

PENINSULA PREPARATORY ACADEMY  
CHARTER SCHOOL

FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2015  
(With Comparative Totals as of June 30, 2014)

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, 2015, 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, 2015, 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 2014 financial statements, and our report dated October 28, 2014, 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, 2014, 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 29, 2015, 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.

New York, New York  
October 29, 2015

*Koch Group + Company, LLP*  
Certified Public Accountants

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(With Comparative Totals as of June 30, 2014)

ASSETS

	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 140,153	\$ 14,778
Restricted cash	75,396	75,348
Due from government agencies	48,759	35,400
Other receivables	36,611	17,785
Prepaid expenses	17,519	17,188
Security deposits	71,667	-
	<u>390,105</u>	<u>160,499</u>
<b>PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation</b>	<u>753,825</u>	<u>794,297</u>
<b>Total Assets</b>	<u><u>\$ 1,143,930</u></u>	<u><u>\$ 954,796</u></u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 283,931	\$ 202,095
Accrued payroll and benefits	358,336	332,818
Capital lease	12,111	-
Deferred rent	18,364	-
Unearned income	-	2,083
	<u>672,742</u>	<u>536,996</u>
<b>Total Current Liabilities</b>	<u>672,742</u>	<u>536,996</u>
Capital lease, less current portion	<u>14,471</u>	<u>-</u>
<b>Total Liabilities</b>	<u>687,213</u>	<u>536,996</u>
<b>NET ASSETS - UNRESTRICTED</b>	<u>456,717</u>	<u>417,800</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 1,143,930</u></u>	<u><u>\$ 954,796</u></u>

See notes to financial statements.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

(With Comparative Totals for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
OPERATING REVENUE AND OTHER SUPPORT		
State and local per pupil	\$ 4,754,313	\$ 4,526,400
Grants and Contracts		
State and local	61,062	19,823
Federal	161,391	146,807
Contributions and other	<u>15,787</u>	<u>12,140</u>
Total Public Support and Revenue	<u>4,992,553</u>	<u>4,705,170</u>
EXPENSES		
Program Expenses		
Regular education	3,743,741	3,162,062
Special education	<u>719,250</u>	<u>896,334</u>
	4,462,991	4,058,396
Supporting Services		
Management and general	<u>490,645</u>	<u>541,005</u>
Total Expenses	<u>4,953,636</u>	<u>4,599,401</u>
CHANGE IN NET ASSETS	38,917	105,769
UNRESTRICTED NET ASSETS		
Beginning of year	<u>417,800</u>	<u>312,031</u>
End of year	<u><u>\$ 456,717</u></u>	<u><u>\$ 417,800</u></u>

See notes to financial statements.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

(With Comparative Totals for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 38,917	\$ 105,769
ADJUSTMENTS TO RECONCILE DECREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation	191,373	169,384
Changes in Assets and Liabilities		
Due from government agencies	(13,359)	(26,412)
Other receivables	(18,826)	(9,025)
Prepaid expenses	(331)	(9,015)
Security deposits	(71,667)	-
Unearned income	(2,083)	(9,347)
Deferred rent	18,364	(6,170)
Accounts payable and accrued expenses	81,836	11,282
Accrued payroll and benefits	25,518	(43,218)
Net cash provided by operating activities	<u>249,742</u>	<u>183,248</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	(48)	(55)
Acquisition of fixed assets	<u>(150,901)</u>	<u>(327,928)</u>
Net cash used in investing activities	<u>(150,949)</u>	<u>(327,983)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease	<u>26,582</u>	<u>-</u>
Net cash provided by financing activities	<u>26,582</u>	<u>-</u>
NET INCREASE IN CASH	125,375	(144,735)
CASH		
Beginning of year	<u>14,778</u>	<u>159,513</u>
End of year	<u>\$ 140,153</u>	<u>\$ 14,778</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u>\$ -</u>	<u>\$ 3,445</u>

See notes to financial statements.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

(With Comparative Totals for the year ended June 30, 2014)

	<u>Regular Education</u>	<u>Special Education</u>	<u>Total Programs</u>	<u>Management &amp; General</u>	<u>Total 2015</u>	<u>Total 2014</u>
<u>Personnel Expenses</u>						
Salaries and wages	\$ 2,032,351	\$ 399,381	\$ 2,431,732	\$ 200,150	\$ 2,631,882	\$ 2,203,911
Payroll taxes and fringe benefits	623,332	122,492	745,824	61,387	807,211	703,350
Total Personnel Expenses	<u>2,655,683</u>	<u>521,873</u>	<u>3,177,556</u>	<u>261,537</u>	<u>3,439,093</u>	<u>2,907,261</u>
<u>Operating Expenses</u>						
Contracted services						
- financial and accounting	-	-	-	115,500	115,500	94,000
Contracted services						
- academic and program	10,460	1,040	11,500	-	11,500	119,306
Administrative	15,383	3,023	18,406	1,515	19,921	25,062
Insurance	23,386	4,435	27,821	2,140	29,961	27,707
Legal and professional	-	-	-	10,580	10,580	32,536
Maintenance and repairs	164,778	32,381	197,159	16,228	213,387	233,957
Occupancy	422,283	82,984	505,267	41,587	546,854	540,943
Postage and shipping	14,972	2,942	17,914	1,474	19,388	19,215
Staff development	19,939	3,918	23,857	14,505	38,362	85,110
Advertising and recruitment	3,834	753	4,587	378	4,965	9,845
Student meals	11,634	1,156	12,790	-	12,790	10,358
Instruction supplies and materials	145,503	14,460	159,963	-	159,963	189,107
Travel and transportation	4,313	848	5,161	425	5,586	13,762
Technology and communication	94,121	18,496	112,617	9,269	121,886	111,789
Dues and subscription	9,673	1,901	11,574	953	12,527	6,671
Depreciation	147,779	29,040	176,819	14,554	191,373	169,384
Other expenses	-	-	-	-	-	3,388
Total Operating Expenses	<u>1,088,058</u>	<u>197,377</u>	<u>1,285,435</u>	<u>229,108</u>	<u>1,514,543</u>	<u>1,692,140</u>
TOTAL EXPENSES	<u>\$ 3,743,741</u>	<u>\$ 719,250</u>	<u>\$ 4,462,991</u>	<u>\$ 490,645</u>	<u>\$ 4,953,636</u>	<u>\$ 4,599,401</u>

See independent auditors' report



PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

b) Financial Statement Presentation

The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- i) Unrestricted net assets – Net assets that are not subject to grant or donor- imposed stipulations.
- ii) Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There are no temporarily restricted net assets at June 30, 2015.
- iii) Permanently restricted net assets – Net assets subject to grantor or donor-imposed stipulations that they be maintained permanently by the School to use all or part of the assets for general or specific purposes. There are no permanently restricted net assets at June 30, 2015.

Furthermore, The School is required to segregate program service expenses from support expenses.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

2. Summary of Significant Accounting Policies (Continued)

c) Cash and Cash Equivalents

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

d) Grants and Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as grants and contribution receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

e) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

f) Donated 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 generally accepted accounting principles.

g) Functional Allocation of Expenses

Costs and expenses of various programs and other activities have been analyzed on a functional basis. Accordingly, certain costs and expenses incurred have been allocated among the 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, 2015

2. Summary of Significant Accounting Policies (Continued)

h) Property and Equipment

Purchases of property and equipment are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. The cost of maintenance and repairs is charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$1,500. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 7 years.

i) Income Taxes

On July 5, 2005 Peninsula Preparatory Academy Charter School filed and 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 believes that the School has 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 in the United States for years before 2011, which is standard statute of limitations look-back period.

j) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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. 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.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

4. Revenue Recognition

Revenue from the state and local government resulting from its charter school status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. 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 statement of financial position.

5. Property and Equipment

At June 30, 2015 and 2014, property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 1,029,191	\$ 946,085	2 years
Furniture and fixtures	161,464	152,984	7 years
Computer equipment	363,863	319,597	5 years
Office equipment	<u>266,529</u>	<u>251,479</u>	5-7 years
	1,821,047	1,670,145	
Less: Accumulated Depreciation	<u>(1,067,222)</u>	<u>(875,848)</u>	
Total	<u>\$ 753,825</u>	<u>\$ 794,297</u>	

Depreciation expense for the years ended June 30, 2015 and 2014 was \$191,373 and \$169,384

6. 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.

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

7. 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:

<u>Year ending June 30</u>	
2016	\$12,111
2017	14,471
Add: Amount attributable to interest	<u>666</u>
	<u>\$27,248</u>

8. 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. The School's contribution recognized in the statement of activities was \$53,906 and \$54,302 for the years ended June 30, 2015 and 2014. 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.

9. Commitment

The School is a lessee under an operating lease, principally for classroom space and administrative offices. For the year ended June 30, 2015, 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, 2015 deferred rent payable in the amount of \$18,364, represents the excess of the rental expense recognized over the actual rent billed.

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

<u>Year ended June 30,</u>	
2016	\$ 459,000
2017	468,180
2018	477,544
2019	487,095

PENINSULA PREPARATORY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

10. Revenue Concentration

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, reducing or eliminating these revenues the School's finances could be materially adversely affected.

11. 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.

12. 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.

13. Subsequent Events

Management has evaluated subsequent events through October 29, 2015, the date that financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment or disclosure 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, 2015, 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 29, 2015.

**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 29, 2015