

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

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

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**  
June 30, 2008 and 2007

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**TABLE OF CONTENTS**

	<u>Page(s)</u>
<b>REPORT OF INDEPENDENT AUDITORS</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5–10
<b>SUPPLEMENTAL INFORMATION</b>	
Schedule of Functional Expenses	11
Report of Independent Auditors on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12–13

## REPORT OF INDEPENDENT AUDITORS

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, 2008 and 2007 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the School's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Peninsula Preparatory Academy Charter School, Inc at June 30, 2008 and 2007, and the change in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 28, 2008, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



October 28, 2008

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

Statements of Financial Position  
As of June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash and cash equivalents (Note 3)	\$ 694,483	\$ 476,437
Due from government agencies (Note 4)	213,592	85,132
Prepaid expenses	24,701	10,908
Due from management company	439	-
	<hr/>	<hr/>
Total current assets	933,215	572,477
Property and equipment (Note 5)	711,619	115,930
	<hr/>	<hr/>
Total assets	<u>\$ 1,644,834</u>	<u>\$ 688,407</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<i>Current Liabilities:</i>		
Accounts payable and accrued expenses	\$ 335,774	\$ 245,246
Unearned Income	16,235	35,378
Obligation under capital lease	13,836	19,763
Due to management company (Note 10)	-	4,624
	<hr/>	<hr/>
Total liabilities	365,845	305,011
<i>Net Assets:</i>		
Unrestricted	1,278,989	383,396
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<u>\$ 1,644,834</u>	<u>\$ 688,407</u>

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>REVENUE AND SUPPORT</b>		
Resident student enrollment	\$ 3,274,404	\$ 2,546,176
Food service	155,478	126,056
Federal funding	130,296	116,508
State funding	591,538	19,507
Special education funding	27,937	51,066
Contributions in-kind	413,531	327,860
Interest and other income	39,602	23,332
Total revenue and support	<u>4,632,786</u>	<u>3,210,505</u>
<b>EXPENSES</b>		
<i>Program Expenses:</i>		
Regular education	2,808,091	2,227,544
Special education	137,184	154,741
	<u>2,945,275</u>	<u>2,382,285</u>
<i>Supporting Services:</i>		
Management and general	791,918	630,974
Total expenses	<u>3,737,193</u>	<u>3,013,259</u>
Change in net assets	895,593	197,246
Unrestricted net assets at beginning of year	383,396	186,150
<b>Unrestricted net assets at end of year</b>	<u><u>\$ 1,278,989</u></u>	<u><u>\$ 383,396</u></u>

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 895,593	\$ 197,246
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	72,351	38,263
Increase in due from government agencies	(128,460)	(33,105)
Decrease in accounts receivable	-	3,465
Increase in prepaid expenses	(13,793)	(6,955)
Increase in accounts payable and accrued expenses	90,528	41,336
(Decrease) increase in unearned income	(19,143)	35,378
(Decrease) increase in due to management company	<u>(5,063)</u>	<u>5,159</u>
Net cash provided by operating activities	<u>892,013</u>	<u>280,787</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(668,040)</u>	<u>(61,371)</u>
Net cash used in investing activities	<u>(668,040)</u>	<u>(61,371)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of capital lease obligation	<u>(5,927)</u>	-
Net cash used in financing activities	<u>(5,927)</u>	-
Net increase in cash and cash equivalents	218,046	219,416
Cash and cash equivalents at beginning of period	<u>476,437</u>	<u>257,021</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 694,483</u>	<u>\$ 476,437</u>
<b>INFORMATION ON NON-CASH FINANCING ACTIVITIES</b>		
Non-cash transaction (see Note 6):		
Assets acquired via capital lease obligation	<u>\$ -</u>	<u>\$ 19,763</u>

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

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**  
Notes to Financial Statements  
June 30, 2008 and 2007

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**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 2007–2008 year, the School operated kindergarten and grades one through five. 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 the following:

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

Cash and Cash Equivalents

The School has defined cash and cash equivalents as cash and short-term, interest-bearing deposits with 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:

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

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**  
Notes to Financial Statements  
June 30, 2008 and 2007

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**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 nature of 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 statement of activities as net assets released from restrictions. All contributions received in the year 2008 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.

Student Enrollment

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

Government Grant Income

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

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**  
Notes to Financial Statements  
June 30, 2008 and 2007

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**NOTE 2      SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3      CASH AND CASH EQUIVALENTS**

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

**NOTE 4      PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT AGENCIES**

Under the School's Charter School Agreement and the Charter Schools Act, the School is entitled to receive funding from both state and federal sources that are available to public schools. These funds include state pupil enrollment funds, federal food subsidies, and Titles I, II, IV, and VI funds. The calculation of the amounts to be paid to the School under these programs is determined by the state, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school districts of the children enrolled in the School. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

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

	2008	2007
Federal Government	\$ 86,662	\$ 77,554
New York State	126,930	7,578
	\$ 213,592	\$ 85,132

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.

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

Notes to Financial Statements  
June 30, 2008 and 2007

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**NOTE 5      PROPERTY AND EQUIPMENT**

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

	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$ 98,669	\$ 75,741
Computer equipment	162,428	76,591
Software	1,257	1,193
Office equipment	<u>38,789</u>	<u>38,789</u>
	301,143	192,314
Less: accumulated depreciation	<u>(148,735)</u>	<u>(76,384)</u>
	152,408	115,930
Construction in progress	<u>559,211</u>	-
Total	<u>\$ 711,619</u>	<u>\$ 115,930</u>

Depreciation expense for the years ended June 30, 2008 and 2007, were \$72,351 and \$38,261, respectively.

**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 \$413,531 and \$327,860 for the years ended June 30, 2008 and 2007, respectively. These amounts are 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") to substantially all of its employees. Employees are eligible for the Plan immediately upon employment and participation in the Plan is voluntary. Employees can make pretax contributions 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 \$23,155 for 2008 and \$3,959 for 2007. 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.

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

Notes to Financial Statements  
June 30, 2008 and 2007

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**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 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 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 School as defined under Section 119.1 of New York State Commissioner of Education Regulations, multiplied by \$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.

Victory is entitled to receive the management fees on a bi-monthly basis. Any Victory fee, or portion thereof, not paid within thirty (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 School.

The management and central services fee expense for the years ended June 30, 2008 and 2007, was \$762,322 and \$592,835, 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, there could be a substantial effect on its ability to continue operations.

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

Notes to Financial Statements  
June 30, 2008 and 2007

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**NOTE 10      RELATED-PARTY TRANSACTIONS**

The amount due from the management company of \$439 in 2008 and the amount due to the management company of \$4,624 in 2007 relates to management and central services fees discussed in Note 8 above.

**NOTE 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 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, 2008  
(With Comparative Totals for 2007)

	Regular Education	Special Education	Total Program	Management and General	Total 2008	Total 2007
<b>EXPENSES</b>						
<i>Personnel Expenses:</i>						
Salaries and wages	\$ 1,506,126	\$ 73,578	\$ 1,579,704	\$ -	\$ 1,579,704	\$ 1,290,164
Fringe benefits	328,064	16,027	344,091	-	344,091	262,388
Total personnel expenses	1,834,190	89,605	1,923,795	-	1,923,795	1,552,552
<i>Operating Expenses:</i>						
Contracted services—management company	-	-	-	762,322	762,322	592,835
Consultants—other	48,968	2,392	51,360	-	51,360	29,638
Food	154,049	7,526	161,575	-	161,575	128,730
Insurance	40,052	1,957	42,009	-	42,009	22,541
Supplies and materials	34,451	1,683	36,134	-	36,134	51,557
Textbooks	100,642	4,917	105,559	-	105,559	109,438
Telephone	5,348	261	5,609	-	5,609	11,276
Occupancy	405,691	19,819	425,510	-	425,510	338,096
Printing	5,649	276	5,925	-	5,925	6,544
Staff development	45,997	2,247	48,244	-	48,244	41,021
Equipments rental/lease	2,142	105	2,247	-	2,247	1,213
Legal	-	-	-	3,000	3,000	10,000
Accounting/auditing fees	-	-	-	26,000	26,000	27,641
Maintenance and repairs	10,065	492	10,557	-	10,557	10,548
Transportation (student)	588	29	617	-	617	447
Travel	19,495	952	20,447	-	20,447	13,456
Board expenses	-	-	-	596	596	498
Depreciation	68,981	3,370	72,351	-	72,351	38,261
Other	31,783	1,553	33,336	-	33,336	26,967
Total operating expenses	973,901	47,579	1,021,480	791,918	1,813,398	1,460,707
Total expenses	\$ 2,808,091	\$ 137,184	\$ 2,945,275	\$ 791,918	\$ 3,737,193	\$ 3,013,259

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

Board of Trustees  
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, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, pertinent government agencies, and others within the School and is not intended to be and should not be used by anyone other than these specified parties.

Mitchell & Titus, LLP

October 28, 2008