

**PENINSULA PREPARATORY ACADEMY
CHARTER SCHOOL**

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
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, 2016, and the related statements of activities, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peninsula Preparatory Academy Charter School as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Peninsula Preparatory Academy Charter School's June 30, 2015 financial statements, and our report dated October 29, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016, 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Koch Group + Company, LLP
Certified Public Accountants

New York, New York
October 18, 2016

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(With Comparative Totals as of June 30, 2015)

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 426,105	\$ 140,153
Due from government agencies	117,469	48,759
Other receivables	693	36,611
Prepaid expenses	48,893	17,519
	<hr/>	<hr/>
Total Current Assets	593,160	243,042
PROPERTY AND EQUIPMENT,net	607,955	753,825
OTHER ASSETS		
Restricted cash	75,412	75,396
Security deposits	51,580	71,667
	<hr/>	<hr/>
Total Assets	<u>\$ 1,328,107</u>	<u>\$ 1,143,930</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 247,881	\$ 283,931
Accrued payroll and benefits	402,351	358,336
Obligation under capital lease, current portion	12,381	12,111
Deferred rent	27,728	18,364
	<hr/>	<hr/>
Total Current Liabilities	690,341	672,742
CAPITAL LEASE, LESS CURRENT PORTION	2,090	14,471
	<hr/>	<hr/>
Total Liabilities	692,431	687,213
NET ASSETS - UNRESTRICTED	635,676	456,717
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 1,328,107</u>	<u>\$ 1,143,930</u>

See notes to financial statements.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(With Summarized Totals for the Year Ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUE AND OTHER SUPPORT		
State and local per pupil		
Operating revenue	\$ 4,965,983	\$ 4,754,313
Grants and Contracts		
State and local	91,746	61,062
Federal	154,334	161,391
Contributions and other	682	15,787
	<u>5,212,745</u>	<u>4,992,553</u>
Total Operating Revenue and Other Support		
EXPENSES		
Program Expenses		
Regular education	3,468,991	3,743,741
Special education	920,246	719,250
	<u>4,389,237</u>	<u>4,462,991</u>
Supporting Services		
Management and general	644,549	490,645
	<u>5,033,786</u>	<u>4,953,636</u>
Total Expenses		
CHANGE IN NET ASSETS	178,959	38,917
UNRESTRICTED NET ASSETS		
Beginning of year	<u>456,717</u>	<u>417,800</u>
End of year	<u>\$ 635,676</u>	<u>\$ 456,717</u>

See notes to financial statements.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

(With Summarized Totals for the Year Ended June 30, 2015)

	<u>Regular Education</u>	<u>Special Education</u>	<u>Total Programs</u>	<u>Management & General</u>	<u>Total 2016</u>	<u>Total 2015</u>
Personnel Services Costs						
Administrative staff personnel	\$ 317,148	\$ 40,245	\$ 357,393	\$ 264,427	\$ 621,820	\$ 783,544
Instructional personnel	1,615,890	487,932	2,103,822	-	2,103,822	1,848,338
Non-instructional personnel	-	-	-	-	-	-
Total Personnel Services Costs	<u>1,933,038</u>	<u>528,177</u>	<u>2,461,215</u>	<u>264,427</u>	<u>2,725,642</u>	<u>2,631,882</u>
Operating Expenses						
Payroll taxes and fringe benefits	531,652	146,396	678,048	92,461	770,509	807,211
Contracted services						
- financial and accounting	-	-	-	116,000	116,000	115,500
Contracted services						
- academic and program	-	-	-	-	-	11,500
Administrative	25,393	6,992	32,385	4,416	36,801	33,264
Insurance	19,107	4,992	24,099	7,567	31,666	29,961
Legal and professional	-	-	-	13,420	13,420	10,580
Maintenance and repairs	170,631	46,985	217,616	29,675	247,291	213,387
Equipment and furnishings	12,684	3,493	16,177	2,206	18,383	6,045
Building and land rent and lease	323,171	88,989	412,160	56,204	468,364	468,364
Utilities	38,456	10,589	49,045	6,688	55,733	78,490
Staff development	41,780	4,070	45,850	1,420	47,270	43,947
Advertising and recruitment	3,768	448	4,216	-	4,216	4,965
Student meals	6,964	827	7,791	-	7,791	12,790
Instruction supplies and materials	137,261	16,308	153,569	-	153,569	159,964
Technology and communication	57,873	15,936	73,809	10,065	83,874	121,886
Depreciation	162,507	44,748	207,255	28,262	235,517	191,373
Other expenses	4,706	1,296	6,002	11,738	17,740	12,527
Total Operating Expenses	<u>1,535,953</u>	<u>392,069</u>	<u>1,928,022</u>	<u>380,122</u>	<u>2,308,144</u>	<u>2,321,754</u>
TOTAL EXPENSES	<u><u>\$ 3,468,991</u></u>	<u><u>\$ 920,246</u></u>	<u><u>\$ 4,389,237</u></u>	<u><u>\$ 644,549</u></u>	<u><u>\$ 5,033,786</u></u>	<u><u>\$ 4,953,636</u></u>

See notes to financial statements

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

(With Summarized Totals for the Year Ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 178,959	\$ 38,917
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation	235,517	191,373
Changes in Operating Assets and Liabilities		
Due from government agencies	(68,710)	(13,359)
Other receivables	35,918	(18,826)
Prepaid expenses	(31,374)	(331)
Accounts payable and accrued expenses	(36,050)	81,836
Accrued payroll and benefits	44,015	25,518
Unearned income	-	(2,083)
Deferred rent	9,364	18,364
	<u>367,639</u>	<u>321,409</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	(16)	(48)
Security deposits	20,087	(71,667)
Acquisition of fixed assets	(89,647)	(150,901)
	<u>(69,576)</u>	<u>(222,616)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease	(12,111)	26,582
	<u>(12,111)</u>	<u>26,582</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	285,952	125,375
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>140,153</u>	<u>14,778</u>
End of year	<u><u>\$ 426,105</u></u>	<u><u>\$ 140,153</u></u>

See notes to financial statements

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. **Organization**

Peninsula Preparatory Academy Charter School (the “School”), a 501 (c) (3) tax-exempt organization, is a public charter school for children in grades kindergarten through fifth grade located in Far Rockaway, New York. The School’s charter was renewed in 2014 for an additional five years. The mission of the School is to create a challenging, technology-rich learning environment in which the cornerstone of high expectations and focused instruction guarantee 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 these available slots.

2. **Summary of Significant Accounting Policies**

Basis of Presentation and Use of Estimates

The 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Asset Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted amounts are those currently available at the discretion of the board for use in the operations of the School. Temporarily restricted amounts are restricted by donor imposed restrictions as to use or time restricted. When a restriction expires, temporarily restricted net assets are re-classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted amounts contain donor imposed restrictions to be maintained permanently by the School.

There are no temporarily or permanently restricted net assets at June 30, 2016.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Revenue Recognition

Tuition revenue is from state and local government sources for student tuition and other school-related income. The School recognizes tuition and other school-related income as revenue during the applicable school year in which the revenue is earned.

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to the 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 might be returned to the granting agency or the granting agency can approve that those amounts be applied to a future grant period.

Grants Receivable

Grants receivable are recorded at net realizable value and do not bear interest. 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 collectability. At June 30, 2016, there are no allowances recorded, as management believes all amounts are collectible.

Donated Goods and Services

The School receives donated services from unpaid volunteers. No amounts have been recognized in the statement of activities since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

Functional Allocation of Expenses

Expenses have been charged to program and supporting services, either directly when identifiable to a specific program, or indirectly based on management's estimate of the functional area benefited.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property 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 \$500. Depreciation is computed using the straight-line method over estimated useful lives of the respective asset; 5 years for furniture and equipment and 3 years for software.

Income Taxes

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

Management has determined that the School had no uncertain tax positions that would require financial statement recognition. The School is no longer subject to income tax examination by federal, state or local tax authorities for years before June 30, 2012.

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2015 is presented for comparative purposes only. The notes to the financial statements and certain activity 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2015, from which the summarized comparative information was derived.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 18, 2016.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

3. 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, 2016, the balance held in escrow is \$75,412.

4. Property and Equipment

At June 30, 2016, property and equipment consisted of the following:

Leasehold improvements	\$1,093,732
Furniture and fixtures	169,314
Computer equipment	363,863
Office equipment	<u>283,785</u>
	1,910,694
Less: accumulated depreciation	<u>(1,260,578)</u>
	<u>\$ 607,955</u>

5. Accrued Payroll and Benefits

Accrued payroll and benefits consist of amounts earned by the staff during the school year that is paid out over the summer months.

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 as follows: 2017, \$12,381 and 2018, \$2,090.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

7. **Retirement Plan**

The School offers a 401(k) plan for all employees. Employees are eligible for the plan immediately upon employment and participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employee's annual compensation. For the year ended June 30, 2016, the School's matching contribution was \$61,544. 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.

8. **Commitment**

The School is a lessee under an operating lease, principally for classroom space and administrative offices. For the year ended June 30, 2016, rent of \$450,000 was included in occupancy expense. The accompany statement of activities reflects occupancy expense on a straight-line basis over the term of the lease. At June 30, 2016 deferred rent payable in the amount of \$27,728, represents the excess of the rental expense recognized over the actual rent billed.

Minimum lease payments for the next three years are as follows:

Year ended June 30,

2017	\$ 468,180
2018	477,544
2019	487,095

9. **Revenue Concentration of Risk**

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

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, resulting in a reduction or elimination of these revenues the School's finances could be materially adversely affected.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

10. Food and Transportation

The New York City Department of Education provides free lunches directly to some of the School's students. Such costs are not included in these financial statements. The School covers the unreimbursed cost of lunches for children not entitled to free lunches. The office of Pupil Transportation provides free transportation to the majority of the students during the district's school days.

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 and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.



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INDEPENDENT AUDITOR'S 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, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, 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 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Peninsula Preparatory Academy Charter 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 Peninsula Preparatory Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Peninsula Preparatory Academy Charter 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Peninsula Preparatory Academy Charter 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 audits, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Koch Group + Company, LLP
Certified Public Accountants

New York, New York
October 18, 2016