

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NEW YORK, NEW YORK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

OTHER CONSOLIDATED FINANCIAL INFORMATION

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017

(With Comparative Totals for 2016)



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 CONSOLIDATED FINANCIAL INFORMATION</u>	
Independent Auditor's Report on Other Financial Information	20
Consolidated Statement of Financial Position by Charter	21
Consolidated Statement of Activities and Changes in Net Assets by Charter	22
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</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 <i>Government Auditing Standards</i>	24

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, 2017 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the 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, 2017, and the changes in its net assets, functional expenses 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 17, 2017 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 other financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Public Prep Charter School Academies' financial statements as of and for the year ended June 30, 2016, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 17, 2017

PUBLIC PREP CHARTER SCHOOL ACADEMIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017
(With Comparative Totals for 2016)

<u>ASSETS</u>	June 30,	
	2017	2016
<u>CURRENT ASSETS</u>		
Cash	\$ 2,497,441	\$ 2,939,836
Cash in escrow	2,431,009	175,000
Grants and contracts receivable	1,840,416	1,298,888
Prepaid expenses and other current assets	469,936	446,812
Related party receivables, net	501,411	-
TOTAL CURRENT ASSETS	7,740,213	4,860,536
<u>OTHER ASSETS</u>		
Property and equipment, net	2,168,372	2,262,551
Security deposit	495,000	61,798
	2,663,372	2,324,349
TOTAL ASSETS	\$ 10,403,585	\$ 7,184,885
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 818,552	\$ 722,625
Accrued payroll and benefits	2,511,739	2,371,839
Related party payables, net	-	62,120
Deferred revenue	42,468	28,331
TOTAL CURRENT LIABILITIES	3,372,759	3,184,915
<u>NET ASSETS</u>		
Unrestricted	7,010,825	3,971,810
Temporarily restricted	20,001	28,160
TOTAL NET ASSETS	7,030,826	3,999,970
TOTAL LIABILITIES AND NET ASSETS	\$ 10,403,585	\$ 7,184,885

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, 2017
(With Comparative Totals for 2016)

	Year ended June 30,			2016
	2017			
	Unrestricted	Temporarily restricted	Total	Total
Revenue, gains and other support:				
Public school district:				
Resident student enrollment	\$ 23,390,368	\$ -	\$ 23,390,368	\$ 20,992,342
Students with disabilities	3,682,054	-	3,682,054	3,332,782
Grants and contracts:				
State and local	1,095,135	-	1,095,135	892,992
Federal - Title and IDEA	952,521	-	952,521	870,705
Federal - other	298,730	-	298,730	209,802
TOTAL REVENUE, GAINS AND OTHER SUPPORT	29,418,808	-	29,418,808	26,298,623
Expenses:				
Program services:				
Regular education	19,709,526	-	19,709,526	17,755,648
Special education	5,749,820	-	5,749,820	5,446,172
Pre-K	337,186	-	337,186	993,660
Total program services	25,796,532	-	25,796,532	24,195,480
Management and general	2,414,849	-	2,414,849	2,470,745
Fundraising and special events	26,736	-	26,736	24,167
TOTAL OPERATING EXPENSES	28,238,117	-	28,238,117	26,690,392
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	1,180,691	-	1,180,691	(391,769)
Support and other revenue:				
Contributions:				
Foundations	170,600	-	170,600	235,100
Individuals	1,841,201	1,000	1,842,201	83,229
Corporations	188,158	-	188,158	504,243
Fundraising	1,985	-	1,985	7,381
Interest income	42	-	42	472
Other income	50	-	50	6,982
Loss on abandonment of leasehold improvements	(352,871)	-	(352,871)	-
Net assets released from restriction	9,159	(9,159)	-	-
TOTAL SUPPORT AND OTHER REVENUE	1,858,324	(8,159)	1,850,165	837,407
CHANGE IN NET ASSETS	3,039,015	(8,159)	3,030,856	445,638
Net assets at beginning of year	3,971,810	28,160	3,999,970	3,025,136
Transfer of net assets of PrePrep	-	-	-	529,196
NET ASSETS AT END OF YEAR	<u>\$ 7,010,825</u>	<u>\$ 20,001</u>	<u>\$ 7,030,826</u>	<u>\$ 3,999,970</u>

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, 2017
(With Comparative Totals for 2016)

	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,	
									2017	2016
Personnel services costs:										
Administrative staff personnel	57	\$ 2,036,098	\$ 407,294	\$ 4,134	\$ 2,447,526	\$ 1,364,566	\$ -	\$ 1,364,566	\$ 3,812,092	\$ 3,687,959
Instructional personnel	252	9,584,765	3,248,659	231,268	13,064,692	-	-	-	13,064,692	12,470,184
Non-instructional personnel	6	33,394	7,542	-	40,936	-	-	-	40,936	129,455
Total personnel services costs	315	11,654,257	3,663,495	235,402	15,553,154	1,364,566	-	1,364,566	16,917,720	16,287,598
Fringe benefits and payroll taxes		2,524,945	793,505	84,955	3,403,405	287,191	-	287,191	3,690,596	3,596,501
Retirement		260,130	80,439	7,535	348,104	29,461	-	29,461	377,565	414,619
Management company fees		1,969,278	410,222	-	2,379,500	267,360	26,736	294,096	2,673,596	2,416,638
Accounting and auditing services		-	-	-	-	44,510	-	44,510	44,510	47,574
Other professional and consulting services		339,116	57,457	(1,867)	394,706	251,784	-	251,784	646,490	541,475
Rent		-	-	-	-	-	-	-	-	100,624
Repairs and maintenance		17,418	5,222	-	22,640	3,376	-	3,376	26,016	44,323
Insurance		88,046	27,744	3,054	118,844	10,023	-	10,023	128,867	134,605
Utilities		174,075	55,670	-	229,745	20,362	-	20,362	250,107	270,470
Supplies and materials		724,818	160,997	3,567	889,382	-	-	-	889,382	744,945
Equipment and furnishings		43,626	10,598	-	54,224	1,908	-	1,908	56,132	31,283
Staff development		629,035	130,836	362	760,233	1,160	-	1,160	761,393	332,693
Marketing and recruiting		18,567	4,827	182	23,576	1,191	-	1,191	24,767	44,054
Technology		20,565	5,030	1,555	27,150	118	-	118	27,268	64,844
Food service		64,695	13,774	119	78,588	-	-	-	78,588	119,423
Student services		468,979	108,207	905	578,091	9,812	-	9,812	587,903	513,832
Office expense		224,541	71,937	1,417	297,895	30,563	-	30,563	328,458	268,447
Depreciation and amortization		487,435	149,860	-	637,295	91,464	-	91,464	728,759	716,444
		<u>\$ 19,709,526</u>	<u>\$ 5,749,820</u>	<u>\$ 337,186</u>	<u>\$ 25,796,532</u>	<u>\$ 2,414,849</u>	<u>\$ 26,736</u>	<u>\$ 2,441,585</u>	<u>\$ 28,238,117</u>	<u>\$ 26,690,392</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, 2017
(With Comparative Totals for 2016)

	<u>Year ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 3,030,856	\$ 445,638
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	728,759	716,444
Loss (gain) on property and equipment	352,871	(230)
Changes in certain assets and liabilities affecting operations:		
Grants and other contracts receivable	(541,528)	(611,950)
Prepaid expenses and other current assets	(23,124)	147,364
Related party receivables and payables	(563,531)	10,180
Accounts payable and accrued expenses	95,927	330,981
Accrued payroll and benefits	139,900	558,363
Deferred revenue	14,137	(12,187)
Deferred lease liability	-	(34,235)
	<hr/>	<hr/>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	3,234,267	1,550,368
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(987,451)	(703,674)
Changes in cash in escrow	(2,256,009)	-
Security deposit	(433,202)	-
Proceeds from sale of equipment	-	4,590
Transfer of Pre-K cash from Public Preparatory Network, Inc.	-	62,230
	<hr/>	<hr/>
NET CASH USED FOR INVESTING ACTIVITIES	(3,676,662)	(636,854)
NET (DECREASE) INCREASE IN CASH	(442,395)	913,514
Cash at beginning of year	<hr/> 2,939,836	<hr/> 2,026,322
CASH AT END OF YEAR	<hr/> <u>\$ 2,497,441</u>	<hr/> <u>\$ 2,939,836</u>

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	<u>Year ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
<u>SUPPLEMENTAL INFORMATION</u>		
Non-cash transaction:		
Transfer of assets and liabilities of Pre-K from Public Preparatory Network, Inc.:		
Accounts receivable	\$ -	\$ 217,947
Prepaid expenses and other current assets	-	20,548
Security deposit	-	61,798
Property and equipment	-	451,700
Accounts payable and accrued expenses	-	(26,839)
Accrued payroll	-	(61,131)
Related party payable	-	(162,822)
Deferred lease liability	-	(34,235)
Net Assets	-	(529,196)
Cash received	<u>\$ -</u>	<u>\$ (62,230)</u>

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative Totals for 2016)

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”), PrePrep: the Joan Ganz Cooney Early Learning Program (“PrePrep”), 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”). Friends had minimal activity for the years ended June 30, 2017 and 2016, which is included with Girls Prep LES. The Organization is presenting consolidated financial statements because they have a common Board of Trustees and economic interest. 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. 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.

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, 2020.

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, 2019.

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. In March 2017, Girls Prep Bronx obtained a renewal through July 31, 2022.

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.

PrePrep operates in the borough of Bronx, New York. During 2014, Public Preparatory Network, Inc. obtained approval from the New York City Department of Education to open a Pre-K program. The contract authorizes operation of a universal prekindergarten program for a term of three years through June 30, 2018 and is renewable for two years upon expiration. The contract was transferred to Public Prep Charter School Academies beginning with the 2015-2016 school year and related assets, liabilities, and net assets of the Pre-K program were transferred to the Organization at that time.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets at June 30, 2017 or 2016.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. As of June 30, 2017, the Organization had temporarily restricted net assets of \$20,001 which were restricted to use for eyeglasses, literacy programs, field trips, and counseling. As of June 30, 2016, the Organization had temporarily restricted net assets of \$28,160 which were restricted to use for eyeglasses, professional development, literacy programs, field trips, and technology items.

Unrestricted – 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 unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Organization's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Organization when qualifying expenditures are incurred and billable.

Contributions are recognized as revenue in the period the pledge is received and documented.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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

Contributions

Contributions and unconditional promises to give are recorded as unrestricted, temporarily or permanently restricted support 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 unrestricted revenue.

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

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, 2017 and 2016 was \$175,009 and \$175,000, respectively. The escrow is restricted to fund legal and other costs related to the dissolution of the Organization. In addition, Boys Prep had a balance of \$2,256,000 in escrow as of June 30, 2017 related to the construction of a facility, see Note C.

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, 2017 or 2016.

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 ten years. Leasehold improvements are amortized over the lesser of the lease term or useful life.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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

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.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS. Management of the Charter School 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. These services are not valued in the financial statements.

Marketing and recruiting costs

The Organization expenses marketing and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$24,800 and \$44,100 for the years ended June 30, 2017 and 2016, respectively.

Deferred revenue

The Organization records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

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.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 17, 2017, which is the date the financial statements are available to be issued. Except as described in Note B, no subsequent events requiring disclosure were noted.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE B: RELATED PARTY TRANSACTIONS

The Organization has related party receivables from and payables to one related organization, Public Preparatory Network, Inc. Public Preparatory Network, Inc., a not-for-profit organization, provides management and other administrative support services to the Organization. The Organization entered into an agreement with Public Preparatory Network, Inc., dated September 30, 2014, under which the Organization pays an annual service fee of 12% of the year end student enrollment full time equivalents multiplied by the approved per pupil operating expenses for the school year. The term of the agreement is concurrent with the initial charter term and can be extended for subsequent three year periods if desired. The fee incurred for the years ended June 30, 2017 and 2016 was \$2,673,596 and \$2,416,638, respectively. During October 2017, the board approved an increase in the annual service fee. For the year ended June 30, 2018 and forward the fee was increased from 12% to 15%, plus a separate flat fee of \$50,000 of special education funding was added.

Amounts due (to) from these related parties as of June 30, 2017 were as follows:

	<u>Girls Preparatory Charter School of New York</u>	<u>Boys Preparatory Charter School of New York</u>	<u>Girls Preparatory Charter School of the Bronx</u>	<u>PrePrep: the Joan Ganz Cooney Early Learning Program</u>	<u>Eliminations</u>	<u>Total</u>
Due from (to) Public Preparatory Network, Inc.	\$ (18,004)	\$ 650,870	\$ (28,484)	\$ (102,971)	\$ -	\$ 501,411
Due from (to) Girls Preparatory Charter School of New York	-	(675,386)	(43,855)	47,875	671,366	-
Due from (to) Boys Preparatory Charter School of New York	675,386	-	627,730	-	(1,303,116)	-
Due from (to) Girls Preparatory Charter School of the Bronx	43,855	(627,730)	-	(240,890)	824,765	-
Due from (to) PrePrep: the Joan Ganz Cooney Early Learning Program	(47,875)	-	240,890	-	(193,015)	-
	<u>\$ 653,362</u>	<u>\$ (652,246)</u>	<u>\$ 796,281</u>	<u>\$ (295,986)</u>	<u>\$ -</u>	<u>\$ 501,411</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

Amounts due (to) from these related parties as of June 30, 2016 were as follows:

	<u>Girls Preparatory Charter School of New York</u>	<u>Boys Preparatory Charter School of New York</u>	<u>Girls Preparatory Charter School of the Bronx</u>	<u>PrePrep: the Joan Ganz Cooney Early Learning Program</u>	<u>Eliminations</u>	<u>Total</u>
Due from (to) Public Preparatory Network, Inc.	\$ 17,121	\$ 85,403	\$ (4,830)	\$ (159,814)	\$ -	\$ (62,120)
Due from (to) Girls Preparatory Charter School of New York	-	(29,278)	(95,605)	21,686	103,197	-
Due from (to) Boys Preparatory Charter School of New York	29,278	-	-	-	(29,278)	-
Due from (to) Girls Preparatory Charter School of the Bronx	95,605	-	-	-	(95,605)	-
Due from (to) PrePrep: the Joan Ganz Cooney Early Learning Program	<u>(21,686)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,686</u>	<u>-</u>
	<u>\$ 120,318</u>	<u>\$ 56,125</u>	<u>\$ (100,435)</u>	<u>\$ (138,128)</u>	<u>\$ -</u>	<u>\$ (62,120)</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE C: 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 July 2014, Public Preparatory Network, Inc. entered into a lease agreement for space to operate the Pre-K program with monthly payments of approximately \$10,938 beginning in November 2014 and increasing to \$12,310 per month over the term of the lease. Effective July 1, 2015, Pre-K was transferred to Public Prep Charter School Academies and rent expense of \$134,859 was recorded for the year ended June 30, 2016. Effective July 1, 2016, the Pre-K program was relocated to share NYCDOE space with Girls Prep Bronx, therefore no rent expense was recorded in fiscal 2017. Public Preparatory Network, Inc. relocated to the former Pre-K space and began making monthly payments in accordance with the lease agreement. A security deposit was paid by the Pre-K program, which was transferred to Public Preparatory Network, Inc. during fiscal 2017.

In December 2016 Friends entered into a lease agreement with a third party for school facility space for use by Boys Prep. The Organization intends to execute a sublease between Friends and Public Prep Charter School Academies for the school facility space. The lease required a security deposit of \$495,000 which was paid in fiscal 2017. The lease term is 35 years, set to commence upon occupancy in August 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 changes in the Consumer Price Index above a base year or a fixed percentage of 1.5%. The landlord is in the process of making improvements to the space, including construction of additional space, the cost of which is to be shared between the landlord and Friends. This amount (anticipated at \$3,000,000) is expected to be repaid to the landlord through a ten year loan with a fixed interest rate of 5%, with payment commencing upon the date the space is ready for occupancy. The anticipated loan payments are included in the future minimum payments as shown below. 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, 2017 Boys Prep incurred \$349,743 for architect fees which is included in construction in progress in the accompanying statement of financial position.

Future minimum payments under this lease are estimated to be approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ -
2019	2,225,700
2020	3,390,200
2021	3,524,100
2022	3,575,600
Thereafter	<u>132,651,600</u>
	<u>\$ 145,367,200</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 1,068,238	\$ 958,719
Computer equipment	1,646,506	1,321,707
Office equipment	1,294,694	1,233,692
Web development	5,250	5,250
Leasehold improvements	1,302,378	1,597,499
Construction in progress	349,743	-
	<u>5,666,809</u>	<u>5,116,867</u>
Less accumulated depreciation and amortization	3,498,437	2,854,316
	<u>\$ 2,168,372</u>	<u>\$ 2,262,551</u>

At June 30, 2017, \$349,743 is included in construction in progress related to construction of the new Boys Prep facility, see Note C. Construction is expected to be completed prior to commencement of the 2018-19 school year. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

NOTE E: OPERATING LEASES

The Organization leases office equipment under non-cancelable lease agreements expiring at various dates through August 2021. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 76,742
2019	63,023
2020	30,396
2021	11,508
2022	409
	<u>\$ 182,078</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE F: 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, 2017 and 2016 was \$377,565 and \$414,619, respectively.

NOTE G: 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 H: CONCENTRATIONS

At June 30, 2017 and 2016, approximately 70% and 71%, respectively of grants and contracts receivables are due from New York State relating to certain grants. At June 30, 2017 and 2016, approximately 26% and 17%, respectively, of grants and contracts receivables are due from New York City relating to certain grants.

During both the years ended June 30, 2017, and 2016, 92% 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 are located.

PUBLIC PREP CHARTER SCHOOL ACADEMIES
OTHER CONSOLIDATED FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER CONSOLIDATED 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, 2017, and have issued our report thereon dated October 17, 2017, 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 Consolidated Statement of Financial Position by Charter and the Consolidated Statement of Activities and Changes in Net Assets by Charter are 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, 2017, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 17, 2017

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2017

<u>ASSETS</u>	<u>Girls Preparatory Charter School of New York</u>	<u>Boys Preparatory Charter School of New York</u>	<u>Girls Preparatory Charter School of the Bronx</u>	<u>PrePrep: the Joan Ganz Cooney Early Learning Program</u>	<u>Eliminations</u>	<u>Total</u>
<u>CURRENT ASSETS</u>						
Cash	\$ 1,013,635	\$ 128,466	\$ 1,084,623	\$ 270,717	\$ -	\$ 2,497,441
Cash in escrow	75,004	2,281,001	75,004	-	-	2,431,009
Grants and contracts receivable	581,879	249,940	989,992	18,605	-	1,840,416
Prepaid expenses and other current assets	203,110	52,236	206,633	7,957	-	469,936
Related party receivables (payables)	653,362	(652,246)	796,281	(295,986)	-	501,411
TOTAL CURRENT ASSETS	<u>2,526,990</u>	<u>2,059,397</u>	<u>3,152,533</u>	<u>1,293</u>	<u>-</u>	<u>7,740,213</u>
<u>OTHER ASSETS</u>						
Property and equipment, net	374,240	744,851	1,022,061	27,220	-	2,168,372
Security deposit	-	495,000	-	-	-	495,000
	<u>374,240</u>	<u>1,239,851</u>	<u>1,022,061</u>	<u>27,220</u>	<u>-</u>	<u>2,663,372</u>
TOTAL ASSETS	<u>\$ 2,901,230</u>	<u>\$ 3,299,248</u>	<u>\$ 4,174,594</u>	<u>\$ 28,513</u>	<u>\$ -</u>	<u>\$ 10,403,585</u>
<u>LIABILITIES AND NET ASSETS</u>						
<u>CURRENT LIABILITIES</u>						
Accounts payable and accrued expenses	\$ 273,012	\$ 151,954	\$ 381,883	\$ 11,703	\$ -	\$ 818,552
Accrued payroll and benefits	1,005,172	415,704	1,051,124	39,739	-	2,511,739
Deferred revenue	10,438	32,030	-	-	-	42,468
TOTAL CURRENT LIABILITIES	<u>1,288,622</u>	<u>599,688</u>	<u>1,433,007</u>	<u>51,442</u>	<u>-</u>	<u>3,372,759</u>
<u>NET ASSETS</u>						
Unrestricted	1,592,607	2,699,560	2,741,587	(22,929)	-	7,010,825
Temporarily restricted	20,001	-	-	-	-	20,001
TOTAL NET ASSETS	<u>1,612,608</u>	<u>2,699,560</u>	<u>2,741,587</u>	<u>(22,929)</u>	<u>-</u>	<u>7,030,826</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,901,230</u>	<u>\$ 3,299,248</u>	<u>\$ 4,174,594</u>	<u>\$ 28,513</u>	<u>\$ -</u>	<u>\$ 10,403,585</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2017

	<u>Girls Preparatory Charter School of New York</u>	<u>Boys Preparatory Charter School of New York</u>	<u>Girls Preparatory Charter School of the Bronx</u>	<u>PrePrep: the Joan Ganz Cooney Early Learning Program</u>	<u>Eliminations</u>	<u>Total</u>
Revenue, gains and other support:						
Public school district:						
Resident student enrollment	\$ 8,893,732	\$ 3,550,551	\$ 10,575,986	\$ 370,099	\$ -	\$ 23,390,368
Students with disabilities	1,602,539	574,852	1,504,663	-	-	3,682,054
Grants and contracts:						
State and local	391,483	23,127	680,525	-	-	1,095,135
Federal - Title and IDEA	313,828	166,079	472,614	-	-	952,521
Federal - other	<u>107,913</u>	<u>66,149</u>	<u>124,668</u>	<u>-</u>	<u>-</u>	<u>298,730</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	11,309,495	4,380,758	13,358,456	370,099	-	29,418,808
Expenses:						
Program services:						
Regular education	7,446,741	2,998,326	9,264,459	-	-	19,709,526
Special education	2,229,663	1,119,600	2,400,557	-	-	5,749,820
Pre-K	<u>-</u>	<u>-</u>	<u>-</u>	<u>337,186</u>	<u>-</u>	<u>337,186</u>
Total Program Services	9,676,404	4,117,926	11,665,016	337,186	-	25,796,532
Management and general	939,957	388,817	1,020,566	65,509	-	2,414,849
Fundraising and special events	<u>10,351</u>	<u>4,086</u>	<u>12,299</u>	<u>-</u>	<u>-</u>	<u>26,736</u>
TOTAL OPERATING EXPENSES	<u>10,626,712</u>	<u>4,510,829</u>	<u>12,697,881</u>	<u>402,695</u>	<u>-</u>	<u>28,238,117</u>
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	682,783	(130,071)	660,575	(32,596)	-	1,180,691
Support and other revenue:						
Contributions:						
Foundations	-	170,000	600	-	-	170,600
Individuals	15,979	1,825,222	1,000	-	-	1,842,201
Corporations	1,000	187,158	-	-	-	188,158
Fundraising	-	1,985	-	-	-	1,985
Interest income	37	1	4	-	-	42
Other income (loss)	50	2,508	-	(2,508)	-	50
Loss on abandonment of leasehold improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>(352,871)</u>	<u>-</u>	<u>(352,871)</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>17,066</u>	<u>2,186,874</u>	<u>1,604</u>	<u>(355,379)</u>	<u>-</u>	<u>1,850,165</u>
CHANGE IN NET ASSETS	699,849	2,056,803	662,179	(387,975)	-	3,030,856
Net assets at beginning of year	<u>912,759</u>	<u>642,757</u>	<u>2,079,408</u>	<u>365,046</u>	<u>-</u>	<u>3,999,970</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,612,608</u>	<u>\$ 2,699,560</u>	<u>\$ 2,741,587</u>	<u>\$ (22,929)</u>	<u>\$ -</u>	<u>\$ 7,030,826</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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 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 consolidated financial statements of Public Prep Charter School Academies, which comprise the consolidated statement of financial position as of June 30, 2017, 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 17, 2017.

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) to determine the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 17, 2017