

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**

**Financial Statements
For The Years Ended June 30, 2007 And 2006
With Report of Independent Auditors**

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL
June 30, 2007 And 2006**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Peninsula Preparatory Academy Charter School

We have audited the accompanying statements of financial position of Peninsula Preparatory Academy Charter School (the "School") as of June 30, 2007 and 2006 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 Peninsula Preparatory Academy Charter School, Inc at June 30, 2007 and 2006, 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 29, 2007, 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.

Mitchell & Titus, LLP

October 29, 2007

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**
Statements of Financial Position
June 30, 2007 and 2006

	2007	2006
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents (Note 3)	\$ 476,437	\$ 257,021
Due from government agencies (Note 4)	85,132	52,027
Accounts receivable	-	3,465
Prepaid expenses	10,908	3,953
Due from management company	-	535
	572,477	317,001
Property and equipment (Note 5)	115,930	73,059
Total assets	\$ 688,407	\$ 390,060
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts payable and accrued expenses	\$ 245,246	\$ 203,910
Unearned Income	35,378	-
Obligation under capital lease	19,763	-
Due to management company (Note 9)	4,624	-
	305,011	203,910
<i>Net Assets</i>		
Unrestricted	383,396	186,150
Total liabilities and net assets	\$ 688,407	\$ 390,060

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

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**

Statements of Activities
For the Years Ended June 30, 2007 and 2006

	2007	2006
REVENUES AND SUPPORT		
Resident student enrollment	\$ 2,546,176	\$ 1,776,965
Food service	126,056	100,720
Federal funding	116,508	61,079
State funding	19,507	17,069
Special education funding	51,066	78,225
Private contributions	327,860	333,160
Interest and other income	23,332	13,273
Total revenues and support	3,210,505	2,380,491
EXPENSES		
<i>Program Expenses</i>		
Regular education	2,227,544	1,680,707
Special education	154,741	56,205
	2,382,285	1,736,912
<i>Supporting Services</i>		
Management and general	630,974	453,057
Total expenses	3,013,259	2,189,969
Change in net assets	197,246	190,522
Unrestricted net assets at beginning of year	186,150	(4,372)
Unrestricted net assets at end of year	\$ 383,396	\$ 186,150

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

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**
Statements of Cash Flows
For the Years Ended June 30, 2007 And 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 197,246	\$ 190,522
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	38,263	24,518
Increase in due from government agencies	(33,105)	(9,899)
(Decrease) increase in accounts receivable	3,465	(3,465)
Increase (decrease) in prepaid expenses	(6,955)	9,671
Increase in accounts payable and accrued expenses	96,477	44,541
(Increase) decrease in due to management company	<u>5,159</u>	<u>(41,917)</u>
Net cash provided by operating activities	<u>300,550</u>	<u>213,971</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(81,134)</u>	<u>(36,811)</u>
Net cash used in investing activities	<u>(81,134)</u>	<u>(36,811)</u>
Net increase in cash and cash equivalents	219,416	177,160
Cash and cash equivalents at beginning of period	<u>257,021</u>	<u>79,861</u>
Cash and cash equivalents at end of period	<u><u>\$ 476,437</u></u>	<u><u>\$ 257,021</u></u>

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

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**
Notes To Financial Statements
June 30, 2007 And 2006

NOTE 1 ORGANIZATION SUMMARY

Peninsula Preparatory Academy Charter School (the "School") is a charter school for children located in Far Rockaway, New York. During the 2006-2007 year, the school operated kindergarten and grades one through four. 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 April 2004.

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:

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 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. 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

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**

Notes To Financial Statements
June 30, 2007 And 2006

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contributions

The School records contributions of cash and other assets as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The School records contributions as 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 2007 were unrestricted. In-kind contributions, donated services, and materials are recorded at the fair value at the date of donation.

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 and supporting activity, and as direct costs based on actual costs associated with the activity.

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.

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.

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**
Notes To Financial Statements
June 30, 2007 And 2006

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 Title 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.

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

	2007	2006
Federal Government	\$ 77,554	\$ 52,027
New York State Department of Education (per pupil enrollment)	7,578	-
	\$ 85,132	\$ 52,027

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

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

	2007	2006
Furniture and fixtures	\$ 75,741	\$ 61,106
Computer equipment	76,591	38,027
Software	1,193	-
Office equipment	38,789	12,049
	192,314	111,182
Less: accumulated depreciation	(76,384)	(38,123)
Total	\$ 115,930	\$ 73,059

Depreciation expense for the years ended June 30, 2007 and 2006 were \$38,261 and \$24,518, respectively.

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**

Notes To Financial Statements
June 30, 2007 And 2006

NOTE 6 IN-KIND CONTRIBUTION

The school has been granted the use of space at no cost in a New York City public school by New York City Department of Education for a period commencing on July 1, 2005 and continuing until June 30, 2010. The fair value of the space is \$327,860 per year, which is reflected in the financial statements as contribution revenue and occupancy expense.

NOTE 7 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 of up to 100% of their compensation, subject to Internal Revenue Service guidelines. The School matches the employee contribution 100% up to 4% of the employee's annual compensation. The School's contribution recognized in the statement of activities was \$3,959 for 2007 and \$6,643 for 2006. 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 Plans' participants and beneficiaries.

NOTE 8 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 July 1, 2004. Per the terms of the Agreement, Victory assumes responsibility for tasks and functions associated with the educational services to be provided to the children enrolled as student 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 services, Victory is paid a management fee in the amount equal to the product of the total full-time equivalent enrollment of students in the Charter School as defined under Section 119.1 of New York State Commissioner of Education Regulations, multiplied by two thousand dollars (\$2,000) (the "Per Pupil Fee"). 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.

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**

Notes To Financial Statements
June 30, 2007 And 2006

NOTE 8 MANAGEMENT COMPANY *(continued)*

Victory is entitled to receive the management fees on a bi-monthly basis. Any VSI Fee, or portion thereof, not paid within (30) days of its due date shall bear interest at an annualized rate of 15% per annum on the outstanding past due amount, provided such past due payments are not as a result of the New York City Department of Education's failure to timely remit the Adjusted Expense Per Pupil to the Charter School.

The management and central services fee expense for the year ended June 30, 2007 and 2006 was \$592,835 and \$414,353, respectively. No interest was charged to the School during the year.

NOTE 9 CONCENTRATION OF RISK

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, it could have a substantial effect on its ability to continue operations.

NOTE 10 RELATED-PARTY TRANSACTIONS

The amount due to the management company of \$4,624 in 2007 and the amount due from management of \$535 in 2006 relates to management and central services fees discussed in Note 7 above.

NOTE 11 CONTINGENCY

The School participates in a number of Federal and State programs. These programs require that the School complies 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 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.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

Schedule of Functional Expenses

For the Year Ended June 30, 2007

(With Comparative Totals for 2006)

	Regular Education	Special Education	Total Program	Management & General	Total 2007	Total 2006
EXPENSES						
<i>Personnel Expenses</i>						
Salaries and wages	\$ 1,205,306	\$ 84,858	\$ 1,290,164	\$ -	\$ 1,290,164	\$ 839,455
Fringe benefits	245,130	17,258	262,388	-	262,388	196,483
Total personnel expenses	<u>1,450,436</u>	<u>102,116</u>	<u>1,552,552</u>	-	<u>1,552,552</u>	<u>1,035,938</u>
<i>Operating Expenses</i>						
Contracted services – management company	-	-	-	592,835	592,835	414,353
Consultants – other	29,638	-	29,638	-	29,638	29,638
Consultants – education	-	-	-	-	-	24,045
Food	120,263	8,467	128,730	-	128,730	105,979
Insurance	21,058	1,483	22,541	-	22,541	22,372
Supplies and materials	48,166	3,391	51,557	-	51,557	42,379
Textbooks	102,240	7,198	109,438	-	109,438	72,374
Telephone	10,534	742	11,276	-	11,276	5,095
Occupancy	315,859	22,237	338,096	-	338,096	327,238
Printing	6,114	430	6,544	-	6,544	7,454
Staff development	38,323	2,698	41,021	-	41,021	29,239
Equipments rental/lease	1,133	80	1,213	-	1,213	2,005
Legal	-	-	-	10,000	10,000	18,000
Accounting/auditing fees	-	-	-	27,641	27,641	20,000
Maintenance and repairs	9,854	694	10,548	-	10,548	10,517
Transportation (student)	418	29	447	-	447	2,255
Travel	12,571	885	13,456	-	13,456	6,621
Utilities	-	-	-	-	-	-
Board expenses	-	-	-	498	498	704
Depreciation	35,744	2,517	38,261	-	38,261	24,517
Interest	-	-	-	-	-	-
Other	25,193	1,774	26,967	-	26,967	18,884
Total operating expenses	<u>777,108</u>	<u>52,625</u>	<u>829,733</u>	<u>630,974</u>	<u>1,460,707</u>	<u>1,154,031</u>
Total expenses	<u>\$ 2,227,544</u>	<u>\$ 154,741</u>	<u>\$ 2,382,285</u>	<u>\$ 630,974</u>	<u>\$ 3,013,259</u>	<u>\$ 2,189,969</u>

**REPORT 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
Peninsula Preparatory Academy Charter School
New York, New York.

We have audited the financial statements of Peninsula Preparatory Academy Charter School (the "School") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. 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 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 a more than 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 a more than 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 weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the School in a separate letter dated October 29, 2007.

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 29, 2007