

We have audited, 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, the financial statements of Merrick Academy-Queens Public Charter School, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2015 and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Merrick Academy-Queens Public Charter School, Inc.'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 of Merrick Academy-Queens Public Charter School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a 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 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 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*.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vargas & Rivera, LLP

New City, New York

October 22, 2015