

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

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**Financial Statements and Supplemental Information  
For the Years Ended June 30, 2009 and 2008  
With Report of Independent Auditors**

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**  
June 30, 2009 and 2008

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## 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, 2009 and 2008, 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 at June 30, 2009 and 2008, 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 30, 2009, 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 considered in assessing the results of our audit.

Our audits were 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 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 30, 2009

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

Statements of Financial Position  
As of June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash and cash equivalents (Note 3)	\$ 151,220	\$ 694,483
Restricted cash	75,131	-
Due from government agencies (Note 5)	198,170	213,592
Prepaid expenses	23,808	24,701
Due from management company	-	439
Total current assets	448,329	933,215
Property and equipment, net (Note 6)	1,193,455	711,619
Total assets	\$ 1,641,784	\$ 1,644,834
<b>LIABILITIES AND NET ASSETS</b>		
<i>Current Liabilities:</i>		
Accounts payable and accrued expenses	\$ 518,218	\$ 335,774
Unearned income	-	16,235
Obligation under capital lease	418,795	13,836
Due to management company (Note 11)	4,344	-
Total liabilities	941,357	365,845
<i>Net Assets:</i>		
Unrestricted	700,427	1,278,989
<b>Total liabilities and net assets</b>	<b>\$ 1,641,784</b>	<b>\$ 1,644,834</b>

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, 2009 and 2008

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	<b>2009</b>	<b>2008</b>
<b>REVENUE AND SUPPORT</b>		
Resident student enrollment	\$ 3,721,801	\$ 3,274,404
Food service	153,920	155,478
Federal funding	223,108	130,296
State funding	21,574	591,538
Special education funding	23,243	27,937
Contributions in-kind	-	413,531
Interest and other income	15,301	39,602
Total revenue and support	4,158,947	4,632,786
<b>EXPENSES</b>		
<i>Program Expenses:</i>		
Regular education	3,475,825	2,808,091
Special education	330,180	137,184
	3,806,005	2,945,275
<i>Supporting Services:</i>		
Management and general	931,504	791,918
Total expenses	4,737,509	3,737,193
Change in net assets	(578,562)	895,593
Unrestricted net assets at beginning of year	1,278,989	383,396
<b>Unrestricted net assets at end of year</b>	<b>\$ 700,427</b>	<b>\$ 1,278,989</b>

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (578,562)	\$ 895,593
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	231,427	72,351
(Increase) in restricted cash	(75,131)	-
Decrease (increase) in due from government agencies	15,422	(128,460)
Decrease (increase) in prepaid expenses	893	(13,793)
Increase in accounts payable and accrued expenses	182,444	90,528
(Decrease) in unearned income	(16,235)	(19,143)
Increase (decrease) in due to management company	4,783	(5,063)
Net cash (used in) provided by operating activities	<u>(234,959)</u>	<u>892,013</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(229,660)</u>	<u>(668,040)</u>
Net cash used in investing activities	<u>(229,660)</u>	<u>(668,040)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligation	<u>(78,644)</u>	<u>(5,927)</u>
Net cash used in financing activities	<u>(78,644)</u>	<u>(5,927)</u>
Net (decrease) increase in cash and cash equivalents	(543,263)	218,046
Cash and cash equivalents at beginning of period	<u>694,483</u>	<u>476,437</u>
<b>Cash and cash equivalents at end of period</b>	<u><u>\$ 151,220</u></u>	<u><u>\$ 694,483</u></u>
<b>SUPPLEMENTAL DISCLOSURE</b>		
Cash paid for interest	<u><u>\$ 21,236</u></u>	<u><u>\$ -</u></u>
Assets acquired via capital lease obligation	<u><u>\$ 483,603</u></u>	<u><u>\$ -</u></u>

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

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

Notes to Financial Statements  
June 30, 2009 and 2008

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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 2008–2009 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 of accounting 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 equivalents as cash and short-term, interest-bearing securities with maturities of three months or less.

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

Notes to Financial Statements

June 30, 2009 and 2008

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

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 expense as incurred, and major renewals and improvements are capitalized. Upon disposal, the cost and related accumulated depreciation are 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

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 fiscal years 2009 and 2008 were unrestricted. In-kind contributions, donated services, and materials are recorded at the fair value on 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. Accordingly, certain costs have been allocated among programs and supporting services benefited. Salaries, wages, and fringe benefits were allocated as direct costs to programs; supporting activity and other costs were allocated as directed costs based on actual costs associated with the activity.

**PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL**

Notes to Financial Statements

June 30, 2009 and 2008

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

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 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. Pupil enrollment revenue is recognized in the period received.

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.

Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income tax.

**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 \$250,000, 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, 2009 and 2008

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**NOTE 4      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.

**NOTE 5      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, IIA, IID, 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 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:

	<u>2009</u>	<u>2008</u>
Federal Government	\$ 198,170	\$ 86,662
New York State Department of Education	<u>-</u>	<u>126,930</u>
	<u>\$ 198,170</u>	<u>\$ 213,592</u>

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, 2009 and 2008

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**NOTE 6      PROPERTY AND EQUIPMENT**

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

	2009	2008
Furniture and fixtures	\$ 98,253	\$ 98,669
Computer equipment	207,946	162,428
Software	4,207	1,257
Telephone equipment	9,489	-
Leasehold improvements	1,213,686	-
Office equipment	40,036	38,789
	1,573,617	301,143
Less: accumulated depreciation	(380,162)	(148,735)
	1,193,455	152,408
Construction in progress	-	559,211
Property and Equipment, net	\$ 1,193,455	\$ 711,619

Depreciation expense for the years ended June 30, 2009 and 2008, were \$231,427 and \$72,351, respectively.

**NOTE 7      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 for the year ended June 30, 2008. In July 2008, the school moved from the New York City public school to temporary modular space. There was no donated space for 2009. The donated space amount in 2008 is reflected in the financial statements as contribution revenue and occupancy expense.

**NOTE 8      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 \$21,181 for 2009 and \$23,155 for 2008. 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, 2009 and 2008

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**NOTE 9      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 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, 2009 and 2008, was \$866,485 and \$762,322, respectively. No interest was charged to the School during the year.

**NOTE 10      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, 2009 and 2008

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**NOTE 11 RELATED-PARTY TRANSACTIONS**

The amount due to the management company of \$4,344 in 2009 and the amount due from the management company of \$439 in 2008 relates to management and central services fees discussed in Note 9 above.

**NOTE 12 CAPITAL LEASE**

On September 18, 2008, the School obtained furniture and equipment, pursuant to a capital lease agreement. The lease terminates in 2012 and requires monthly lease payments of \$11,508, which includes interest at a rate of 6.5% annually.

Future lease payments for the years ending June 30 for the aforementioned lease are as follows:

<u>Year</u>	
2010	\$ 144,026
2011	138,096
2012	138,096
2013	<u>46,032</u>
	466,250
Less: unamortized interest	<u>47,455</u>
Obligation under capital lease	<u>\$ 418,795</u>

For the year ended June 30, 2009, total capital lease interest was \$21,326.

**NOTE 13 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 change in net assets. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

**PENINSULA PREPARATORY ACADEMY**  
**CHARTER SCHOOL**  
Notes to Financial Statements  
June 30, 2009 and 2008

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**NOTE 13**      **CONTINGENCY** *(continued)*

Litigation

Legal proceedings and claims are pending against the School. In the opinion of management and its counsel, the ultimate liability, if any, with respect to such matters cannot be ascertained as of June 30, 2009.

**NOTE 14**      **SUBSEQUENT EVENTS**

There were no significant subsequent events noted. Subsequent events were reviewed through October 30, 2009, the date at which the financial statements were available for issuance.

**PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL**

Schedule of Functional Expenses  
For the Year Ended June 30, 2009  
(With Comparative Totals for 2008)

	<u>Regular Education</u>	<u>Special Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Total 2009</u>	<u>Total 2008</u>
<b>EXPENSES</b>						
<i>Personnel Expenses:</i>						
Salaries and wages	\$ 1,939,779	\$ 184,267	\$ 2,124,046	\$ -	\$ 2,124,046	\$ 1,579,704
Fringe benefits	394,236	37,450	431,686	-	431,686	344,091
Total personnel expenses	<u>2,334,015</u>	<u>221,717</u>	<u>2,555,732</u>	<u>-</u>	<u>2,555,732</u>	<u>1,923,795</u>
<i>Operating Expenses:</i>						
Contracted services—management company	-	-	-	866,485	866,485	762,322
Consultants—other	67,532	6,415	73,947	-	73,947	51,360
Food	152,859	14,521	167,380	-	167,380	161,575
Insurance	33,971	3,227	37,198	-	37,198	42,009
Supplies and materials	77,078	7,322	84,400	-	84,400	36,134
Textbooks	95,355	9,058	104,413	-	104,413	105,559
Telephone	20,648	1,961	22,609	-	22,609	5,609
Occupancy	308,131	29,270	337,401	-	337,401	425,510
Printing	2,824	268	3,092	-	3,092	5,925
Staff development	25,532	2,425	27,957	-	27,957	48,244
Equipment rental/lease	671	64	735	-	735	2,247
Legal	-	-	-	27,000	27,000	3,000
Accounting/auditing fees	-	-	-	29,296	29,296	26,000
Maintenance and repairs	30,290	2,877	33,167	-	33,167	10,557
Transportation (student)	-	-	-	-	-	617
Travel	19,078	1,812	20,890	-	20,890	20,447
Board expenses	-	-	-	8,723	8,723	596
Depreciation	211,350	20,077	231,427	-	231,427	72,351
Other	96,491	9,166	105,657	-	105,657	33,336
Total operating expenses	<u>1,141,810</u>	<u>108,463</u>	<u>1,250,273</u>	<u>931,504</u>	<u>2,181,777</u>	<u>1,813,398</u>
Total expenses	<u>\$ 3,475,825</u>	<u>\$ 330,180</u>	<u>\$ 3,806,005</u>	<u>\$ 931,504</u>	<u>\$ 4,737,509</u>	<u>\$ 3,737,193</u>

**REPORT OF INDEPENDENT AUDITORS 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***

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, 2009, and have issued our report thereon dated October 30, 2009. 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 do not express an opinion on the effectiveness of the School’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 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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control 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 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.



October 30, 2009