

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

INDEX
YEAR ENDED JUNE 30, 2017

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
STATEMENT OF FINANCIAL POSITION - JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)	EXHIBIT A 3
STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEAR ENDED JUNE 30, 2017 (WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)	EXHIBIT B 4
STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2017 (WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)	EXHIBIT C 5
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2017 (WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)	EXHIBIT D 6
NOTES TO FINANCIAL STATEMENTS	7 - 12
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	13 - 14

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Peninsula Preparatory Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Peninsula Preparatory Academy Charter School, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, 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.

Auditors' 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 auditors' 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 auditors consider 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 Peninsula Preparatory Academy Charter School as of June 30, 2017, and the changes in its unrestricted 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

The financial statements of Peninsula Preparatory Academy Charter School, as of and for the year ended June 30, 2016, were audited by other auditors whose report dated October 18, 2016 expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended June 30, 2016, was derived from those audited financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 31, 2017, on our consideration of Peninsula Preparatory Academy Charter School's internal control over financial reporting and on 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* in considering Peninsula Preparatory Academy Charter School's internal control over financial reporting and compliance.

Berdon LLP

Certified Public Accountants

New York, New York
October 31, 2017

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2017
 (WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 465,660	\$ 426,105
Grants receivable	284,397	117,469
Other receivable	-	693
Prepaid expenses	14,478	48,893
TOTAL CURRENT ASSETS	764,535	593,160
PROPERTY, PLANT AND EQUIPMENT - NET	489,340	607,955
OTHER ASSETS:		
Security deposits	62,933	51,580
Restricted cash	75,428	75,412
TOTAL ASSETS	\$ 1,392,236	\$ 1,328,107
LIABILITIES AND UNRESTRICTED NET ASSETS		
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 439,066	\$ 247,881
Accrued salaries and other payroll related expenses	311,408	402,351
Obligation under capital lease - current portion	2,090	12,381
Refundable advances	46,408	-
Total current liabilities	798,972	662,613
Capital lease (net of current portion of \$2,090 in 2017 and \$12,381 in 2016)	-	2,090
Deferred rent	27,912	27,728
TOTAL LIABILITIES	826,884	692,431
COMMITMENT AND CONTINGENCY		
NET ASSETS - UNRESTRICTED:		
Undesignated	489,924	560,264
Reserve - contingency	75,428	75,412
TOTAL NET ASSETS - UNRESTRICTED	565,352	635,676
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 1,392,236	\$ 1,328,107

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

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL
 STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2017
 (WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<u>2017</u>	<u>2016</u> (SUMMARIZED)
OPERATING REVENUE AND OTHER SUPPORT:		
State and local per pupil operating revenue:		
General education	\$ 4,613,014	\$ 4,425,263
Special education	<u>427,868</u>	<u>608,269</u>
Total state and local per pupil operating revenue	<u>5,040,882</u>	<u>5,033,532</u>
Grants, contracts and other support:		
State and local grants	24,705	24,197
Federal grants	207,763	154,334
Contributions and other income	<u>16,235</u>	<u>682</u>
Total grants, contracts and other support	<u>248,703</u>	<u>179,213</u>
TOTAL OPERATING REVENUE AND OTHER SUPPORT	<u>5,289,585</u>	<u>5,212,745</u>
EXPENSES:		
Program expenses:		
Regular education	3,572,772	3,468,991
Special education	<u>1,190,092</u>	<u>920,246</u>
Total program expenses	<u>4,762,864</u>	<u>4,389,237</u>
Supporting services:		
Management and general	<u>597,045</u>	<u>644,549</u>
Total supporting services	<u>597,045</u>	<u>644,549</u>
TOTAL EXPENSES	<u>5,359,909</u>	<u>5,033,786</u>
(DECREASE) INCREASE IN UNRESTRICTED IN NET ASSETS	(70,324)	178,959
NET ASSETS - UNRESTRICTED - BEGINNING OF YEAR	<u>635,676</u>	<u>456,717</u>
NET ASSETS - UNRESTRICTED - BEGINNING OF YEAR	<u>\$ 565,352</u>	<u>\$ 635,676</u>

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

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<u>NUMBER OF POSITIONS</u>	<u>REGULAR EDUCATION</u>	<u>SPECIAL EDUCATION</u>	<u>TOTAL PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL - 2017</u>	<u>TOTAL - 2016 (SUMMARIZED)</u>
PERSONNEL EXPENSES:							
Administrative staff personnel	6	\$ 241,009	\$ 44,301	\$ 285,310	\$ 203,664	\$ 488,974	\$ 621,820
Instructional personnel	<u>38</u>	<u>1,683,279</u>	<u>704,968</u>	<u>2,388,247</u>	<u>-</u>	<u>2,388,247</u>	<u>2,103,822</u>
TOTAL PERSONNEL EXPENSES	<u>44</u>	<u>1,924,288</u>	<u>749,269</u>	<u>2,673,557</u>	<u>203,664</u>	<u>2,877,221</u>	<u>2,725,642</u>
OPERATING EXPENSES:							
Payroll taxes and fringe benefits		600,972	165,485	766,457	104,516	870,973	708,965
Retirement		58,573	16,129	74,702	10,187	84,889	61,544
Auditing and accounting fees		-	-	-	16,300	16,300	16,000
Consulting and other professional fees		11,612	3,197	14,809	108,519	123,328	113,420
Rent expense		323,171	88,989	412,160	56,204	468,364	468,364
Repairs and maintenance		152,443	41,977	194,420	26,512	220,932	247,291
Insurance		31,330	8,223	39,553	4,715	44,268	31,666
Utilities		53,244	14,661	67,905	9,260	77,165	55,733
Instructional supplies and materials		95,021	17,072	112,093	-	112,093	135,100
Equipment and furnishings		1,621	446	2,067	282	2,349	9,317
Staff development		25,355	5,933	31,288	5,454	36,742	54,090
Advertising and recruitment		5,500	988	6,488	1,840	8,328	4,216
Technology		55,495	15,281	70,776	9,651	80,427	83,874
Student meals		4,315	1,188	5,503	750	6,253	7,791
Student services		21,237	3,815	25,052	-	25,052	18,469
Office expense		25,981	7,154	33,135	4,518	37,653	45,867
Depreciation		182,614	50,285	232,899	31,759	264,658	235,517
Other expenses		-	-	-	2,914	2,914	10,920
TOTAL OPERATING EXPENSES		<u>1,648,484</u>	<u>440,823</u>	<u>2,089,307</u>	<u>393,381</u>	<u>2,482,688</u>	<u>2,308,144</u>
TOTAL EXPENSES		<u>\$ 3,572,772</u>	<u>\$ 1,190,092</u>	<u>\$ 4,762,864</u>	<u>\$ 597,045</u>	<u>\$ 5,359,909</u>	<u>\$ 5,033,786</u>

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

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017
 (WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<u>2017</u>	<u>2016</u> (SUMMARIZED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in unrestricted net assets	\$ (70,324)	\$ 178,959
Adjustments to reconcile (decrease) increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	264,658	235,517
Loss on abandonment of property, plant and equipment	628	-
Changes in operating assets and liabilities:		
Grants receivable	(166,928)	(68,710)
Other receivables	693	35,918
Prepaid expenses	34,415	(31,374)
Accounts payable and accrued expenses	191,184	(36,050)
Accrued salaries and other payroll-related expenses	(90,943)	44,015
Deferred rent	184	9,364
Refundable advances	46,408	-
Security deposits	<u>3,802</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>213,777</u>	<u>367,639</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) in restricted cash	(16)	(16)
Security deposits	(15,155)	20,087
Acquisition of property, plant and equipment	<u>(146,670)</u>	<u>(89,647)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(161,841)</u>	<u>(69,576)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of capital lease obligations	<u>(12,381)</u>	<u>(12,111)</u>
NET CASH (USED IN) FINANCING ACTIVITIES	<u>(12,381)</u>	<u>(12,111)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,555	285,952
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>426,105</u>	<u>140,153</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 465,660</u>	<u>\$ 426,105</u>

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

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Peninsula Preparatory Academy Charter School (the "School") is a public charter school for children in kindergarten through fifth grade, located in Far Rockaway, New York. The mission of the School is to create a challenging, technology-rich learning environment in which the cornerstone of high expectations and focused instruction guarantees that every child, including those at-risk, succeeds academically. Enrollment in 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 such available slots.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Reclassifications

Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation. The reclassifications have no effect on 2016 total assets, liabilities, net assets, and change in net assets.

(c) Net Asset Presentation

The classification of the School's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities and changes in unrestricted net assets. These classes are defined as follows:

- Permanently restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School has no permanently restricted net assets at June 30, 2017.

(continued)

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Temporarily restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in unrestricted net assets. The School has no temporarily restricted net assets at June 30, 2017.
- Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(d) Cash and Cash Equivalents

The School considers all short-term, highly liquid investments, such as money market funds, to be cash equivalents.

(e) Grants Receivable

Grants receivable are recorded at net realizable value. The allowance for doubtful accounts is the School's best estimate of the amount of probable credit losses in existing receivables. Management determines the allowance based on historical write-off experience and reviews its allowance for doubtful accounts periodically. Past due balances are reviewed individually for collectibility. Grants receivable are \$284,397 at June 30, 2017. No allowance was recorded at June 30, 2017, as management believes all amounts are collectible.

(f) Donated Goods and Services

The School receives donated services from unpaid volunteers. No amounts have been recognized in the accompanying statements of activities and changes in net assets, since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

The School received donated transportation and food service services from the local district. The School was unable to determine a value for these services.

(g) Revenue Recognition

The School recognizes revenue from the state and local governments based on the School's charter status and the number of students enrolled and is recorded when services are performed in accordance with the charter agreement. The New York State Department of Education mandates the rate per pupil. These revenues are recognized ratably over the related school year during which they are earned.

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to students during the applicable school year. Funds received in advance, or any unspent funds for which qualifying expenditures have not been incurred, are recorded as refundable advances. Any unspent amounts usually are returned to the granting agency, however, the granting agency can approve that such amounts be applied to a future grant period.

(continued)

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable. Management and general expense includes expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the school.

(i) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Maintenance and repairs are charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$1,000. Items with an acquisition cost of less than \$1,000 or a useful life of less than one year are expensed in the year purchased. Depreciation is computed using the straight-line method over estimated useful lives of the respective assets: three to seven years for leasehold improvements, seven years for furniture and fixtures and machinery and equipment, and three years for computer and office equipment.

(j) Refundable Advances

Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statements of financial position.

(k) Income Taxes

On July 5, 2005, the School received approval of its application for tax-exempt status from the Internal Revenue Service (IRS), under Section 501(c)(3) of the Internal Revenue Code (IRC), to be classified as a publicly supported organization, as described in IRC sections 509(A)(1) and 170(B)(1)(A)(II).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that, as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The School has not incurred any unrelated business income.

The School is no longer subject to income tax examination by federal, state, or local tax authorities for years before June 30, 2013.

(continued)

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2016 is presented for comparative purposes only. The notes to the financial statements, and certain activities by net asset classification, are not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements, as of and for the year ended June 30, 2016, from which the summarized comparative information was derived.

(m) Subsequent Events

Management has evaluated subsequent events occurring after June 30, 2017 through October 31, 2017, which is the date the financial statements were available to be issued. Based on this evaluation, management has determined that no subsequent events have occurred which require disclosure in the financial statements.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

At June 30, 2017 property, plant and equipment consisted of the following:

Leasehold improvements	\$ 1,205,824
Furniture and fixtures	161,464
Computer equipment	382,616
Office equipment	17,161
Machinery and equipment	<u>249,066</u>
	2,016,131
Less, accumulated depreciation	<u>1,526,791</u>
	<u>\$ 489,340</u>

NOTE 4 - ACCRUED SALARIES AND OTHER PAYROLL RELATED EXPENSES

Accrued salaries and other payroll related expenses consist of amounts earned by the staff during the school year which are paid out over the summer months.

NOTE 5 - 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 \$75,000 to be used in the event of termination of the charter. At June 30, 2017, the balance held in escrow is \$75,428.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CAPITAL LEASE

In August 2014, the School obtained equipment pursuant to a capital lease agreement. The lease requires monthly payments of \$1,048 through maturity in August 2017. Future payments under this capital lease are \$2,090 for the fiscal year June 30, 2018.

NOTE 7 - RETIREMENT PLAN

The School offers a 401(k) plan for all qualifying employees. Employees are eligible for the plan immediately upon employment. Participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, up to \$18,000 for the 2016 and 2017 calendar years. The School matches an employee's contribution up to 4% of the employee's annual compensation. For the year ended June 30, 2017, the School's matching contribution was \$84,888. Such plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the plan's participants and beneficiaries.

NOTE 8 - COMMITMENT

The School is a lessee under an operating lease, principally for classroom space and administrative offices. For the year ended June 30, 2017, rent of \$468,364 was included in rent expense. The accompanying statements of activities and changes in unrestricted net assets reflect rent expense on a straight-line basis over the term of the lease. At June 30, 2017, deferred rent payable in the amount of \$27,912 represents the excess of the rental expense recognized over the actual rent paid.

Minimum lease payments for the two years ending June 30, 2018 and 2019 are \$477,544 and \$487,094, respectively.

NOTE 9 - CONCENTRATION OF RISK

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

The School received approximately 93% of its operating revenue, which is subject to specific requirements, from per pupil funding from the New York City Department of Education during the year ended June 30, 2017. Additionally the School's grants receivable consists of approximately 87% from the New York State Department of Education and the Federal Title I grants.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - 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 grant agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of management, have a material effect on the School's financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

NOTE 11 - SUPPORT SERVICES

The School entered into an agreement (the "Agreement") with a third party to provide assistance with accounting and bookkeeping, financial reporting and budgeting, and grant financial management. The agreement expired on June 30, 2017, but was renewed for an additional year. At June 30, 2017, there was no amount due to the management company.

NOTE 12 - SUBSEQUENT EVENTS

On June 27, 2017, the School obtained a Certificate of Filing from NYCDOE for the Pre-School Instructional Program. The School began providing services to pre-kindergarten students in August 2017.

**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
Peninsula Preparatory Academy Charter School

We have audited, in accordance with the 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 Peninsula Preparatory Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School'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 the School's financial statements are free from 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berdon LLP
Certified Public Accountants

New York, New York
October 31, 2017