

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NEW YORK, NEW YORK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2021

(With Comparative Totals for 2020)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Consolidated Statement of Financial Position	5
Consolidated Statement of Activities and Changes in Net Assets	6
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	10
 <u>OTHER FINANCIAL INFORMATION</u>	
Independent Auditor's Report on Other Financial Information	29
Consolidating Statement of Financial Position by Charter	30
Consolidating Statement of Activities and Changes in Net Assets by Charter	31
Statement of Functional Expenses by Charter or Program:	
Girls Preparatory Charter School of New York	32
Boys Preparatory Charter School of New York	33
Girls Preparatory Charter School of the Bronx	34
Girls Preparatory Charter School of the Bronx II	35
PrePrep: the Joan Ganz Cooney Early Learning Program	36
PrePrep 2	37
PrePrep 3	38
Statement of Functional Expenses - Friends of Girls Prep	39

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Public Prep Charter School Academies

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Public Prep Charter School Academies (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2021 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Public Prep Charter School Academies as of June 30, 2021, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2021 on our consideration of Public Prep Charter School Academies' 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 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 Public Prep Charter School Academies' internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Public Prep Charter School Academies' consolidated financial statements as of and for the year ended June 30, 2020, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 27, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 29, 2021

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

(With Comparative Totals for 2020)

<u>ASSETS</u>	June 30,	
	2021	2020
<u>CURRENT ASSETS</u>		
Cash	\$ 17,945,495	\$ 11,372,057
Grants and contracts receivable	1,911,476	2,473,293
Prepaid expenses and other current assets	809,067	396,099
TOTAL CURRENT ASSETS	20,666,038	14,241,449
<u>OTHER ASSETS</u>		
Property and equipment, net	12,103,870	11,869,023
Related party receivables, net	755,622	1,087,767
Security deposit	502,325	502,325
Cash in escrow	200,329	175,278
	13,562,146	13,634,393
TOTAL ASSETS	\$ 34,228,184	\$ 27,875,842
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 1,607,378	\$ 1,601,676
Accrued payroll and benefits	3,768,596	2,731,393
Current portion of deferred lease incentive	26,003	26,003
Current portion of long-term debt	288,882	1,640,444
TOTAL CURRENT LIABILITIES	5,690,859	5,999,516
<u>LONG-TERM LIABILITIES</u>		
Long-term debt, net of unamortized debt issuance costs of \$415,164 at June 30, 2021	6,547,267	9,008,735
Deferred lease incentive	13,400	39,404
Deferred lease liability	2,037,613	1,411,977
Security deposit payable	16,667	16,667
TOTAL LIABILITIES	14,305,806	16,476,299
<u>NET ASSETS</u>		
Without donor restrictions	19,919,536	11,299,110
With donor restrictions	2,842	100,433
TOTAL NET ASSETS	19,922,378	11,399,543
TOTAL LIABILITIES AND NET ASSETS	\$ 34,228,184	\$ 27,875,842

The accompanying notes are an integral part of the consolidated financial statements.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	Year ended June 30,			
	2021			2020
	Without donor restrictions	With donor restrictions	Total	Total
Revenue, gains and other support:				
Public school district:				
Resident student enrollment	\$ 34,603,774	\$ -	\$ 34,603,774	\$ 32,253,722
Students with disabilities	5,607,158	-	5,607,158	4,962,512
Grants and contracts:				
State and local	711,388	-	711,388	1,073,657
Federal - Title and IDEA	1,679,870	-	1,679,870	1,550,003
Federal - other	1,565,181	-	1,565,181	447,875
NYC DOE rental assistance	3,952,468	-	3,952,468	2,945,034
Food Service/Child Nutrition Program	455,992	-	455,992	379,105
TOTAL REVENUE, GAINS AND OTHER SUPPORT	48,575,831	-	48,575,831	43,611,908
Expenses:				
Program services:				
Regular education	29,588,139	-	29,588,139	26,245,473
Special education	7,719,497	-	7,719,497	9,367,093
Pre-K	1,812,956	-	1,812,956	1,401,818
Total program services	39,120,592	-	39,120,592	37,014,384
Management and general	5,318,333	-	5,318,333	4,523,145
Fundraising and special events	57,986	-	57,986	53,106
TOTAL OPERATING EXPENSES	44,496,911	-	44,496,911	41,590,635
SURPLUS FROM SCHOOL OPERATIONS	4,078,920	-	4,078,920	2,021,273
Support and other revenue:				
Contributions:				
Foundations	10,000	-	10,000	45,050
Individuals	1,100	-	1,100	-
Corporations	-	-	-	550,025
Fundraising	-	-	-	1,500
Interest income	53	-	53	56
Other income	18,772	-	18,772	127,150
Rental income	112,990	-	112,990	485,842
Paycheck Protection Program loan forgiveness	4,301,000	-	4,301,000	-
Net assets released from restriction	97,591	(97,591)	-	-
TOTAL SUPPORT AND OTHER REVENUE	4,541,506	(97,591)	4,443,915	1,209,623
CHANGE IN NET ASSETS	8,620,426	(97,591)	8,522,835	3,230,896
Net assets at beginning of year	11,299,110	100,433	11,399,543	8,168,647
NET ASSETS AT END OF YEAR	\$ 19,919,536	\$ 2,842	\$ 19,922,378	\$ 11,399,543

The accompanying notes are an integral part of the consolidated financial statements.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	No. of Positions	Program Services				Supporting Services			Total	
		Regular Education	Special Education	Pre-K	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
									2021	2020
Personnel services costs:										
Administrative staff personnel	55	\$ 1,941,630	\$ 514,931	\$ 47,533	\$ 2,504,094	\$ 2,657,097	\$ -	\$ 2,657,097	\$ 5,161,191	\$ 4,807,568
Instructional personnel	244	12,944,960	3,435,203	1,034,281	17,414,444	-	-	-	17,414,444	16,203,234
Non-instructional personnel	2	-	-	-	-	132,482	-	132,482	132,482	121,862
Total personnel services costs	301	14,886,590	3,950,134	1,081,814	19,918,538	2,789,579	-	2,789,579	22,708,117	21,132,664
Fringe benefits and payroll taxes		3,231,252	861,853	134,229	4,227,334	605,395	-	605,395	4,832,729	4,431,137
Retirement		303,647	79,207	26,777	409,631	59,224	-	59,224	468,855	370,573
Management company fees		4,059,040	811,808	-	4,870,848	869,794	57,986	927,780	5,798,628	5,510,667
Legal services		-	-	-	-	-	-	-	-	20,549
Accounting / audit services		-	-	-	-	25,775	-	25,775	25,775	65,158
Other purchased / professional / consulting services		779,152	250,861	23,146	1,053,159	141,546	-	141,546	1,194,705	1,155,608
Building rent / lease / facility finance interest		2,132,773	616,209	184,841	2,933,823	325,981	-	325,981	3,259,804	3,350,073
Repairs and maintenance		236,286	66,444	15,774	318,504	35,389	-	35,389	353,893	283,850
Insurance		146,358	39,435	26,382	212,175	20,644	-	20,644	232,819	198,564
Utilities		361,986	99,742	15,380	477,108	83,421	-	83,421	560,529	496,239
Supplies / materials		585,981	152,944	25,980	764,905	-	-	-	764,905	928,479
Equipment / furnishings		37,187	9,848	-	47,035	5,227	-	5,227	52,262	10,961
Staff development		453,381	120,441	840	574,662	65,696	-	65,696	640,358	483,276
Marketing / recruiting		48,252	13,499	1,524	63,275	6,862	-	6,862	70,137	49,268
Technology		200,787	53,787	-	254,574	28,287	-	28,287	282,861	263,374
Food service		272,176	80,367	21,406	373,949	-	-	-	373,949	417,170
Student services		150,225	39,555	630	190,410	7,117	-	7,117	197,527	453,743
Office expense		414,692	112,848	11,237	538,777	58,897	-	58,897	597,674	517,385
Depreciation and amortization		888,543	245,382	53,081	1,187,006	128,587	-	128,587	1,315,593	1,193,984
Other		399,831	115,133	189,915	704,879	60,912	-	60,912	765,791	257,913
		<u>\$ 29,588,139</u>	<u>\$ 7,719,497</u>	<u>\$ 1,812,956</u>	<u>\$ 39,120,592</u>	<u>\$ 5,318,333</u>	<u>\$ 57,986</u>	<u>\$ 5,376,319</u>	<u>\$ 44,496,911</u>	<u>\$ 41,590,635</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	<u>Year ended June 30,</u>	
	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 8,522,835	\$ 3,230,896
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	1,315,593	1,193,984
Bad debt expense	159,434	-
Amortization of debt issuance costs included in interest expense	13,085	-
Paycheck Protection Program loan forgiveness	(4,301,000)	-
Changes in certain assets and liabilities affecting operations:		
Grants and other contracts receivable	402,383	958,147
Prepaid expenses and other current assets	(412,968)	330,495
Related party receivables and payables	332,145	(126,734)
Accounts payable and accrued expenses	(307,215)	440,319
Accrued payroll and benefits	1,037,203	141,585
Deferred revenue	-	(367,358)
Deferred lease incentive	(26,004)	(26,002)
Deferred lease liability	625,636	666,069
NET CASH PROVIDED FROM OPERATING ACTIVITIES	7,361,127	6,441,401
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(540,861)	(606,305)
Security deposit payable	-	(33,332)
NET CASH USED FOR INVESTING ACTIVITIES	(540,861)	(639,637)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Proceeds from long-term debt	20,574	4,301,000
Repayments of long-term debt	(242,351)	(250,307)
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(221,777)	4,050,693
NET INCREASE IN CASH AND RESTRICTED CASH	6,598,489	9,852,457
Cash and restricted cash at beginning of year	11,547,335	1,694,878
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 18,145,824</u>	<u>\$ 11,547,335</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	Year ended June 30,	
	2021	2020
<u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Purchases of property and equipment in accounts payable	<u>\$ 662,024</u>	<u>\$ -</u>
<u>NON-CASH OPERATING AND FINANCING ACTIVITIES</u>		
Accrued interest paid through debt refinancing	<u>\$ 349,107</u>	<u>\$ -</u>
<u>NON-CASH INVESTING AND FINANCING ACTIVITIES</u>		
Purchases of property and equipment financed with long-term debt	<u>\$ 347,555</u>	<u>\$ 1,019,129</u>
<u>NON-CASH FINANCING ACTIVITIES</u>		
Long-term debt borrowings in connection with debt refinancing, including debt issuance costs of \$428,249	<u>\$ 6,659,750</u>	<u>\$ -</u>
Long-term debt repayments through debt refinancing	<u>\$ 6,231,501</u>	<u>\$ -</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid for interest	<u>\$ 268,002</u>	<u>\$ 142,984</u>
	June 30,	
	2021	2020
<u>CASH AND RESTRICTED CASH</u>		
Cash	\$ 17,945,495	\$ 11,372,057
Cash in escrow	<u>200,329</u>	<u>175,278</u>
	<u>\$ 18,145,824</u>	<u>\$ 11,547,335</u>

The accompanying notes are an integral part of the consolidated financial statements.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated financial statements include the accounts of Girls Preparatory Charter School of New York (“Girls Prep LES”), Boys Preparatory Charter School of New York (“Boys Prep”), Girls Preparatory Charter School of the Bronx (“Girls Prep Bronx”), Girls Preparatory Charter School of the Bronx II (“Girls Prep Bronx II”), PrePrep: the Joan Ganz Cooney Early Learning Program (“PrePrep”), PrePrep2 (“PrePrep2”), PrePrep3 (“PrePrep3”), collectively forming Public Prep Charter School Academies, and Friends of Girls Preparatory Charter School of New York, Inc. (“Friends”), (collectively referred to as the “Organization”). All intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

The Organization

Public Prep Charter School Academies is an education corporation that has authority to operate the Charter Schools as described below. Each of the Charter Schools were established to prepare underserved elementary and middle school students for higher education, civic involvement and lifelong success through a structured, caring environment of high academic expectations. Friends was organized under the laws of the State of New York as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation law. See Note D.

Girls Prep LES operates in the borough of Manhattan, New York. On March 23, 2004, the Board of Regents of the University of the State of New York granted Girls Prep LES a provisional charter valid for a term of five years and renewable upon expiration. Girls Prep LES obtained a renewal through June 30, 2025.

Boys Prep operates in the borough of Bronx, New York. On December 14, 2010, the Board of Regents of the University of the State of New York granted Boys Prep a provisional charter valid for a term of five years and renewable upon expiration. Boys Prep obtained a renewal through July 31, 2024.

Girls Prep Bronx operates in the borough of Bronx, New York. On February 23, 2009, the Board of Regents of the University of the State of New York granted Girls Prep Bronx a provisional charter valid for a term of five years and renewable upon expiration. Girls Prep Bronx obtained a renewal through July 31, 2022.

On March 9, 2019, the Board of Regents of the University of the State of New York granted Girls Prep Bronx II a provisional charter valid for a term of five years through June 30, 2025, and renewable upon expiration. Girls Prep Bronx II opened for students in the Fall of 2020.

In December 2020, Girls Prep LES, Boys Prep, and Girls Prep Bronx each received approval from SUNY for a revision to their charters to create a joint high school program with another Charter School beginning in the 2022-23 school year; however, this was rejected by the NY State Education Department and SUNY has yet to override this rejection.

PrePrep operates in the borough of Bronx, New York. The Organization obtained approval from the New York City Department of Education to open a Pre-K program. The contract authorized operation of a universal prekindergarten program for a term of three years through June 30, 2018 and was renewable for two years upon expiration. PrePrep obtained a renewal through June 30, 2022.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

PrePrep2 operates in the borough of Bronx, New York. The Organization obtained approval from the New York City Department of Education to open a second Pre-K program. The contract authorizes operation of a universal prekindergarten program for a term of three years through June 30, 2021. PrePrep2 obtained a renewal through June 30, 2022.

PrePrep3 operates in the borough of Manhattan, New York. The Organization obtained approval from the New York City Department of Education to open a third Pre-K program. The contract authorizes operation of a universal prekindergarten program for a term of two years through June 30, 2021. PrePrep3 obtained a renewal through June 30, 2022.

Financial Statement presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

These classes of net assets are defined as follows:

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net Assets Without Donor Restrictions – The net assets over which the Governing Board has discretionary control to use in carrying on the Organization's operations in accordance with the guidelines established by the Organization. The Board may designate portions of the current net assets without donor restrictions for specific purposes, projects or investment.

Revenue recognition

Revenue from Exchange Transactions: The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization records substantially all revenues over time, as follows.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Public school district revenue

The Organization recognizes revenue as educational programming is provided to students throughout the year. The Organization earns public school district revenue based on the approved per pupil tuition rate of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved per pupil tuition rate and the full-time equivalent student enrollment of the School. Each NYS school district has a fixed per pupil tuition rate which is calculated annually by NYSED in accordance with NYS Education Law. Amounts are billed in advance every other month and payments are typically received in six installments during the year. At the end of each school year, a reconciliation of actual enrollment to billed enrollment is performed and any additional amounts due or excess funds received are agreed upon between the Organization and the district(s) and are paid or recouped. Additional funding is available for students requiring special education services. The amount of additional funding is dependent upon the length of time and types of services provided by the Charter School to each student, subject to a maximum amount based upon a set rate for each district as calculated by NYSED.

Universal Pre-Kindergarten (Pre-K)

Similar to public school district revenue, the Organization recognizes Pre-K revenue as educational programming is provided to students throughout the year. The maximum revenue amount is based on a contractually determined fixed amount per student and the number of students enrolled at a point in time. This amount could be further reduced if actual costs incurred in providing the Pre-K program are less than the maximum calculated amount of the contract. Amounts are paid in installments throughout the course of the year, with the final 5% paid upon submission of all required documentation at the end of the contract year. Revenue recognized from Pre-K programs totaled \$1,451,446 and \$1,305,095 for the years ended June 30, 2021 and 2020, respectively.

Rental assistance

Facilities rental assistance funding is provided by the New York City Dept of Education (NYCDOE) to qualifying charter schools located in the five boroughs of NYC. In order to receive rental assistance funding, a charter school must have commenced instruction or added grade levels in the 2014-15 school year or thereafter, and go through a space request process with the NYCDOE. If NYCDOE is not able to provide adequate space, the charter school can become eligible for rental assistance. Rental assistance is calculated as the lesser of 30% of the per-pupil tuition rate for NYC times the number of students enrolled, or actual total rental costs. As rental assistance is based on the number of students enrolled, revenue is recognized throughout the year as educational programming is provided to students.

The following table summarizes contract balances at their respective statement of financial position dates:

	<u>June 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Grants and contracts receivable	\$ 110,050	\$ 791,954	\$ 821,870

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Contributions

Contributions and unconditional promises to give are recorded in the appropriate class of net assets depending on the existence of any donor restrictions. A contribution that is received and expended in the same period for a specific purpose is classified as revenue without donor restrictions.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Grant revenue

Some of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying statement of financial position. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the accompanying consolidated statement of financial position. There was no revenue deferred at June 30, 2021 and 2020. The Organization received cost-reimbursement grants of approximately \$116,245 and \$42,556 that had not been recognized at June 30, 2021 and 2020, respectively, because qualifying expenditures had not yet been incurred.

Cash

Cash balances are maintained at certain financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Organization has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Organization maintains cash in escrow accounts for dissolution reserves in accordance with the terms of their charter agreements. The amount in escrow for dissolution as of June 30, 2021 and 2020 was \$200,329 and \$175,278, respectively. The escrow is restricted to fund legal and other costs related to the dissolution of the Organization, should dissolution become necessary.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Grants and contracts receivable

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2021 or 2020.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to thirty five years. Leasehold improvements are amortized over the lesser of the lease term or useful life.

Major renewals and betterments are capitalized, while repairs and maintenance are charged to operations as incurred. Upon sale or retirement, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in operations.

Tax exempt status

The Organization is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

Public Prep Academies and Friends file Form 990 tax returns in the U.S. federal jurisdiction. In addition, Friends files in New York. The tax returns for the years ended June 30, 2018 through June 30, 2021 are still subject to potential audit by the IRS and NY. Management of the Organization believes it has no material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Contributed services

The Organization receives contributed services from volunteers to serve on the Board of Trustees. In addition, the Organization received transportation services, special education services and speech therapy instruction for the students from the local district. The Organization was unable to determine a value for these services.

Marketing and recruiting costs

The Organization expenses marketing and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$70,000 and \$49,000 for the years ended June 30, 2021 and 2020, respectively.

Security deposit payable

The Organization subleases a portion of one of the buildings it occupies and received a security deposit in relation to the sublease.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Deferred lease liability

The Organization leases one of its facilities. The lease contains significant pre-determined fixed escalations of the base rent. In accordance with GAAP, the Organization recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts paid under the lease as a deferred lease liability. The amount of additional rent expense recognized in excess of the amounts paid under the lease was \$625,636 and \$666,069 for the years ended June 30, 2021 and 2020, respectively.

Use of estimates in the preparation of financial statements

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 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.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Functional allocation of expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

New accounting pronouncements:

Leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the FASB voted on May 20, 2020, to extend the guidance in this new standard to be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Organization is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Organization's financial position or results of operations.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Gifts-in-kind

In September 2020, the FASB issued a new accounting update to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind. The update requires not-for-profit entities to present contributed nonfinancial assets separately on the statement of activities, apart from contributions of cash and other financial assets. In addition, the update requires not-for-profit entities to disclose in the notes to the financial statements a breakout of the different types of gifts-in-kind recognized, any donor restrictions associated with the gift, the valuation technique(s) used to arrive at the fair value measure, whether or not the gift-in-kind was monetized, and any policies on monetization. The update is effective for fiscal years beginning after June 15, 2021 and will be applied on a retrospective basis. The Organization is currently evaluating the provisions of this update to determine the impact it will have on the Organization's financial statements.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 29, 2021, which is the date the financial statements are available to be issued. See Note F and Note J.

NOTE B: RELATED PARTY TRANSACTIONS

The Organization has related party receivables from and payables to one related organization, Public Preparatory Network, Inc. (PPN). PPN, a not-for-profit organization, provides management and other administrative support services to the Organization. For the years ended June 30, 2021 and 2020, the Organization paid an annual service fee of 15% of the year end student enrollment full time equivalents multiplied by the approved per pupil reimbursement rate for the school year for general education and special education funding. The term of the agreement renews annually unless terminated by either party with at least six months' notice. The fee incurred for the years ended June 30, 2021 and 2020 was \$5,798,628 and \$5,510,667, respectively.

The Organization also leases space in one of its facilities to PPN, see Note D for further details.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021
(With Comparative Totals for 2020)

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

Amounts due (to) from these related parties have no set repayment terms and as of June 30, 2021 were as follows:

	Girls Preparatory Charter School of New York	Boys Preparatory Charter School of New York	Girls Preparatory Charter School of the Bronx	Girls Preparatory Charter School of the Bronx II	PrePrep: the Joan Ganz Cooney Early Learning Program	PrePrep 2	PrePrep 3	Friends of Girls Preparatory Charter School of New York	Eliminations	Total
Due from (to) Public Preparatory Network, Inc.	\$ (13,030)	\$ 577,260	\$ 149,176	\$ 36,894	\$ (2,928)	\$ -	\$ -	\$ 8,250	\$ -	\$ 755,622
Due from (to) Girls Preparatory Charter School of New York	-	(3,592,770)	4,365,110	348,712	39,022	726,546	(20,103)	(1,948,910)	82,393	-
Due from (to) Boys Preparatory Charter School of New York	3,592,770	-	2,184,378	(5,723)	(365)	(660,840)	-	(6,491,935)	1,381,715	-
Due from (to) Girls Preparatory Charter School of the Bronx	(4,365,110)	(2,184,378)	-	(184,678)	(392,558)	130,416	21,826	(100)	6,956,228	(18,354)
Due from (to) Girls Preparatory Charter School of the Bronx II	(348,712)	5,723	184,678	-	(393)	(97,472)	(131)	30,497	225,810	-
Due from (to) PrePrep: the Joan Ganz Cooney Early Learning Program	(39,022)	365	392,558	393	-	(5,919)	-	-	(330,021)	18,354
Due from (to) PrePrep 2	(726,546)	660,840	(130,416)	97,472	5,919	-	-	55,000	37,731	-
Due from (to) PrePrep 3	20,103	-	(21,826)	131	-	-	-	-	1,592	-
Due from (to) Friends of Girls Preparatory Charter School of New York	1,948,910	6,491,935	100	(30,497)	-	(55,000)	-	-	(8,355,448)	-
	<u>\$ 69,363</u>	<u>\$ 1,958,975</u>	<u>\$ 7,123,758</u>	<u>\$ 262,704</u>	<u>\$ (351,303)</u>	<u>\$ 37,731</u>	<u>\$ 1,592</u>	<u>\$ (8,347,198)</u>	<u>\$ -</u>	<u>\$ 755,622</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021
(With Comparative Totals for 2020)

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

Amounts due (to) from these related parties have no set repayment terms and as of June 30, 2020 were as follows:

	Girls Preparatory Charter School of New York	Boys Preparatory Charter School of New York	Girls Preparatory Charter School of the Bronx	Girls Preparatory Charter School of the Bronx II	PrePrep: the Joan Ganz Cooney Early Learning Program	PrePrep 2	PrePrep 3	Friends of Girls Preparatory Charter School of New York	Eliminations	Total
Due from (to) Public Preparatory Network, Inc.	\$ 112,295	\$ 761,112	\$ 218,813	\$ (4,453)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,087,767
Due from (to) Girls Preparatory Charter School of New York	-	(1,230,019)	1,381,412	(25,083)	(12,438)	780,910	(7,986)	-	(886,796)	-
Due from (to) Boys Preparatory Charter School of New York	1,230,019	-	2,181,791	-	(365)	(614,042)	-	(5,123,052)	2,325,649	-
Due from (to) Girls Preparatory Charter School of the Bronx	(1,381,412)	(2,181,791)	-	(184,678)	(358,144)	(5,580)	-	-	4,111,605	-
Due from (to) Girls Preparatory Charter School of the Bronx II	25,083	-	184,678	-	-	-	-	-	(209,761)	-
Due from (to) PrePrep: the Joan Ganz Cooney Early Learning Program	12,438	365	358,144	-	-	(5,919)	-	-	(365,028)	-
Due from (to) PrePrep 2	(780,910)	614,042	5,580	-	5,919	-	-	147,000	8,369	-
Due from (to) PrePrep 3	7,986	-	-	-	-	-	-	-	(7,986)	-
Due from (to) Friends of Girls Preparatory Charter School of New York	-	5,123,052	-	-	-	(147,000)	-	-	(4,976,052)	-
	<u>\$ (774,501)</u>	<u>\$ 3,086,761</u>	<u>\$ 4,330,418</u>	<u>\$ (214,214)</u>	<u>\$ (365,028)</u>	<u>\$ 8,369</u>	<u>\$ (7,986)</u>	<u>\$ (4,976,052)</u>	<u>\$ -</u>	<u>\$ 1,087,767</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE C: LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization's main source of liquidity is its cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of education and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for fiscal years 2021 and 2020.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	June 30,	
	<u>2021</u>	<u>2020</u>
Cash	\$ 17,945,495	\$ 11,372,057
Grants and contracts receivable	<u>1,911,476</u>	<u>2,473,293</u>
Total financial assets available within one year	19,856,971	13,845,350
Less amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	<u>(2,842)</u>	<u>(100,433)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 19,854,129</u>	<u>\$ 13,744,917</u>

NOTE D: SCHOOL FACILITY

As part of the New York City Chancellor's Charter School Initiative, the New York City Department of Education has committed space to the Organization at no charge under a verbal agreement.

In December 2016 Friends entered into a lease agreement with a third party for school facility space for use by Boys Prep. The lease required a security deposit of \$495,000 which was paid in fiscal 2017 by Boys Prep. The lease term is 35 years, which commenced upon occupancy in September 2018, with the option to renew the agreement for two renewal terms, the first for ten years and the second for four years. The current agreement provides for monthly payments of approximately \$202,300 for the first year, increasing annually based upon the greater of the changes in the Consumer Price Index above a base year or a fixed percentage of 1.5%.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE D: SCHOOL FACILITY, Cont'd

The landlord made improvements to the space, including construction of additional space, the cost of which was to be shared between the landlord and Friends. This amount (initially anticipated at \$6,250,000) was expected to be repaid to the landlord through a ten-year \$3,000,000 loan with a fixed interest rate of 5%, and a ten-year \$3,250,000 loan at an interest rate equal to the landlord's rate of interest at the time of the landlord's mortgage closing. Payment of the \$3,000,000 loan commenced in September 2018, and payment of the \$3,250,000 loan was to commence in year three of the lease term. The lease required \$2,256,000 to be deposited in an escrow account to be used toward construction and for Friends to pay up to \$608,000 directly to the architect and up to \$92,000 to the construction manager upon receipt of invoices. As of June 30, 2021 and 2020, the Organization paid \$845,113 and \$803,930, respectively, for architect fees which are included in leasehold improvements in the accompanying statement of financial position. Effective July 31, 2020, the related loans were paid in full and Friends obtained separate financing, which is further detailed in Note J.

During February 2018, the Organization agreed to sublease a portion of the Boys Prep facility for a term of twenty-two months, beginning September 2018 through June 30, 2020. The rental income was \$27,083 per month for July 1, 2019 through June 30, 2020. In addition, the tenant paid a portion of utilities and custodial services. Effective May 1, 2019, the Organization agreed to sublet an additional portion of the Boys Prep facility for a fourteen month period through June 30, 2020 at \$4,167 per month. This sublease was extended at the same terms through July 31, 2021. This sublease was further extended through June 30, 2022 under new sublease terms, with no rent expense being charged. In place of monthly rent, the sub-tenant is required to provide in-kind after-school programming for the term of the sublease and pay for any security charges incurred for services provided beyond normal building hours. Additionally, effective July 1, 2019, the Organization sublet space in the Boys Prep facility to PPN at a rate of \$4,125 per month on a month-to-month basis. Rent expense paid during the years ended June 30, 2021 and 2020 (net of sublease income) was approximately \$2,250,000 and \$1,840,000, respectively.

Future minimum payments under these leases and subleases are as follows:

<u>Year ending June 30,</u>	<u>Minimum Payments</u>	<u>Sublease Income</u>	<u>Net Lease Payments</u>
2022	\$ 2,397,750	\$ 4,167	\$ 2,393,583
2023	2,433,716	-	2,433,716
2024	2,470,222	-	2,470,222
2025	2,507,275	-	2,507,275
2026	2,544,884	-	2,544,884
Thereafter	85,870,911	-	85,870,911
	<u>\$ 98,224,758</u>	<u>\$ 4,167</u>	<u>\$ 98,220,591</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE D: SCHOOL FACILITY, Cont'd

During September 2019, the Organization finalized a sublease between Friends and Public Prep Charter School Academies for the school facility space which commenced September 10, 2018 through June 30, 2053. The lease is intended to transfer actual costs of the facility incurred by Friends to Public Prep Charter School Academies over the full lease term. Under the terms of the lease, the rent expense incurred in a given fiscal year is limited to the amount of rental reimbursement under N.Y. Education Law Section 2853(3)(e) for which Boys Prep is eligible. Effective July 1, 2020, the lease was amended to reduce the term to June 30, 2021 at a fixed annual rental of \$4,066,328. Effective July 1, 2021, the lease was amended to extend the term to June 30, 2041. Under the amended sublease, annual rental payments increase by approximately 2% annually. All intercompany rent is eliminated in the accompanying consolidated financial statements; \$4,121,329 and \$2,985,034 for June 30, 2021 and 2020, respectively.

The minimum future payments and receipts are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 5,702,967
2023	5,803,682
2024	5,906,573
2025	6,011,691
2026	6,119,088
Thereafter	<u>103,399,926</u>
	<u>\$ 132,943,927</u>

The Organization is currently identifying temporary space for Girls Prep Bronx II until permanent facilities are secured. As of October 29, 2021, lease terms are still under negotiation.

NOTE E: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Furniture and fixtures	\$ 2,515,848	\$ 2,187,486
Computer equipment	2,779,777	1,716,798
Office equipment	1,680,369	1,568,447
Web development	5,250	5,250
Leasehold improvements	<u>11,864,216</u>	<u>11,817,039</u>
	18,845,460	17,295,020
Less accumulated depreciation and amortization	<u>6,741,590</u>	<u>5,425,997</u>
	<u>\$ 12,103,870</u>	<u>\$ 11,869,023</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE F: COMMITMENTS

At June 30, 2021, the Organization had three capital leases for computer equipment. During August 2021, the Organization entered into an additional capital lease for computer equipment, as further detailed in Note J. Amortization of capital leases is included in depreciation expense.

The Organization also leases office equipment under non-cancelable lease agreements expiring at various dates through January 2025.

The future minimum payments on these agreements are approximately as follows:

<u>Year ending June 30,</u>	<u>Capital leases</u>	<u>Operating leases</u>
2022	\$ 170,764	\$ 291,200
2023	164,083	229,500
2024	17,863	114,600
2025	-	57,300
2026	-	31,200
Thereafter	-	2,600
Net minimum lease payments	352,710	<u>\$ 726,400</u>
Less amount representing interest	(23,231)	
Present value of net minimum lease payments included in future maturities of long-term debt as shown in Note J	329,479	
Less current maturities of capital lease obligations included in current portion of long-term debt	<u>(154,422)</u>	
Long-term capital lease obligations	<u>\$ 175,057</u>	

During fiscal 2018, existing leases for certain office equipment were bought out by a new vendor who provided a cash lease incentive to the Organization. The deferred lease incentive associated with these buyouts will be amortized over five years (the term of the new leases) and is included in deferred lease incentive on the accompanying consolidated statement of financial position as of June 30, 2021 and 2020. Approximately \$26,000 is expected to be recognized annually through 2022, with the remainder recognized in 2023.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE G: RETIREMENT PLAN

The Organization sponsors a defined contribution 403(b) plan covering all regular employees. The Organization matches employees' contributions based on years of service, up to a maximum of 7.5% of base salary. The Organization's total contribution to the Plan for the years ended June 30, 2021 and 2020 was \$468,855 and \$370,573, respectively.

NOTE H: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Organization. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying consolidated financial statements. Accordingly, no amounts have been provided in the accompanying consolidated financial statements for such potential claims.

NOTE I: CONCENTRATIONS

At June 30, 2021 and 2020, approximately 74% and 56%, respectively of grants and contracts receivables are due from New York State relating to certain grants. At June 30, 2021 and 2020, approximately 13% and 16% of grants and contracts receivables are due from NYCDOE relating to certain grants, respectively.

During the years ended June 30, 2021, and 2020, 83% and 84%, respectively of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which each Charter School's students reside.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE J: LONG-TERM DEBT

	June 30,	
	2021	2020
Capital lease, due in monthly installments of \$3,680, including interest at 5.8%, through May 2023. The lease is collateralized by the underlying equipment with a net book value of \$77,124 and \$117,363 at June 30, 2021 and 2020, respectively.	\$ 77,113	\$ 116,678
Capital lease, due in monthly installments of \$6,997, including interest at 6.2%, through August 2023. The lease is collateralized by the underlying equipment with a net book value of \$166,470 at June 30, 2021.	167,288	-
Capital lease, due in monthly installments of \$3,553, including interest at 6.2%, through September 2023. The lease is collateralized by the underlying equipment with a net book value of \$87,793 at June 30, 2021.	85,078	-
Loan payable to nonprofit revolving loan fund, due in monthly installments of \$33,970, including interest at 4.1% through November 2020. Effective November 1, 2020 the loan was amended to decrease the interest rate to 3.7% through August 2050 and the loan payments were reamortized. Installments of \$32,359 including interest are due monthly. The loan is secured by a leasehold mortgage on certain property as well as a first priority lien security interest in the gross revenues of Friends. In connection with this loan, Public Prep Academies and Boys Prep specifically are both subject to certain financial and operational covenants. The Organization was in compliance with these covenants as of June 30, 2021.	6,921,834	-
Loan payable through the Paycheck Protection Program, forgiven in full in June 2021. See further details below.	-	4,301,000
Loans payable repaid during fiscal year 2021	-	6,231,501
	7,251,313	10,649,179
Less unamortized debt issuance costs	(415,164)	-
Less current portion of long-term debt	(288,882)	(1,640,444)
	\$ 6,547,267	\$ 9,008,735

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE J: LONG-TERM DEBT, Cont'd

In response to the COVID-19 outbreak, in April 2020 the School applied for and was approved by a bank for a loan of \$4,301,000 through the Paycheck Protection Program established by the Small Business Administration, as shown above. The loan had a maturity of 2 years and an interest rate of 1%. The loan had the potential for forgiveness provided certain requirements were met by the School. The loan was funded on April 24, 2020. The Organization applied for and was approved for full forgiveness of the loan in June 2021.

Estimated annual maturities of long-term debt at June 30, 2021 as described above, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 288,882
2023	296,931
2024	162,417
2025	150,219
2026	155,873
Thereafter	<u>6,196,991</u>
	<u>\$ 7,251,313</u>

NOTE K: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function (including salaries, benefits, management fees, purchased services, occupancy, supplies, and depreciation) are allocated on the basis of estimates of time, effort, and usage.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE L: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30,	
	<u>2021</u>	<u>2020</u>
Undesignated	\$ 14,651,815	\$ 5,778,266
Invested in property and equipment, net of related debt	<u>5,267,721</u>	<u>5,520,844</u>
	<u>\$ 19,919,536</u>	<u>\$ 11,299,110</u>

Net assets with donor restrictions are as follows:

	June 30,	
	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Eyeglasses	\$ 2,842	\$ 2,842
Boys Prep operations	<u>-</u>	<u>97,591</u>
	<u>\$ 2,842</u>	<u>\$ 100,433</u>

NOTE M: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022.

In response to the COVID-19 outbreak, the Federal Government passed several COVID relief acts which include funding for elementary and secondary education. The Elementary and Secondary School Emergency Relief Fund (ESSER Fund) was established to award grants to state and local educational agencies. The Organization has recognized \$1,036,594 of revenue relative to ESSER grants during the year ended June 30, 2021.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals for 2020)

NOTE N: RENEWAL PROCESS

The Organization is currently in the process of renewing the charter for Girls Prep Bronx as granted by the Board of Regents of the University of the State of New York. The charter currently expires July 31, 2022. The renewal process includes review by the Board of Regents of the University of the State of New York (SUNY) of various operational and governance aspects, including fiscal health and internal controls, board governance, and academic performance. Upon review of the renewal application and results, SUNY will determine if the charter should be renewed and if so, for how long. Successful charter renewals can range from one to five years. At this time, management of the Organization expects the charter to be renewed.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Public Prep Charter School Academies

We have audited the consolidated financial statements of Public Prep Charter School Academies as of and for the year ended June 30, 2021, and have issued our report thereon dated October 29, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The financial information hereinafter is presented for purposes of additional analysis and are not required parts of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements for the year ended June 30, 2021, as a whole.

We have also audited the consolidated financial statements of Public Prep Charter School Academies as of and for the year ended June 30, 2020, and our report thereon dated October 27, 2020, expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on those consolidated financial statements as a whole. The 2020 financial information hereinafter is presented for purposes of additional analysis and is not a required part of the 2020 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2020 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2020 consolidated financial statements or to the 2020 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements for the year ended June 30, 2020, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 29, 2021

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2021

ASSETS	Public Prep Charter School Academies								Friends of Girls Preparatory Charter School of New York	Eliminations	Consolidated Total
	Girls Preparatory Charter School of New York	Boys Preparatory Charter School of New York	Girls Preparatory Charter School of the Bronx	Girls Preparatory Charter School of the Bronx II	PrePrep: the Joan Ganz Cooney Early Learning Program	PrePrep 2	Pre Prep 3	Total			
CURRENT ASSETS											
Cash	\$ 4,322,454	\$ 7,005,359	\$ 2,589,726	\$ -	\$ 181,942	\$ -	\$ -	\$ 14,099,481	\$ 3,846,014	\$ -	\$ 17,945,495
Grants and contracts receivable	371,377	550,372	653,300	317,303	15,159	-	-	1,907,511	3,965	-	1,911,476
Prepaid expenses and other current assets	102,947	186,386	186,288	52,409	11,224	10,978	3,659	553,891	255,176	-	809,067
TOTAL CURRENT ASSETS	4,796,778	7,742,117	3,429,314	369,712	208,325	10,978	3,659	16,560,883	4,105,155	-	20,666,038
OTHER ASSETS											
Property and equipment, net	540,578	955,978	777,794	229,597	11,230	99,833	12,008	2,627,018	9,476,852	-	12,103,870
Related party receivables (payables)	69,363	1,958,975	7,123,758	262,704	(351,303)	37,731	1,592	9,102,820	(8,347,198)	-	755,622
Security deposit	-	502,325	-	-	-	-	-	502,325	-	-	502,325
Cash in escrow	200,329	-	-	-	-	-	-	200,329	-	-	200,329
	810,270	3,417,278	7,901,552	492,301	(340,073)	137,564	13,600	12,432,492	1,129,654	-	13,562,146
TOTAL ASSETS	\$ 5,607,048	\$ 11,159,395	\$ 11,330,866	\$ 862,013	\$ (131,748)	\$ 148,542	\$ 17,259	\$ 28,993,375	\$ 5,234,809	\$ -	\$ 34,228,184
LIABILITIES AND NET ASSETS (DEFICIT)											
CURRENT LIABILITIES											
Accounts payable and accrued expenses	\$ 503,123	\$ 396,473	\$ 457,731	\$ 239,497	\$ 4,535	\$ 2,983	\$ 415	\$ 1,604,757	\$ 2,621	\$ -	\$ 1,607,378
Accrued payroll and benefits	1,016,957	1,111,412	1,306,155	151,497	69,461	76,615	36,499	3,768,596	-	-	3,768,596
Current portion of deferred lease incentive	13,048	-	12,955	-	-	-	-	26,003	-	-	26,003
Current portion of long-term debt	51,738	25,671	51,342	25,671	-	-	-	154,422	134,460	-	288,882
TOTAL CURRENT LIABILITIES	1,584,866	1,533,556	1,828,183	416,665	73,996	79,598	36,914	5,553,778	137,081	-	5,690,859
LONG-TERM LIABILITIES											
Long-term debt, net of unamortized debt issuance costs of \$415,164 at June 30, 2021	57,478	29,395	58,789	29,395	-	-	-	175,057	6,372,210	-	6,547,267
Deferred lease incentive	9,785	-	3,615	-	-	-	-	13,400	-	-	13,400
Deferred lease liability	-	-	-	-	-	-	-	-	2,037,613	-	2,037,613
Security deposit payable	-	-	-	-	-	-	-	-	16,667	-	16,667
TOTAL LIABILITIES	1,652,129	1,562,951	1,890,587	446,060	73,996	79,598	36,914	5,742,235	8,563,571	-	14,305,806
NET ASSETS (DEFICIT)											
Without donor restrictions	3,952,077	9,596,444	9,440,279	415,953	(205,744)	68,944	(19,655)	23,248,298	(3,328,762)	-	19,919,536
With donor restrictions	2,842	-	-	-	-	-	-	2,842	-	-	2,842
TOTAL NET ASSETS (DEFICIT)	3,954,919	9,596,444	9,440,279	415,953	(205,744)	68,944	(19,655)	23,251,140	(3,328,762)	-	19,922,378
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 5,607,048	\$ 11,159,395	\$ 11,330,866	\$ 862,013	\$ (131,748)	\$ 148,542	\$ 17,259	\$ 28,993,375	\$ 5,234,809	\$ -	\$ 34,228,184

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2021

	Public Prep Charter School Academies										
	Girls Preparatory Charter School of New York	Boys Preparatory Charter School of New York	Girls Preparatory Charter School of the Bronx	Girls Preparatory Charter School of the Bronx II	PrePrep: the Joan Ganz Cooney Early Learning Program	PrePrep 2	Pre Prep 3	Total	Friends of Girls Preparatory Charter School of New York	Eliminations	Consolidated Total
Revenue, gains and other support:											
Public school district:											
Resident student enrollment	\$ 8,421,614	\$ 12,031,629	\$ 11,533,086	\$ 1,165,999	\$ 598,101	\$ 645,981	\$ 207,364	\$ 34,603,774	\$ -	\$ -	\$ 34,603,774
Students with disabilities	1,741,330	1,816,767	1,893,045	156,016	-	-	-	5,607,158	-	-	5,607,158
Grants and contracts:											
State and local	248,614	46,933	411,728	4,113	-	-	-	711,388	-	-	711,388
Federal - Title and IDEA	340,319	544,369	704,444	90,738	-	-	-	1,679,870	-	-	1,679,870
Federal - other	236,552	424,993	513,794	389,842	-	-	-	1,565,181	-	-	1,565,181
NYC DOE rental assistance	-	3,602,668	-	349,800	-	-	-	3,952,468	-	-	3,952,468
Food Service/Child Nutrition Program	-	455,992	-	-	-	-	-	455,992	-	-	455,992
TOTAL REVENUE, GAINS AND OTHER SUPPORT	10,988,429	18,923,351	15,056,097	2,156,508	598,101	645,981	207,364	48,575,831	-	-	48,575,831
Expenses:											
Program services:											
Regular education	7,140,472	11,069,821	9,535,520	1,340,457	-	-	-	29,086,270	3,330,512	(2,828,643)	29,588,139
Special education	1,980,977	3,197,227	2,140,432	269,467	-	-	-	7,588,103	962,447	(831,053)	7,719,497
Pre-K	-	-	-	-	698,222	668,080	212,276	1,578,578	289,378	(55,000)	1,812,956
Total Program Services	9,121,449	14,267,048	11,675,952	1,609,924	698,222	668,080	212,276	38,252,951	4,582,337	(3,714,696)	39,120,592
Management and general	1,384,637	1,805,851	1,559,870	405,515	10,658	39,067	11,173	5,216,771	508,195	(406,633)	5,318,333
Fundraising and special events	15,216	20,709	20,078	1,983	-	-	-	57,986	-	-	57,986
TOTAL OPERATING EXPENSES	10,521,302	16,093,608	13,255,900	2,017,422	708,880	707,147	223,449	43,527,708	5,090,532	(4,121,329)	44,496,911
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	467,127	2,829,743	1,800,197	139,086	(110,779)	(61,166)	(16,085)	5,048,123	(5,090,532)	4,121,329	4,078,920
Support and other revenue:											
Contributions:											
Foundations	-	10,000	-	-	-	-	-	10,000	-	-	10,000
Individuals	1,100	-	-	-	-	-	-	1,100	-	-	1,100
Interest income	24	7	22	-	-	-	-	53	-	-	53
Other income	(450)	587	15,794	-	-	-	-	15,931	2,841	-	18,772
Paycheck Protection Program loan forgiveness	1,093,459	1,560,215	1,495,589.00	151,737	-	-	-	4,301,000	-	-	4,301,000
Rental income	-	-	-	-	-	-	-	-	4,234,319	(4,121,329)	112,990
TOTAL SUPPORT AND OTHER REVENUE	1,094,133	1,570,809	1,511,405	151,737	-	-	-	4,328,084	4,237,160	(4,121,329)	4,443,915
CHANGE IN NET ASSETS	1,561,260	4,400,552	3,311,602	290,823	(110,779)	(61,166)	(16,085)	9,376,207	(853,372)	-	8,522,835
Net assets (deficit) at beginning of year	2,393,659	5,195,892	6,128,677	125,130	(94,965)	130,110	(3,570)	13,874,933	(2,475,390)	-	11,399,543
NET ASSETS (DEFICIT) AT END OF YEAR	\$ 3,954,919	\$ 9,596,444	\$ 9,440,279	\$ 415,953	\$ (205,744)	\$ 68,944	\$ (19,655)	\$ 23,251,140	\$ (3,328,762)	\$ -	\$ 19,922,378

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER – GIRLS PREPARATORY CHARTER
SCHOOL OF NEW YORK

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
								2021	2020
Personnel services costs:									
Administrative staff personnel	15	\$ 560,366	\$ 161,878	\$ 722,244	\$ 845,385	\$ -	\$ 845,385	\$ 1,567,629	\$ 1,594,669
Instructional personnel	<u>58</u>	<u>3,607,295</u>	<u>1,042,077</u>	<u>4,649,372</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,649,372</u>	<u>4,873,947</u>
Total personnel services costs	73	4,167,661	1,203,955	5,371,616	845,385	-	845,385	6,217,001	6,468,616
Fringe benefits and payroll taxes		909,145	262,634	1,171,779	184,414	-	184,414	1,356,193	1,402,838
Retirement		95,651	27,632	123,283	19,402	-	19,402	142,685	137,721
Management company fees		1,065,103	213,021	1,278,124	228,237	15,216	243,453	1,521,577	1,553,899
Accounting and auditing services		-	-	-	4,554	-	4,554	4,554	21,653
Other professional and consulting services		110,480	44,816	155,296	15,822	-	15,822	171,118	261,554
Rent		3,495	1,010	4,505	501	-	501	5,006	-
Repairs and maintenance		15,911	4,596	20,507	2,279	-	2,279	22,786	21,564
Insurance		37,576	10,855	48,431	5,381	-	5,381	53,812	64,188
Utilities		51,403	14,849	66,252	7,361	-	7,361	73,613	47,085
Supplies and materials		158,827	45,882	204,709	-	-	-	204,709	207,011
Equipment and furnishings		8,428	2,435	10,863	1,207	-	1,207	12,070	3,165
Staff development		137,714	39,783	177,497	20,548	-	20,548	198,045	153,951
Marketing and recruiting		14,312	4,135	18,447	2,050	-	2,050	20,497	9,220
Technology		71,074	20,532	91,606	10,179	-	10,179	101,785	93,915
Food service		1,587	458	2,045	-	-	-	2,045	4,418
Student services		52,293	15,107	67,400	2,974	-	2,974	70,374	242,484
Office expense		108,563	31,362	139,925	15,547	-	15,547	155,472	190,104
Depreciation and amortization		125,843	36,354	162,197	18,022	-	18,022	180,219	168,614
Other		5,406	1,561	6,967	774	-	774	7,741	46,820
		<u>\$ 7,140,472</u>	<u>\$ 1,980,977</u>	<u>\$ 9,121,449</u>	<u>\$ 1,384,637</u>	<u>\$ 15,216</u>	<u>\$ 1,399,079</u>	<u>\$ 10,521,302</u>	<u>\$ 11,098,820</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER –
BOYS PREPARATORY CHARTER SCHOOL OF NEW YORK

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
								2021	2020
Personnel services costs:									
Administrative staff personnel	16	\$ 534,089	\$ 160,649	\$ 694,738	\$ 654,929	\$ -	\$ 654,929	\$ 1,349,667	\$ 1,159,918
Instructional personnel	77	3,999,851	1,203,118	5,202,969	-	-	-	5,202,969	4,346,902
Non-instructional personnel	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,482</u>	<u>-</u>	<u>132,482</u>	<u>132,482</u>	<u>121,862</u>
Total personnel services costs	95	4,533,940	1,363,767	5,897,707	787,411	-	787,411	6,685,118	5,628,682
Fringe benefits and payroll taxes		1,038,855	312,478	1,351,333	180,418	-	180,418	1,531,751	1,202,779
Retirement		68,551	20,619	89,170	11,905	-	11,905	101,075	80,940
Management company fees		1,449,629	289,926	1,739,555	310,635	20,709	331,344	2,070,899	1,685,031
Accounting and auditing services		-	-	-	4,554	-	4,554	4,554	19,227
Other professional and consulting services		161,525	61,485	223,010	23,346	-	23,346	246,356	290,951
Building rent / lease / facility finance interest		2,560,230	770,093	3,330,323	370,036	-	370,036	3,700,359	2,945,034
Repairs and maintenance		7,700	2,316	10,016	1,113	-	1,113	11,129	1,770
Insurance		52,582	15,816	68,398	7,600	-	7,600	75,998	59,876
Utilities		107,731	32,405	140,136	15,571	-	15,571	155,707	43,929
Supplies and materials		171,832	52,423	224,255	-	-	-	224,255	360,207
Equipment and furnishings		11,967	3,599	15,566	1,730	-	1,730	17,296	3,839
Staff development		122,389	36,813	159,202	17,878	-	17,878	177,080	118,031
Marketing and recruiting		22,469	6,759	29,228	3,248	-	3,248	32,476	5,962
Technology		51,517	15,496	67,013	7,446	-	7,446	74,459	57,746
Food service		255,563	76,871	332,434	-	-	-	332,434	385,453
Student services		29,934	9,004	38,938	1,764	-	1,764	40,702	59,006
Office expense		158,756	47,752	206,508	22,945	-	22,945	229,453	150,402
Depreciation and amortization		260,261	78,284	338,545	37,616	-	37,616	376,161	326,485
Other		4,390	1,321	5,711	635	-	635	6,346	19,905
		<u>\$ 11,069,821</u>	<u>\$ 3,197,227</u>	<u>\$ 14,267,048</u>	<u>\$ 1,805,851</u>	<u>\$ 20,709</u>	<u>\$ 1,826,560</u>	<u>\$ 16,093,608</u>	<u>\$ 13,445,255</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER –
GIRLS PREPARATORY CHARTER SCHOOL OF THE BRONX

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
								2021	2020
Personnel services costs:									
Administrative staff personnel	21	\$ 776,438	\$ 176,339	\$ 952,777	\$ 915,822	\$ -	\$ 915,822	\$ 1,868,599	\$ 1,805,464
Instructional personnel	87	4,875,665	1,107,326	5,982,991	-	-	-	5,982,991	5,997,835
Total personnel services costs	108	5,652,103	1,283,665	6,935,768	915,822	-	915,822	7,851,590	7,803,299
Fringe benefits and payroll taxes		1,170,775	265,898	1,436,673	189,703	-	189,703	1,626,376	1,631,223
Retirement		122,373	27,792	150,165	20,197	-	20,197	170,362	133,168
Management company fees		1,405,496	281,099	1,686,595	301,177	20,078	321,255	2,007,850	2,071,737
Accounting and auditing services		-	-	-	4,554	-	4,554	4,554	21,653
Other professional and consulting services		187,611	55,509	243,120	25,580	-	25,580	268,700	234,473
Rent		1,908	433	2,341	260	-	260	2,601	-
Repairs and maintenance		22,723	5,160	27,883	3,098	-	3,098	30,981	29,334
Insurance		49,049	11,140	60,189	6,688	-	6,688	66,877	66,188
Utilities		94,203	21,395	115,598	12,844	-	12,844	128,442	74,688
Supplies and materials		185,866	42,213	228,079	-	-	-	228,079	328,651
Equipment and furnishings		11,951	2,714	14,665	1,630	-	1,630	16,295	3,957
Staff development		152,825	34,709	187,534	21,369	-	21,369	208,903	210,803
Marketing and recruiting		11,471	2,605	14,076	1,564	-	1,564	15,640	13,433
Technology		60,640	13,772	74,412	8,268	-	8,268	82,680	110,899
Food service		7,248	1,646	8,894	-	-	-	8,894	8,480
Student services		67,998	15,444	83,442	1,947	-	1,947	85,389	151,731
Office expense		123,462	28,040	151,502	16,834	-	16,834	168,336	173,978
Depreciation and amortization		202,852	46,070	248,922	27,658	-	27,658	276,580	258,345
Other		4,966	1,128	6,094	677	-	677	6,771	37,737
		<u>\$ 9,535,520</u>	<u>\$ 2,140,432</u>	<u>\$ 11,675,952</u>	<u>\$ 1,559,870</u>	<u>\$ 20,078</u>	<u>\$ 1,579,948</u>	<u>\$ 13,255,900</u>	<u>\$ 13,363,777</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER –
GIRLS PREPARATORY CHARTER SCHOOL OF THE BRONX II

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
								2021	2020
Personnel services costs:									
Administrative staff personnel	3	\$ 70,737	\$ 16,065	\$ 86,802	\$ 240,961	\$ -	\$ 240,961	\$ 327,763	\$ 157,397
Instructional personnel	8	462,149	82,682	544,831	-	-	-	544,831	-
Total personnel services costs	11	532,886	98,747	631,633	240,961	-	240,961	872,594	157,397
Fringe benefits and payroll taxes		112,477	20,843	133,320	50,860	-	50,860	184,180	25,294
Retirement		17,072	3,164	20,236	7,720	-	7,720	27,956	1,988
Management company fees		138,812	27,762	166,574	29,745	1,983	31,728	198,302	200,000
Accounting and auditing services		-	-	-	12,113	-	12,113	12,113	-
Other professional and consulting services		53,141	12,069	65,210	7,246	-	7,246	72,456	9,000
Building rent / lease / facility finance interest		268,413	60,960	329,373	36,597	-	36,597	365,970	-
Repairs and maintenance		8,409	1,910	10,319	1,146	-	1,146	11,465	-
Insurance		7,151	1,624	8,775	975	-	975	9,750	-
Utilities		4,917	1,117	6,034	670	-	670	6,704	-
Supplies and materials		69,456	12,426	81,882	-	-	-	81,882	-
Equipment and furnishings		4,841	1,100	5,941	660	-	660	6,601	-
Staff development		40,453	9,136	49,589	5,901	-	5,901	55,490	250
Marketing and recruiting		-	-	-	-	-	-	-	20,453
Technology		17,556	3,987	21,543	2,394	-	2,394	23,937	814
Food service		7,778	1,392	9,170	-	-	-	9,170	-
Student services		-	-	-	432	-	432	432	-
Office expense		23,911	5,694	29,605	3,571	-	3,571	33,176	-
Depreciation and amortization		30,703	6,973	37,676	4,186	-	4,186	41,862	559
Other		2,481	563	3,044	338	-	338	3,382	124
		\$ 1,340,457	\$ 269,467	\$ 1,609,924	\$ 405,515	\$ 1,983	\$ 407,498	\$ 2,017,422	\$ 415,879

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER –
PREPREP: THE JOAN GANZ COONEY EARLY LEARNING PROGRAM

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	No. of Positions	Program Services	Supporting Services		Total	
		Pre-K	Management and general	Fundraising and special events	Year ended June 30,	
						2021
Personnel services costs:						
Administrative staff personnel	-	\$ 17,050	\$ -	\$ -	\$ 17,050	\$ 32,953
Instructional personnel	<u>6</u>	<u>426,883</u>	<u>-</u>	<u>-</u>	<u>426,883</u>	<u>501,690</u>
Total personnel services costs	6	443,933	-	-	443,933	534,643
Fringe benefits and payroll taxes		84,418	-	-	84,418	124,363
Retirement		12,267	-	-	12,267	11,223
Other professional and consulting services		-	8,991	-	8,991	6,245
Insurance		14,679	-	-	14,679	-
Utilities		3,521	1,667	-	5,188	-
Supplies and materials		17,566	-	-	17,566	14,707
Staff development		360	-	-	360	-
Marketing and recruiting		910	-	-	910	-
Food service		202	-	-	202	-
Student services		482	-	-	482	172
Office expense		5,308	-	-	5,308	1,200
Depreciation and amortization		3,825	-	-	3,825	6,501
Other		<u>110,751</u>	<u>-</u>	<u>-</u>	<u>110,751</u>	<u>-</u>
		<u>\$ 698,222</u>	<u>\$ 10,658</u>	<u>\$ -</u>	<u>\$ 708,880</u>	<u>\$ 699,054</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER –
PREPREP 2

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	No. of Positions	Program Services	Supporting Services		Total	
		Pre-K 2	Management and general	Fundraising and special events	Year ended June 30,	
					2021	2020
Personnel services costs:						
Administrative staff personnel	-	\$ 18,083	\$ -	\$ -	\$ 18,083	\$ 28,800
Instructional personnel	<u>6</u>	<u>440,368</u>	<u>-</u>	<u>-</u>	<u>440,368</u>	<u>318,333</u>
Total personnel services costs	6	458,451	-	-	458,451	347,133
Fringe benefits and payroll taxes		35,494	-	-	35,494	28,952
Retirement		11,939	-	-	11,939	5,533
Other professional and consulting services		-	11,711	-	11,711	9,614
Rent		55,000	-	-	55,000	40,000
Insurance		7,261	-	-	7,261	6,312
Utilities		1,492	27,356	-	28,848	2,000
Supplies and materials		6,226	-	-	6,226	4,137
Staff development		360	-	-	360	-
Marketing and recruiting		589	-	-	589	100
Food service		21,204	-	-	21,204	18,819
Student services		22	-	-	22	-
Office expense		2,710	-	-	2,710	601
Depreciation and amortization		22,000	-	-	22,000	22,000
Other		45,332	-	-	45,332	-
		<u>\$ 668,080</u>	<u>\$ 39,067</u>	<u>\$ -</u>	<u>\$ 707,147</u>	<u>\$ 485,201</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER –
PREPREP 3

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	No. of Positions	Program Services	Supporting Services		Total	
		Pre-K 3	Management and general	Fundraising and special events	Year ended June 30,	
			2021	2020		
Personnel services costs:						
Administrative staff personnel	-	\$ 12,400	\$ -	\$ -	\$ 12,400	\$ 28,367
Instructional personnel	<u>2</u>	<u>167,030</u>	<u>-</u>	<u>-</u>	<u>167,030</u>	<u>164,527</u>
Total personnel services costs	2	179,430	-	-	179,430	192,894
Fringe benefits and payroll taxes		14,317	-	-	14,317	15,688
Retirement		2,571	-	-	2,571	-
Other professional and consulting services		-	9,079	-	9,079	9,311
Insurance		4,442	-	-	4,442	2,000
Utilities		1,354	2,094	-	3,448	1,500
Supplies and materials		2,188	-	-	2,188	15,616
Staff development		120	-	-	120	241
Marketing and recruiting		25	-	-	25	100
Student services		126	-	-	126	-
Office expense		3,219	-	-	3,219	1,100
Depreciation and amortization		3,894	-	-	3,894	3,570
Other		<u>590</u>	<u>-</u>	<u>-</u>	<u>590</u>	<u>-</u>
		<u>\$ 212,276</u>	<u>\$ 11,173</u>	<u>\$ -</u>	<u>\$ 223,449</u>	<u>\$ 242,020</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES – FRIENDS OF GIRLS PREP

YEAR ENDED JUNE 30, 2021
 (With Comparative Totals for 2020)

	Program Services				Supporting Services	Total	
	Regular Education	Special Education	Pre-K	Sub-total	Management and general	Year ended June 30, 2021	2020
Legal Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,549
Accounting and auditing services	-	-	-	-	-	-	2,625
Other professional and consulting services	266,395	76,982	23,146	366,523	39,771	406,294	334,460
Building rent / lease / facility finance interest	2,127,370	614,766	184,841	2,926,977	325,220	3,252,197	3,350,073
Repairs and maintenance	181,543	52,462	15,774	249,779	27,753	277,532	231,182
Utilities	103,732	29,976	9,013	142,721	15,858	158,579	325,537
Taxes	382,588	110,560	33,242	526,390	58,488	584,878	153,327
Depreciation and amortization	268,884	77,701	23,362	369,947	41,105	411,052	407,910
	<u>\$ 3,330,512</u>	<u>\$ 962,447</u>	<u>\$ 289,378</u>	<u>\$ 4,582,337</u>	<u>\$ 508,195</u>	<u>\$ 5,090,532</u>	<u>\$ 4,825,663</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NEW YORK, NEW YORK

**SCHEDULES REQUIRED BY GOVERNMENT
AUDITING STANDARDS AND THE UNIFORM
GUIDANCE**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2021



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>SCHEDULES REQUIRED BY GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE</u>	<u>PAGE</u>
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	3
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards in Accordance with the Uniform Guidance	5
Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9
Corrective Action Plan	11

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

Board of Trustees
Public Prep Charter School Academies

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 Public Prep Charter School Academies, which comprise the consolidated statement of financial position as of June 30, 2021 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Public Prep Charter School Academies' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Public Prep Charter School Academies' internal control. Accordingly, we do not express an opinion on the effectiveness of Public Prep Charter School Academies' 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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Prep Charter School Academies' consolidated 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 consolidated financial statements. 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*.

We noted certain matters that we have reported to management of Public Prep Charter School Academies in a separate letter dated October 29, 2021.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 29, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Trustees
Public Prep Charter School Academies

Report on Compliance for Each Major Federal Program

We have audited Public Prep Charter School Academies' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Public Prep Charter School Academies' major federal programs for the year ended June 30, 2021. Public Prep Charter School Academies' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Public Prep Charter School Academies' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Public Prep Charter School Academies' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Public Prep Charter School Academies' compliance.

Opinion on Each Major Federal Program

In our opinion, Public Prep Charter School Academies complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of Public Prep Charter School Academies is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Public Prep Charter School Academies' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Public Prep Charter School Academies' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Public Prep Charter School Academies as of and for the year ended June 30, 2021, and have issued our report thereon dated October 29, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 29, 2021

PUBLIC PREP CHARTER SCHOOL ACADEMIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2021

	<u>Federal AL Number</u>	<u>Pass-through Grantor's Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education:			
<u>Passed through NYS Department of Education</u>			
Title I - Grants to Local Educational Agencies	84.010	0021-21	\$ 1,139,551
Title IIA - Supporting Effective Instruction	84.367	0147-21	132,648
Title IV - Student Support and Academic Enrichment Program	84.424A	0204-21	83,599
Charter School Planning and Implementation Grant	84.282	C403555	320,398
Education Stabilization Fund - Elementary and Secondary School Emergency Relief Fund	84.425D	5890-21	<u>1,036,594</u>
TOTAL DEPARTMENT OF EDUCATION			<u>2,712,790</u>
U.S. Department of Agriculture:			
<i>Child Nutrition Cluster</i>			
<u>Passed through NYS Department of Education</u>			
Summer Food Service Program	10.559	320700860994	<u>440,429</u>
Total Child Nutrition Cluster			<u>440,429</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>440,429</u>
TOTAL ALL PROGRAMS			<u>\$ 3,153,219</u>

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of federal awards (the “schedule”) includes the federal grant activity of Public Prep Charter School Academies and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

Public Prep Charter School Academies has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

There were no amounts passed through to subrecipients.

PUBLIC PREP CHARTER SCHOOL ACADEMIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? x yes _____ none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes x none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? _____ yes x no

Identification of major federal program:

AL Number:

84.425D

10.559

Name of Federal Program or Cluster:

Education Stabilization Fund:
 Elementary and Secondary School
 Emergency Relief (ESSER) Fund
Child Nutrition Cluster
 Summer Food Service Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? x yes _____ no

PUBLIC PREP CHARTER SCHOOL ACADEMIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2021

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2021-001

Criteria and statement of condition

During our 2021 audit, certain significant auditor adjustments were necessary to properly state consolidated financial statement balances in accordance with accounting principles generally accepted in the United States of America (GAAP). The adjustments included journal entries to accounts receivable, prepaid expenses, accounts payable, long-term debt, and deferred lease liability. Prior to the corrections, total assets were initially overstated by approximately \$366,000, total liabilities were overstated by approximately \$349,000, and change in net assets was overstated by approximately \$17,000. We consider this to be a significant deficiency in internal control over financial reporting.

Context

During the 2021 fiscal year, the Organization transitioned to a new outsourced financial consultant. During the transition, the intricacies of the required financial reporting for the different charters and programs operated by the Organization were not fully understood. As a result, certain accounts were not reconciled on a timely basis throughout the course of the year and required significant adjustments at year-end to properly state consolidated financial statement balances in accordance with GAAP.

Effect or Potential Effect

Certain consolidated financial statement balances were misstated, and audit adjustments were required. Management may not have accurate financial information when making decisions if accounts are not reconciled on a timely basis as errors may occur and not be detected.

Recommendation

We recommend the Organization implement a monthly, quarterly, and year-end closing checklist in conjunction with their financial consultant, delineating responsibilities of each party and documenting when items are completed and by whom. A member of the Organization's senior leadership team should be assigned to monitor completion of the closing checklist by the financial consultant. This will assist both management and the financial consultant in understanding their respective responsibilities and will ensure the work is completed on a timely basis.

Views of responsible officials

Management agrees - given the finding, the Organization will hold the financial consultant accountable per a detailed monthly, quarterly, and semi-annual closing checklist prior to the financial close of the 2021-22 books. The Organization will identify a member of senior leadership to monitor completion of these additional closing procedures. Any misunderstandings of roles, responsibilities and accounting intricacies specific to Public Prep will continue to be addressed through bi-weekly meetings with the financial consultant and Public Prep's internal finance team.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.

October 29, 2021

Corrective Action Plan – Year Ended June 30, 2021

Finding 2021-001

Criteria and Statement of Condition

During our 2021 audit, certain significant auditor adjustments were necessary to properly state consolidated financial statement balances in accordance with accounting principles generally accepted in the United States of America (GAAP). The adjustments included journal entries to accounts receivable, prepaid expenses, accounts payable, long-term debt, and deferred lease liability. Prior to the corrections, total assets were initially overstated by approximately \$366,000, total liabilities were overstated by approximately \$349,000, and change in net assets was overstated by approximately \$17,000. We consider this to be a significant deficiency in internal control over financial reporting.

Context

During the 2021 fiscal year, the Organization transitioned to a new outsourced financial consultant. The new financial consultant did not fully understand the intricacies of the required financial reporting for the different charters and programs operated by the Organization. As a result, certain accounts were not reconciled on a timely basis throughout the course of the year and required significant adjustments at year-end to properly state consolidated financial statement balances in accordance with GAAP.

Recommendation

We recommend the Organization implement a monthly, quarterly, and year-end closing checklist in conjunction with their financial consultant, delineating responsibilities of each party and documenting when items are completed and by whom. A member of the Organization's senior leadership team should be assigned to monitor completion of the closing checklist by the financial consultant. This will assist both management and the financial consultant in understanding their respective responsibilities and will ensure the work is completed on a timely basis.

Corrective Action Plan

Public Prep agrees with the audit finding and acknowledges our responsibility for the design, implementation and reviews of internal controls related to financial reporting.

Public Prep will:

1. Work with its financial consultant to design and implement a monthly, quarterly, and year-end closing checklist reconciling all asset, liability, revenue, expense, and intercompany balances.
2. Identify a member of Senior Leadership to monitor completion of checklist items by the financial consultant.
3. Continue to meet with financial consultant every other week to further review roles, responsibilities, ledger variances and critical feedback.

4. Engage our independent auditors to perform an agreed-upon procedures engagement as of 12/31/21 to determine if the above changes have been implemented and are operating as intended.
5. Have the financial consultant perform a hard close of books following Q3 2022 so any adjustments may be made prior to year-end 2022.



Jamie Farris
Managing Director of Finance
Public Prep

PUBLIC PREP CHARTER SCHOOL ACADEMIES

ADVISORY COMMENT LETTER

JUNE 30, 2021



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 29, 2021

To the Board of Trustees and Management
Public Prep Charter School Academies

In planning and performing our audit of the consolidated financial statements of Public Prep Charter School Academies (the “Organization”) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Organization’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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. We consider the following deficiency in the entity’s internal control to be a significant deficiency:

- 1 -

Significant auditor adjustments

During the 2021 fiscal year, the Organization transitioned to a new outsourced financial consultant. During the transition, the intricacies of the required financial reporting for the different charters and programs operated by the Organization were not fully understood. As a result, during our 2021 audit, certain significant auditor adjustments were necessary to properly state consolidated financial statement balances in accordance with accounting principles generally accepted in the United States of America (GAAP). The adjustments included journal entries to accounts receivable, prepaid expenses, accounts payable, long-term debt, and deferred lease liability. Prior to the corrections, total assets were initially overstated by approximately \$366,000, total liabilities were overstated by approximately \$349,000, and change in net assets was overstated by approximately \$17,000.

Recommendation

We recommend the Organization implement a monthly, quarterly, and year-end closing checklist in conjunction with their financial consultant, delineating responsibilities of each party and documenting when items are completed and by whom. A member of the Organization’s senior leadership team should be assigned to monitor completion of the closing checklist by the financial consultant. This will assist both management and the financial consultant in understanding their respective responsibilities and will ensure the work is completed on a timely basis.

Management’s Response

The Organization will hold the financial consultant accountable per a detailed monthly, quarterly, and semi-annual closing checklist prior to the financial close of the 2021-22 books. The Organization will identify a member of senior leadership to monitor completion of these additional closing procedures. Any misunderstandings of roles, responsibilities and accounting intricacies specific to Public Prep will continue to be addressed through bi-weekly meetings with the financial consultant and Public Prep's internal finance team.

* * * * *

This letter is solely for the use of Management, Finance Committee Members and the Board of Trustees of Public Prep Charter School Academies and is not intended to be and should not be used by anyone other than those specified parties.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Prep Charter School Academies’ internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.

We would like to express our appreciation for the courtesies extended to us by management and their staff. The Organization’s personnel were cooperative, courteous and forthcoming in answering all of our questions throughout our audit. It is a privilege to serve the Organization. Should you have any questions or comments, please contact Jackie Lee.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP