

**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, 2016**

**(With Comparative Totals for 2015)**



**MENGEL METZGER BARR & CO. LLP**

Certified Public Accountants

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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, 2016 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, 2016, 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 24, 2016 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 June 30, 2015 and for the period October 1, 2014 to June 30, 2015, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the period ended June 30, 2015 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 24, 2016

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016  
(With Comparative Totals for 2015)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 3,114,836	\$ 2,201,322
Grants and other receivables	1,298,888	468,991
Prepaid expenses and other current assets	446,812	573,628
Related party receivables	-	110,882
TOTAL CURRENT ASSETS	<u>4,860,536</u>	<u>3,354,823</u>
<u>OTHER ASSETS</u>		
Property and equipment, net	2,262,551	1,827,981
Security deposit	61,798	-
	<u>2,324,349</u>	<u>1,827,981</u>
TOTAL ASSETS	<u>\$ 7,184,885</u>	<u>\$ 5,182,804</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 722,625	\$ 364,805
Accrued payroll and benefits	2,371,839	1,752,345
Related party payables	62,120	-
Deferred revenue	28,331	40,518
TOTAL CURRENT LIABILITIES	<u>3,184,915</u>	<u>2,157,668</u>
<u>NET ASSETS</u>		
Unrestricted	3,971,810	2,990,136
Temporarily restricted	28,160	35,000
TOTAL NET ASSETS	<u>3,999,970</u>	<u>3,025,136</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,184,885</u>	<u>\$ 5,182,804</u>

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, 2016  
(With Comparative Totals for 2015)

	Year ended June 30, 2016			Period from
	Unrestricted	Temporarily restricted	Total	October 1, 2014 to June 30, 2015
Revenue, gains and other support:				
Public school district:				
Resident student enrollment	\$ 20,992,342	\$ -	\$ 20,992,342	\$ 12,883,205
Students with disabilities	3,332,782	-	3,332,782	1,868,172
Grants and contracts:				
State and local	892,992	-	892,992	509,225
Federal - Title and IDEA	870,705	-	870,705	649,951
Federal - other	209,802	-	209,802	25,413
TOTAL REVENUE, GAINS AND OTHER SUPPORT	26,298,623	-	26,298,623	15,935,966
Expenses:				
Program services:				
Regular education	17,755,648	-	17,755,648	12,683,305
Special education	5,446,172	-	5,446,172	4,017,310
Pre-K	993,660	-	993,660	-
Total program services	24,195,480	-	24,195,480	16,700,615
Management and general	2,470,745	-	2,470,745	1,471,840
Fundraising and special events	24,167	-	24,167	15,447
TOTAL OPERATING EXPENSES	26,690,392	-	26,690,392	18,187,902
DEFICIT FROM SCHOOL OPERATIONS	(391,769)	-	(391,769)	(2,251,936)
Support and other revenue:				
Contributions:				
Foundations	232,600	2,500	235,100	359,896
Individuals	78,229	5,000	83,229	266,341
Corporations	484,243	20,000	504,243	79,350
Fundraising	7,381	-	7,381	18,692
Interest income	472	-	472	143
Other income	6,982	-	6,982	3,010
Net assets released from restriction	34,340	(34,340)	-	-
TOTAL SUPPORT AND OTHER REVENUE	844,247	(6,840)	837,407	727,432
CHANGE IN NET ASSETS	452,478	(6,840)	445,638	(1,524,504)
Net assets at beginning of year	2,990,136	35,000	3,025,136	1,763,604
Transfer of net assets from merger of:				
Boys Preparatory Charter School of New York	-	-	-	596,693
Girls Preparatory Charter School of the Bronx	-	-	-	2,189,343
Transfer of net assets of PrePrep	529,196	-	529,196	-
NET ASSETS AT END OF YEAR	\$ 3,971,810	\$ 28,160	\$ 3,999,970	\$ 3,025,136

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, 2016  
(With Comparative Totals for 2015)

	No. of Positions	Program Services				Supporting Services			Year ended	Period from
		Regular Education	Special Education	Pre-K	Sub-total	Management and general	Fundraising and special events	Sub-total	June 30, 2016 Total	October 1, 2014 to June 30, 2015 Total
Personnel services costs:										
Administrative staff personnel	28	\$ 533,221	\$ 76,174	\$ 117,796	\$ 727,191	\$ 1,360,315	\$ -	\$ 1,360,315	\$ 2,087,506	\$ 1,301,525
Instructional personnel	201	8,451,414	3,156,955	315,986	11,924,355	-	-	-	11,924,355	8,656,956
Non-instructional personnel	39	1,803,724	364,448	94,225	2,262,397	13,340	-	13,340	2,275,737	1,400,065
Total personnel services costs	268	10,788,359	3,597,577	528,007	14,913,943	1,373,655	-	1,373,655	16,287,598	11,358,546
Fringe benefits and payroll taxes		2,360,756	787,311	144,896	3,292,963	303,538	-	303,538	3,596,501	2,476,804
Retirement		278,938	93,259	7,804	380,001	34,618	-	34,618	414,619	295,969
Management company fees		1,793,000	357,807	-	2,150,807	241,664	24,167	265,831	2,416,638	1,544,678
Accounting and auditing services		-	-	-	-	47,574	-	47,574	47,574	51,613
Other professional and consulting services		186,622	32,403	-	219,025	322,450	-	322,450	541,475	386,742
Rent		-	-	91,369	91,369	9,255	-	9,255	100,624	-
Utilities		-	-	15,903	15,903	1,611	-	1,611	17,514	-
Repairs and maintenance		4,479	1,546	34,256	40,281	4,042	-	4,042	44,323	7,706
Insurance		89,516	29,975	3,738	123,229	11,376	-	11,376	134,605	97,397
Supplies and materials		597,587	134,289	13,069	744,945	-	-	-	744,945	408,050
Equipment and furnishings		23,185	5,914	967	30,066	1,217	-	1,217	31,283	24,416
Staff development		266,367	54,105	11,691	332,163	530	-	530	332,693	248,628
Marketing and recruiting		32,209	9,006	376	41,591	2,463	-	2,463	44,054	18,704
Technology		50,081	11,838	1,552	63,471	1,373	-	1,373	64,844	25,133
Food service		57,924	11,562	49,937	119,423	-	-	-	119,423	53,019
Student services		431,791	54,559	7,118	493,468	8,142	-	8,142	501,610	379,846
Student transportation		3,613	787	-	4,400	-	-	-	4,400	2,000
Office expense		87,218	29,196	17,731	134,145	14,740	-	14,740	148,885	76,109
Telephone and internet		170,502	56,760	4,311	231,573	21,383	-	21,383	252,956	176,168
Copier lease		83,471	28,368	4,694	116,533	10,851	-	10,851	127,384	102,888
Depreciation and amortization		450,030	149,910	56,241	656,181	60,263	-	60,263	716,444	453,486
		<u>\$ 17,755,648</u>	<u>\$ 5,446,172</u>	<u>\$ 993,660</u>	<u>\$ 24,195,480</u>	<u>\$ 2,470,745</u>	<u>\$ 24,167</u>	<u>\$ 2,494,912</u>	<u>\$ 26,690,392</u>	<u>\$ 18,187,902</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, 2016  
(With Comparative Totals for 2015)

	Year ended June 30, 2016	Period from October 1, 2014 to June 30, 2015
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 445,638	\$ (1,524,504)
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation and amortization	716,444	453,486
Gain on sale of equipment	(230)	-
Donation of fixed assets	-	(9,763)
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(611,950)	72,533
Prepaid expenses and other current assets	147,364	(110,043)
Related party receivables and payables	10,180	(80,213)
Accounts payable and accrued expenses	330,981	(557,281)
Accrued payroll and benefits	558,363	1,509,022
Deferred revenue	(12,187)	(1,790,664)
Deferred lease liability	(34,235)	-
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	1,550,368	(2,037,427)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(703,674)	(319,681)
Proceeds from sale of equipment	4,590	-
Transfer of Pre-K cash from Public Preparatory Network, Inc.	62,230	-
NET CASH USED FOR INVESTING ACTIVITIES	(636,854)	(319,681)
NET INCREASE (DECREASE) IN CASH	913,514	(2,357,108)
Cash at beginning of year	2,201,322	4,558,430
CASH AT END OF YEAR	<u>\$ 3,114,836</u>	<u>\$ 2,201,322</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, 2016  
(With Comparative Totals for 2015)

	Year ended June 30, 2016	Period from October 1, 2014 to June 30, 2015
<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	<u>(529,196)</u>	<u>-</u>
Cash received	<u>\$ (62,230)</u>	<u>\$ -</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, 2016

(With Comparative Totals for 2015)

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 no activity for the year ended June 30, 2016 or the period from October 1, 2014 to June 30, 2015. 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.

In April 2014, each of the individual Charter School’s Boards of Trustees unanimously approved the merger of Boys Preparatory Charter School of New York, Girls Preparatory Charter School of New York and Girls Preparatory Charter School of the Bronx. On June 4, 2014, the SUNY Board of Trustees approved the merger. The merger was approved by the New York State Education Department on September 29, 2014. Effective October 1, 2014, Boys Prep and Girls Prep Bronx merged into Girls Prep LES. Girls Prep LES then changed its name to Public Prep Charter School Academies. Effective July 1, 2015 PrePrep was transferred to Public Prep Charter School Academies.

The Organization

Public Prep Charter School Academies is an education corporation that has authority to operate the Charter Schools as described below. Although Public Prep Charter School Academies operates the charter schools subsequent to the merger, each school remains separately chartered. 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. In connection with the merger as described above, the charter’s expiration date was extended to 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. Girls Prep Bronx obtained a renewal through July 31, 2017.

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.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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

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 for the 2015-2016 school year and related assets, liabilities, and net assets of the Pre-K program were transferred to the Organization.

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, 2016 or 2015.

*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, 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. As of June 30, 2015, the Organization had temporarily restricted net assets of \$35,000 which were restricted to use for 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, 2016

(With Comparative Totals for 2015)

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.

Grants and other receivables

Grants and other receivables 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, 2016 or 2015.

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.

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.

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.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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

Marketing and recruiting costs

The Organization expenses marketing and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$44,100 and \$18,700 for the year ended June 30, 2016 and for the period from October 1, 2014 to June 30, 2015, 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 24, 2016, which is the date the financial statements are available to be issued. Except as described in Note C, no subsequent events requiring disclosure were noted.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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 year ended June 30, 2016, was \$2,416,638. The fee incurred for the period from October 1, 2014 to June 30, 2015 was \$1,544,678.

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	(21,686)	-	-	-	21,686	-
	<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, 2016

(With Comparative Totals for 2015)

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

Amounts due (to) from these related parties as of June 30, 2015 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>Eliminations</u>	<u>Total</u>
Due from (to) Public Preparatory Network, Inc.	\$ 36,573	\$ 75,308	\$ (999)	\$ -	\$ 110,882
Due from (to) Girls Preparatory Charter School of New York	-	(33,471)	(125,155)	158,626	-
Due from (to) Boys Preparatory Charter School of New York	33,471	-	-	(33,471)	-
Due from (to) Girls Preparatory Charter School of the Bronx	<u>125,155</u>	<u>-</u>	<u>-</u>	<u>(125,155)</u>	<u>-</u>
	<u>\$ 195,199</u>	<u>\$ 41,837</u>	<u>\$ (126,154)</u>	<u>\$ -</u>	<u>\$ 110,882</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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. The agreement expires July 31, 2019 with the option to renew the agreement for an additional five years. A security deposit was paid by the Pre-K program, which represents five months of the fifth year's rent. Rent each year is based on a pre-determined schedule. Effective July 1, 2015, Pre-K was transferred to Public Prep Charter School Academies and rent expense of \$100,624 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. Public Preparatory Network, Inc. relocated to the former Pre-K space and began making monthly payments in accordance with the lease agreement.

On October 4, 2016 the Board of Trustees approved Friends to enter into a lease agreement with a third party for school facility space for use by Boys Prep. The lease has not yet been signed but is in the final stages of negotiation. This lease is expected to require a security deposit of \$495,000 to be paid in fiscal 2017. The anticipated lease term is 35 years, set to commence upon occupancy in August 2017, 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 \$194,100 for the first year, increasing annually based upon changes in the Consumer Price Index above a base year or a fixed percentage estimated at 1.5%. Monthly rental payments will also increase upon usage of the additional space, described as follows. The landlord anticipates making improvements to the space, including construction of additional space, the cost of which will be shared between the landlord and Friends, subject to a maximum contribution of \$3,000,000. This amount is expected to be paid to the landlord through a ten year loan with a fixed interest rate of 5%, with payment commencing upon the lease commencement date. The Organization intends to execute a sublease between Friends and Public Prep Charter School Academies for the school facility space.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 958,719	\$ 818,783
Equipment	625,928	562,800
Computer equipment	1,321,707	1,125,823
Office equipment	607,764	476,539
Web development	5,250	5,250
Leasehold improvements	<u>1,597,499</u>	<u>929,131</u>
	5,116,867	3,918,326
Less accumulated depreciation and amortization	<u>2,854,316</u>	<u>2,090,345</u>
	<u>\$ 2,262,551</u>	<u>\$ 1,827,981</u>

NOTE E: OPERATING LEASES

The Organization leases office equipment under non-cancelable lease agreements expiring at various dates through November 2020. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 77,994
2018	70,334
2019	58,739
2020	27,320
2021	<u>6,600</u>
	<u>\$ 240,987</u>

NOTE F: RETIREMENT PLAN

The Organization sponsors a defined contribution 403(b) plan covering all regular employees. Effective July 1, 2015, the Organization matches employees' contributions based on years of service, up to a maximum of 7.5% of base salary. For the year ended June 30, 2015, the Organization matched employees' contributions up to 5% of base salary. The Organization's total contribution to the Plan for the year ended June 30, 2016 and the period from October 1, 2014 to June 30, 2015 was \$414,619 and \$295,969, respectively.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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, 2016 and 2015, approximately 71% and 45%, respectively, of grants and other receivables are due from New York State relating to certain grants. At June 30, 2016 and 2015, approximately 17% and 51%, respectively, of grants and other receivables are due from New York City relating to certain grants.

During the year ended June 30, 2016, 92% of total operating revenue and support came from per-pupil funding provided by New York State. During the period from October 1, 2014 to June 30, 2015, 93% 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.

NOTE I: RENEWAL PROCESS

Girls Prep Bronx is currently in the process of renewing its charter as granted by the State University of New York. The Charter currently expires effective July 31, 2017. The renewal process includes review by SUNY of various operational and governance aspects, including fiscal health and internal controls, board governance, and academic performance. Girls Prep Bronx has submitted its application for renewal and will be undergoing a site visit by SUNY during November 2016 as part of the renewal process. Upon review of the application and results of the site visit, 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, however, SUNY's decision regarding renewal is not expected to be received until 2017.

**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, 2016, and have issued our report thereon dated October 24, 2016, 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, 2016, as a whole.

*Mengel, Metzger, Barr & Co. LLP*

Rochester, New York  
October 24, 2016

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2016

<u>ASSETS</u>	Girls Preparatory Charter School of New York	Boys Preparatory Charter School of New York	Girls Preparatory Charter School of the Bronx	PrePrep: the Joan Ganz Cooney Early Learning Program	Eliminations	<u>Total</u>
<u>CURRENT ASSETS</u>						
Cash	\$ 1,031,919	\$ 500,679	\$ 1,463,832	\$ 118,406	\$ -	\$ 3,114,836
Grants and other receivables	379,057	178,263	712,993	28,575	-	1,298,888
Prepaid expenses and other current assets	<u>105,419</u>	<u>41,402</u>	<u>294,342</u>	<u>5,649</u>	-	<u>446,812</u>
TOTAL CURRENT ASSETS	1,516,395	720,344	2,471,167	152,630	-	4,860,536
<u>OTHER ASSETS</u>						
Property and equipment, net	430,667	368,150	1,063,432	400,302	-	2,262,551
Security deposit	-	-	-	61,798	-	61,798
	<u>430,667</u>	<u>368,150</u>	<u>1,063,432</u>	<u>462,100</u>	-	<u>2,324,349</u>
TOTAL ASSETS	<u>\$ 1,947,062</u>	<u>\$ 1,088,494</u>	<u>\$ 3,534,599</u>	<u>\$ 614,730</u>	<u>\$ -</u>	<u>\$ 7,184,885</u>
<u>LIABILITIES AND NET ASSETS</u>						
<u>CURRENT LIABILITIES</u>						
Accounts payable and accrued expenses	\$ 221,113	\$ 96,173	\$ 360,497	\$ 44,842	\$ -	\$ 722,625
Accrued payroll and benefits	933,060	377,806	994,259	66,714	-	2,371,839
Related party payables (receivables)	(120,318)	(56,125)	100,435	138,128	-	62,120
Deferred revenue	<u>448</u>	<u>27,883</u>	<u>-</u>	<u>-</u>	-	<u>28,331</u>
TOTAL CURRENT LIABILITIES	1,034,303	445,737	1,455,191	249,684	-	3,184,915
<u>NET ASSETS</u>						
Unrestricted	886,154	642,757	2,079,408	363,491	-	3,971,810
Temporarily restricted	<u>26,605</u>	<u>-</u>	<u>-</u>	<u>1,555</u>	-	<u>28,160</u>
TOTAL NET ASSETS	<u>912,759</u>	<u>642,757</u>	<u>2,079,408</u>	<u>365,046</u>	-	<u>3,999,970</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,947,062</u>	<u>\$ 1,088,494</u>	<u>\$ 3,534,599</u>	<u>\$ 614,730</u>	<u>\$ -</u>	<u>\$ 7,184,885</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2016

	<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	\$ 8,377,862	\$ 2,901,770	\$ 9,192,704	\$ 520,006	\$ -	\$ 20,992,342
Students with disabilities	1,431,314	417,559	1,483,909	-	-	3,332,782
Grants and contracts:						
State and local	388,038	12,147	492,807	-	-	892,992
Federal - Title and IDEA	250,172	148,177	472,356	-	-	870,705
Federal - other	<u>85,597</u>	<u>39,540</u>	<u>84,012</u>	<u>653</u>	-	<u>209,802</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	<u>10,532,983</u>	<u>3,519,193</u>	<u>11,725,788</u>	<u>520,659</u>	-	<u>26,298,623</u>
Expenses:						
Program services:						
Regular education	7,191,735	2,650,446	7,913,467	-	-	17,755,648
Special education	2,274,584	787,004	2,384,584	-	-	5,446,172
Pre-K	-	-	-	<u>993,660</u>	-	<u>993,660</u>
Total Program Services	<u>9,466,319</u>	<u>3,437,450</u>	<u>10,298,051</u>	<u>993,660</u>	-	<u>24,195,480</u>
Management and general	991,220	367,219	992,567	119,739	-	2,470,745
Fundraising and special events	<u>9,898</u>	<u>3,430</u>	<u>10,839</u>	-	-	<u>24,167</u>
TOTAL OPERATING EXPENSES	<u>10,467,437</u>	<u>3,808,099</u>	<u>11,301,457</u>	<u>1,113,399</u>	-	<u>26,690,392</u>
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	65,546	(288,906)	424,331	(592,740)	-	(391,769)
Support and other revenue:						
Contributions:						
Foundations	100	192,500	40,000	2,500	-	235,100
Individuals	6,004	64,662	12,563	-	-	83,229
Corporations	21,062	58,181	-	425,000	-	504,243
Fundraising	1,154	6,227	-	-	-	7,381
Interest income	472	-	-	-	-	472
Other income	<u>5,011</u>	<u>881</u>	-	<u>1,090</u>	-	<u>6,982</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>33,803</u>	<u>322,451</u>	<u>52,563</u>	<u>428,590</u>	-	<u>837,407</u>
CHANGE IN NET ASSETS	99,349	33,545	476,894	(164,150)	-	445,638
Net assets at beginning of year	813,410	609,212	1,602,514	-	-	3,025,136
Transfer of net assets of PrePrep	-	-	-	<u>529,196</u>	-	<u>529,196</u>
NET ASSETS AT END 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>

**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, 2016, 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 24, 2016.

**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, Barw & Co. LLP*

Rochester, New York  
October 24, 2016

**PUBLIC PREP CHARTER SCHOOL ACADEMIES**

**ADVISORY COMMENT LETTER**

**JUNE 30, 2016**



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 24, 2016

To the Board of Trustees  
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, 2016, 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 our auditing procedures 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.

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 Organization’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

During the course of our audit of the consolidated financial statements of the Organization as of June 30, 2016 and for the year then ended, we observed the Organization’s significant accounting policies and procedures and certain business, financial and administrative practices. As a result of our observations, we suggest you consider the following comments which we do not consider to be significant deficiencies or material weaknesses:

### **Board Approval of Cash Disbursements**

During our audit, we noted the Organization’s Fiscal Policies and Procedures Manual (“FPPM”) states that any check in an amount of \$25,000 to \$50,000 requires one board member’s approval via email. Our testing found one instance at Girls Prep Bronx Middle School and one instance at Girls Prep Bronx Elementary School of a check over \$25,000 that did not have the required Board approval.

#### **Recommendation**

We recommend proper Board approval procedures are followed as documented in the FPPM.

### **Status of matters included in our letter as of June 30, 2015, dated October 27, 2015:**

#### **Credit Card Reconciliations**

During our audit, we selected two months of credit card reconciliations to test for each Charter School. As a result of our testing, we noted Girls Prep LES had two credit card purchases, totaling \$652, from the August 2014 statement, which totaled \$19,596, missing supporting receipts included in the reconciliation. We also noted three credit card purchases, totaling \$109, from the February 2015 statement, which totaled \$14,582, missing supporting receipts included in the reconciliation. We noted Girls Prep Bronx had five credit card purchases, totaling \$719, from the August 2014 statement, which totaled \$12,998, missing supporting receipts included in the reconciliation. We also noted nine credit card purchases, totaling \$1,690, from the February 2015 statement, which totaled \$23,486, missing supporting receipts included in the reconciliation. We noted no instances of missing receipts for Boys Prep during our testing.

#### **Recommendation**

We recommend the Charter Schools retain supporting documentation for all credit card purchases.

#### **Status as of June 30, 2016**

During our 2016 audit, we noted no instances of missing receipts at any of the Charter Schools.

#### **Check Signing**

During our audit, we noted the Organization’s Fiscal Policies and Procedures Manual (“FPPM”) states that individuals are not allowed to approve payments or execute checks to themselves. Our testing found that in one instance, a reimbursement check written to the Principal of Girls Prep Bronx Middle School was also signed by the same individual.

#### **Recommendation**

We recommend proper check signing procedures are followed as documented in the FPPM.

#### **Status as of June 30, 2016**

During our 2016 audit, we noted no instances of improper check signers at any of the Charter Schools.

### **Purchase Order and Packing Slip Approval**

The Charter Schools' Fiscal Policies and Procedures Manual (FPPM) requires purchase orders to be completed and approved in order to make a purchase. Additionally, the CEO or COO is to approve all purchase orders greater than \$5,000. During our audit, we noted all POs tested appeared properly completed and authorized for Girls Prep LES. We noted the Directors of Operations at Girls Prep Bronx Middle School and Boys Prep indicated purchase orders were completed at those schools only when required by the vendor. Additionally, the FPPM requires all shipments be reviewed and the packing slip marked indicating review and receipt and maintained in a file. We noted two instances in our Girls Prep Bronx testing where packing slips were kept but not signed as reviewed (Middle School), and other instances where no packing slips were retained (Elementary School). We noted all packing slips tested were properly signed and maintained by Girls Prep LES and Boys Prep.

#### **Recommendation**

We recommend the Charter Schools follow the procedures as documented in the FPPM as this provides an important control over Charter School funds and determining goods are appropriately received prior to payment.

#### **Status as of June 30, 2016**

During our 2016 audit, we noted all POs tested appeared properly completed and authorized for Girls Prep LES and Boys Prep. We noted the Directors of Operations at Girls Prep Bronx indicated purchase orders were completed only when required by the vendor. We also noted Pre-K did not complete purchase orders or retain packing slips. We noted all packing slips tested were properly maintained by Girls Prep LES, Girls Prep Bronx, and Boys Prep, although they were not always signed as received.

### **Payroll Approval Procedures**

We noted during the audit that the Organization's FPPM states that each period's payroll is to be approved by the Principal, school-based Director of Operations (DOO), Director of Human Resources, and Chief Operating Officer (COO). Our testing found that for all the Charter Schools the procedure being followed has positive approval via email from only the DOO and Director of HR or COO, and that Principal approval is assumed if no response to the email.

#### **Recommendation**

We recommend payroll approval be obtained via email response from all parties as outlined in the FPPM. If approval from all four individuals as described in the FPPM is no longer considered necessary, the language in the FPPM should be updated to reflect the procedure currently utilized.

#### **Status as of June 30, 2016**

During our 2016 audit, we noted the FPPM language was updated. Per the updated FPPM, approval is required from the Principal or the DOO, and the Director of Human Resources or the Chief Operating Officer. In our testing, we noted appropriate approvals were obtained.

**Check Log**

We noted during the audit, the Charter Schools’ FPPM states that an ongoing Excel file is to be maintained logging receipt of all checks. Our testing found no check log was used at Boys Prep or Girls Prep Bronx Middle School.

**Recommendation**

We recommend the Charter Schools implement procedures as outlined in the FPPM.

**Status as of June 30, 2016**

During our 2016 audit, we noted Boys Prep had implemented a check log during the year, while Girls Prep Bronx Middle still did not use a check log as described in the FPPM.

**Bids and quotes**

During our audit, we reviewed the Charter Schools’ Financial Policies and Procedures Manual (“FPPM”) to gain an understanding of the controls in place at the Charter School. The FPPM requires competitive bidding procedures for purchases exceeding \$25,000 in the aggregate. Certain exceptions from these procedures are allowed as documented in the FPPM. Our testing of certain invoices across all of the Charter Schools found that in all cases bids were not obtained as the purchase fell into one of the allowed exceptions. However, we noted no written evidence of the allowable exception is maintained with the purchase.

**Recommendation**

We recommend the Charter Schools retain documentation of the quotes received when competitive bidding is required. In situations where competitive bidding is not required, this fact, along with the appropriate reason for exception should be documented on the purchase order or purchase request form. We recommend Charter School management periodically review preferred vendors to ensure vendors are not used just because they have been used before. Management should be ensuring that the Charter Schools are obtaining the best price for quality goods and services. In addition, the fact that a vendor is a preferred vendor should be documented when bids or quotes are not obtained.

**Status as of June 30, 2016**

During our 2016 audit, we noted Boys Prep and Girls Prep Bronx Elementary obtained bids following FPPM procedures. PreK did not have any purchases that would have required bidding. Girls Prep Bronx Middle and Girls Prep LES all had purchases over the threshold that would require a bid, however they were with repeat vendors, which we noted no change in the documentation of appropriate reasons for exception to bidding process.

\* \* \* \* \*

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.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Organization's personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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 Michelle Cain or Jackie Lee.

Very truly yours,

*Mengel, Metzger, Barr & Co. LLP*

MENGEL, METZGER, BARR & CO. LLP

**PUBLIC PREP CHARTER SCHOOL ACADEMIES**

**REPORT TO THE BOARD OF TRUSTEES**

**JUNE 30, 2016**



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 24, 2016

The 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, 2016, and have issued our reports thereon dated October 24, 2016. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated May 25, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the consolidated financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Organization solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding control deficiencies and other matters noted during our audit in a separate letter to you dated October 24, 2016.

## **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate and our firm have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Organization is included in Note A to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the collectability of grants receivable, as well as the allocation of costs for the statement of functional expenses. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Organization's financial statements relate to revenue and support recognition, which is referred to in the notes of the financial statements.

## **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Organization's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings or Issues**

In the normal course of our professional association with the Organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Organization's auditors.

### **Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

\* \* \* \* \*

Should you desire further information concerning these matters, Michelle Cain or Jackie Lee will be happy to meet with you at your convenience.

This letter is solely for the internal use of the Board of Trustees and management of Public Prep Charter School Academies and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

*Mengel, Metzger, Barr & Co. LLP*

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