

**GIRLS PREPARATORY CHARTER SCHOOL
OF NEW YORK**

NEW YORK, NEW YORK

**AUDITED CONSOLIDATED FINANCIAL
STATEMENTS**

**OTHER CONSOLIDATING FINANCIAL
INFORMATION**

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

SEPTEMBER 30, 2014



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Girls Preparatory Charter School of New York

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Girls Preparatory Charter School of New York (the "Organization"), which comprise the consolidated statement of financial position as of September 30, 2014 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the period from July 1, 2014 to September 30, 2014, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Girls Preparatory Charter School of New York as of September 30, 2014, and the changes in its net assets, functional expenses and its cash flows for the period from July 1, 2014 to September 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015 on our consideration of Girls Preparatory Charter School of New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Girls Preparatory Charter School of New York's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 22, 2015

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2014

ASSETS

CURRENT ASSETS

Cash	\$ 2,173,748
Grants and other receivables	87,888
Prepaid expenses and other current assets	217,265
Related party receivables	<u>2,450</u>
TOTAL CURRENT ASSETS	2,481,351

PROPERTY AND EQUIPMENT, net 602,639

TOTAL ASSETS \$ 3,083,990

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 268,452
Accrued payroll and benefits	147,960
Deferred revenue	<u>903,974</u>
TOTAL CURRENT LIABILITIES	1,320,386

NET ASSETS, unrestricted 1,763,604

TOTAL LIABILITIES AND NET ASSETS \$ 3,083,990

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

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM JULY 1, 2014 TO SEPTEMBER 30, 2014

Operating revenue and support:		
State and local per pupil operating revenue		\$ 2,250,305
Federal grants		93,897
State and local grants		14,958
Contributions		325
Donated supplies and materials		-
Other income		6,077
Interest income		<u>223</u>
	TOTAL OPERATING REVENUE AND SUPPORT	2,365,785
Expenses:		
Program:		
Regular education		1,199,936
Special education		362,215
Management and general		214,071
Fundraising and special events		<u>2,332</u>
	TOTAL EXPENSES	<u>1,778,554</u>
	CHANGE IN NET ASSETS	587,231
Unrestricted net assets at beginning of period		<u>1,176,373</u>
	UNRESTRICTED NET ASSETS AT END OF PERIOD	<u>\$ 1,763,604</u>

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

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM JULY 1, 2014 TO SEPTEMBER 30, 2014

	Program Services			Supporting Services			Total
	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel services costs:							
Administrative staff personnel	\$ 47,634	\$ 6,805	\$ 54,439	\$ 113,047	\$ -	\$ 113,047	\$ 167,486
Instructional personnel	365,582	172,016	537,598	-	-	-	537,598
Non-instructional personnel	168,305	30,802	199,107	-	-	-	199,107
Total personnel services costs	581,521	209,623	791,144	113,047	-	113,047	904,191
Fringe benefits and payroll taxes	147,214	53,067	200,281	28,618	-	28,618	228,899
Retirement	16,468	5,937	22,405	3,202	-	3,202	25,607
Management company fees	174,724	32,417	207,141	23,321	2,332	25,653	232,794
Accounting and auditing services	-	-	-	5,452	-	5,452	5,452
Other professional and consulting services	-	-	-	26,865	-	26,865	26,865
Facility cost	3,553	1,346	4,899	484	-	484	5,383
Insurance	11,558	4,378	15,936	1,576	-	1,576	17,512
Classroom supplies and materials	121,810	13,076	134,886	-	-	-	134,886
Equipment and furnishings	8,203	2,131	10,334	410	-	410	10,744
Staff development	21,662	4,239	25,901	58	-	58	25,959
Marketing and recruiting	63	12	75	-	-	-	75
Technology	2,279	412	2,691	-	-	-	2,691
Food service	2,837	557	3,394	-	-	-	3,394
Student services	34,048	6,990	41,038	666	-	666	41,704
Office expense	10,343	3,919	14,262	1,691	-	1,691	15,953
Telephone and internet	10,682	4,046	14,728	1,457	-	1,457	16,185
Copier lease	16,386	6,207	22,593	2,235	-	2,235	24,828
Depreciation and amortization	36,585	13,858	50,443	4,989	-	4,989	55,432
	<u>\$ 1,199,936</u>	<u>\$ 362,215</u>	<u>\$ 1,562,151</u>	<u>\$ 214,071</u>	<u>\$ 2,332</u>	<u>\$ 216,403</u>	<u>\$ 1,778,554</u>

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

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

CONSOLIDATED STATEMENT OF CASH FLOWS

PERIOD FROM JULY 1, 2014 TO SEPTEMBER 30, 2014

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ 587,231
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation and amortization	55,432
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	(19,942)
Prepaid expenses and other current assets	(122,202)
Related party receivables	14,447
Accounts payable and accrued expenses	79,552
Accrued payroll and benefits	(567,242)
Deferred revenue	<u>891,277</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	918,553

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	<u>(171,955)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(171,955)</u>

NET INCREASE IN CASH 746,598

Cash at beginning of period	<u>1,427,150</u>
CASH AT END OF PERIOD	<u>\$ 2,173,748</u>

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

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements include the accounts of Girls Preparatory Charter School of New York (the “School”) and Friends of Girls Preparatory Charter School of New York, Inc. (“Friends”), (collectively referred to as the “Organization”). The Organizations are 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

The School is an educational corporation that operates as a charter school 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 the School a provisional charter valid for a term of five years and renewable upon expiration. The School obtained a renewal through July 31, 2015. As further described in Note I, upon approval of the merger of the School with Boys Preparatory Charter School of New York and Girls Preparatory Charter School of the Bronx, the School’s charter was renewed through June 30, 2020. The School was established to prepare underserved elementary and middle school students for higher education, civic involvement and lifelong success through a structured, caring environment of high academic expectations.

Friends was organized under the laws of the State of New York on September 30, 2003 as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation Law. Friends was established to create a plan for a charter school in New York City, drafting and revising an application for such a charter, fund-raising, searching for and developing a site, and hiring administrative and teaching personnel.

Financial Statement presentation

The consolidated 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 September 30, 2014.

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. The Organization had no temporarily restricted net assets at September 30, 2014.

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

SEPTEMBER 30, 2014

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

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 School'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 School when qualifying expenditures are incurred and billable.

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

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 September 30, 2014.

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 five years.

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

SEPTEMBER 30, 2014

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

Tax exempt status

The School and Friends are tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, are exempt from federal and state taxes on income.

The Organizations have filed for and received income tax exemptions in the various jurisdictions where they are required to do so. The School and Friends file Form 990 tax returns in the U.S. federal jurisdiction and Friends files in New York State. With few exceptions, as of September 30, 2014, the Organizations are no longer subject to U.S. federal or state income tax examinations by tax authorities for years ended before June 30, 2012. Years ended June 30, 2012 through June 30, 2014 are still subject to potential audit by the IRS and the taxing authorities in New York State. Management of the Organizations believe they have no material uncertain tax positions and, accordingly, will not recognize 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 Charter School received transportation services, special education services and speech therapy classes for the students from the local district. These services are not valued in the consolidated financial statements.

Marketing and recruiting costs

The Organization expenses marketing and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$100 for the period from July 1, 2014 to September 30, 2014.

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 consolidated financial statements

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 22, 2015, which is the date the consolidated financial statements are available to be issued. No subsequent events requiring disclosure were noted.

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

SEPTEMBER 30, 2014

NOTE B: RELATED PARTY TRANSACTIONS

The Organization has related party receivables from or payables to three related organizations, Girls Preparatory Charter School of the Bronx, Public Preparatory Network, Inc., and Boys Preparatory Charter School of New York. Public Preparatory Network, Inc. manages the operations of the Organization. Girls Preparatory Charter School of the Bronx has common Board members on its Board of Trustees. Boys Preparatory Charter School has common Board members on its Board of Trustees.

Public Preparatory Network, Inc., a not-for-profit organization, provides management and other administrative support services to the Organization. The Organization entered into an annual agreement with Public Preparatory Network, Inc., dated August 12, 2009, under which the Organization pays a service fee of a set percentage of the year end student enrollment full time equivalents at the school multiplied by the approved per pupil operating expenses for the school year. The percentage for the both the elementary school (grades K-4) and the middle school (grades 5 - 7) was 12% for the period from July 1, 2014 to September 30, 2014. The agreement is renewable annually. The fee incurred for the period from July 1, 2104 to September 30, 2014, was \$232,794.

Amounts due (to) from these related parties were as follows:

Due to Girls Preparatory Charter School of the Bronx	\$ (791)
Due from Public Preparatory Network, Inc.	2,226
Due from Boys Preparatory Charter School of New York	<u>1,015</u>
	<u>\$ 2,450</u>

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.

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

SEPTEMBER 30, 2014

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and fixtures	\$ 336,789
Equipment	460,436
Computer equipment	593,639
Web development	5,250
Leasehold improvements	<u>292,432</u>
	1,688,546
Less accumulated depreciation and amortization	<u>1,085,907</u>
	<u>\$ 602,639</u>

NOTE E: OPERATING LEASES

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

	<u>Amount</u>
Period from October 1, 2014 to June 30, 2015	\$ 34,604
Year ending June 30, 2016	36,709
Year ending June 30, 2017	28,663
Year ending June 30, 2018	20,623
Year ending June 30, 2019	13,726
Thereafter	<u>2,580</u>
	<u>\$ 136,905</u>

In connection with the merger as described in Note I, as of October 1, 2014 all leases will be assumed by Public Preparatory Charter School Academies.

NOTE F: RETIREMENT PLAN

The Organization sponsors a defined contribution 403(b) plan covering all regular employees. The Organization matches employees' contributions up to 5% of base salary. The Organization's total contribution to the Plan for the period from July 1, 2014 to September 30, 2014 was \$25,607.

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

SEPTEMBER 30, 2014

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 September 30, 2014, approximately 83% of grants and other receivables are due from New York State and the federal government relating to federal grants.

During the period from July 1, 2014 to September 30, 2014, 95% 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 the Charter School's students are located.

NOTE I: MERGER

On April 24, 2014, the Organization's Board 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 Organization received approval from the New York State Education Department on September 29, 2014. The merger took effect October 1, 2014 and all schools merged to form Public Preparatory Charter School Academies.

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

OTHER CONSOLIDATING FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING FINANCIAL INFORMATION

Board of Trustees
Girls Preparatory Charter School of New York

We have audited the consolidated financial statements of Girls Preparatory Charter School of New York as of September 30, 2014 and for the period from July 1, 2014 to September 30, 2014, and have issued our report thereon dated October 22, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The following consolidating information is presented for purposes of additional analysis and is not a required part 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 period from July 1, 2014 to September 30, 2014, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 22, 2015

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2014

<u>ASSETS</u>	<u>Girls Preparatory Charter School of New York</u>	<u>Friends of Girls Preparatory Charter School of New York, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
<u>CURRENT ASSETS</u>				
Cash	\$ 2,173,748	\$ -	\$ -	\$ 2,173,748
Grants and other receivables	87,888	-	-	87,888
Prepaid expenses and other current assets	217,265	-	-	217,265
Related party receivables	<u>2,301</u>	<u>149</u>	-	<u>2,450</u>
TOTAL CURRENT ASSETS	2,481,202	149	-	2,481,351
<u>PROPERTY AND EQUIPMENT, net</u>	<u>602,639</u>	<u>-</u>	<u>-</u>	<u>602,639</u>
TOTAL ASSETS	<u>\$ 3,083,841</u>	<u>\$ 149</u>	<u>\$ -</u>	<u>\$ 3,083,990</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 268,452	\$ -	\$ -	\$ 268,452
Accrued payroll and benefits	147,960	-	-	147,960
Deferred revenue	<u>903,974</u>	<u>-</u>	<u>-</u>	<u>903,974</u>
TOTAL CURRENT LIABILITIES	1,320,386	-	-	1,320,386
<u>NET ASSETS, unrestricted</u>	<u>1,763,455</u>	<u>149</u>	<u>-</u>	<u>1,763,604</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,083,841</u>	<u>\$ 149</u>	<u>\$ -</u>	<u>\$ 3,083,990</u>

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM JULY 1, 2014 TO SEPTEMBER 30, 2014

	Girls Preparatory Charter School of New York	Friends of Girls Preparatory Charter School of New York, Inc.	Eliminations	Total
Operating revenue and support:				
State and local per pupil operating revenue	\$ 2,250,305	\$ -	\$ -	\$ 2,250,305
Federal grants	93,897	-	-	93,897
State and local grants	14,958	-	-	14,958
Contributions	325	-	-	325
Other income	6,077	-	-	6,077
Interest income	223	-	-	223
TOTAL OPERATING REVENUE AND SUPPORT	<u>2,365,785</u>	-	-	2,365,785
Expenses:				
Program:				
Regular education	1,199,936	-	-	1,199,936
Special education	362,215	-	-	362,215
Management and general	214,071	-	-	214,071
Fundraising and special events	2,332	-	-	2,332
TOTAL EXPENSES	<u>1,778,554</u>	-	-	1,778,554
CHANGE IN NET ASSETS	587,231	-	-	587,231
Net assets at beginning of period	<u>1,176,224</u>	<u>149</u>	-	<u>1,176,373</u>
NET ASSETS AT END OF PERIOD	<u>\$ 1,763,455</u>	<u>\$ 149</u>	<u>\$ -</u>	<u>\$ 1,763,604</u>

GIRLS PREPARATORY CHARTER SCHOOL OF NEW YORK

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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
Girls Preparatory Charter School of New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Girls Preparatory Charter School of New York, which comprise the consolidated statement of financial position as of September 30, 2014 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the period from July 1, 2014 to September 30, 2014, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 22, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Girls Preparatory Charter School of New York's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Girls Preparatory Charter School of New York's internal control. Accordingly, we do not express an opinion on the effectiveness of Girls Preparatory Charter School of New York's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Charter School's consolidated 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Girls Preparatory Charter School of New York's 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*.

We noted certain matters that we have reported to management of Girls Preparatory Charter School of New York in a separate letter dated October 22, 2015.

Purpose of This Report

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

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 22, 2015

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NEW YORK, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 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 Financial Statements

We have audited the accompanying financial statements of Public Prep Charter School Academies (the "Organization"), which comprise the statement of financial position as of June 30, 2015 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the period from October 1, 2014 to June 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial statements referred to above present fairly, in all material respects, the financial position of Public Prep Charter School Academies as of June 30, 2015, and the changes in its net assets, functional expenses and its cash flows for the period from October 1, 2014 to June 30, 2015 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 27, 2015 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.

Mengel, Metzger, Bar & Co. LLP

Rochester, New York
October 27, 2015

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

ASSETS

CURRENT ASSETS

Cash	\$ 2,201,322
Grants and other receivables	468,991
Prepaid expenses and other current assets	573,628
Related party receivables	<u>110,882</u>
TOTAL CURRENT ASSETS	3,354,823

PROPERTY AND EQUIPMENT, net 1,827,981

TOTAL ASSETS \$ 5,182,804

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 364,805
Accrued payroll and benefits	1,752,345
Deferred revenue	<u>40,518</u>
TOTAL CURRENT LIABILITIES	2,157,668

NET ASSETS

Unrestricted	2,990,136
Temporarily restricted	<u>35,000</u>
TOTAL NET ASSETS	<u>3,025,136</u>

TOTAL LIABILITIES AND NET ASSETS \$ 5,182,804

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM OCTOBER 1, 2014 TO JUNE 30, 2015

	<u>Year ended June 30,</u>		
	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenue and support:			
State and local per pupil operating revenue	\$ 14,751,377	\$ -	\$ 14,751,377
Federal grants	675,364	-	675,364
State and local grants	469,595	-	469,595
Contributions	728,909	35,000	763,909
Other income	3,010	-	3,010
Interest income	143	-	143
	<u>16,628,398</u>	<u>35,000</u>	<u>16,663,398</u>
TOTAL OPERATING REVENUE AND SUPPORT	16,628,398	35,000	16,663,398
Expenses:			
Program:			
Regular education	12,683,305	-	12,683,305
Special education	4,017,310	-	4,017,310
Management and general	1,471,840	-	1,471,840
Fundraising and special events	15,447	-	15,447
	<u>18,187,902</u>	<u>-</u>	<u>18,187,902</u>
TOTAL EXPENSES	18,187,902	-	18,187,902
CHANGE IN NET ASSETS	(1,559,504)	35,000	(1,524,504)
Net assets at beginning of period	1,763,604	-	1,763,604
Transfer of net assets from merger of:			
Boys Preparatory Charter School of New York	596,693	-	596,693
Girls Preparatory Charter School of the Bronx	2,189,343	-	2,189,343
NET ASSETS AT END OF PERIOD	<u>\$ 2,990,136</u>	<u>\$ 35,000</u>	<u>\$ 3,025,136</u>

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM OCTOBER 1, 2014 TO JUNE 30, 2015

	Program Services			Supporting Services			Total
	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel services costs:							
Administrative staff personnel	\$ 456,410	\$ 65,202	\$ 521,612	\$ 779,913	\$ -	\$ 779,913	\$ 1,301,525
Instructional personnel	6,229,299	2,427,657	8,656,956	-	-	-	8,656,956
Non-instructional personnel	1,182,123	219,553	1,401,676	(1,611)	-	(1,611)	1,400,065
Total personnel services costs	7,867,832	2,712,412	10,580,244	778,302	-	778,302	11,358,546
Fringe benefits and payroll taxes	1,716,506	590,430	2,306,936	169,868	-	169,868	2,476,804
Retirement	203,168	72,771	275,939	20,030	-	20,030	295,969
Management company fees	1,162,728	212,035	1,374,763	154,468	15,447	169,915	1,544,678
Accounting and auditing services	-	-	-	51,613	-	51,613	51,613
Other professional and consulting services	237,495	39,940	277,435	212,170	-	212,170	489,605
Facility cost	5,256	1,915	7,171	535	-	535	7,706
Insurance	66,190	23,278	89,468	7,929	-	7,929	97,397
Classroom supplies and materials	337,674	76,675	414,349	-	-	-	414,349
Equipment and furnishings	18,232	5,010	23,242	1,174	-	1,174	24,416
Staff development	210,515	38,077	248,592	36	-	36	248,628
Marketing and recruiting	14,002	3,966	17,968	736	-	736	18,704
Technology	20,275	4,435	24,710	423	-	423	25,133
Food service	44,764	8,255	53,019	-	-	-	53,019
Student services	230,546	33,726	264,272	4,363	-	4,363	268,635
Student transportation	1,736	264	2,000	-	-	-	2,000
Office expense	64,579	23,264	87,843	13,659	-	13,659	101,502
Telephone and internet	120,899	41,370	162,269	13,899	-	13,899	176,168
Copier lease	52,499	19,886	72,385	7,159	-	7,159	79,544
Depreciation and amortization	308,409	109,601	418,010	35,476	-	35,476	453,486
	<u>\$ 12,683,305</u>	<u>\$ 4,017,310</u>	<u>\$ 16,700,615</u>	<u>\$ 1,471,840</u>	<u>\$ 15,447</u>	<u>\$ 1,487,287</u>	<u>\$ 18,187,902</u>

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF CASH FLOWS

PERIOD FROM OCTOBER 1, 2014 TO JUNE 30, 2015

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ (1,524,504)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation and amortization	453,486
Donation of fixed assets	(9,763)
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	72,533
Prepaid expenses and other current assets	(110,043)
Related party receivables	(80,213)
Accounts payable and accrued expenses	(557,281)
Accrued payroll and benefits	1,509,022
Deferred revenue	<u>(1,790,664)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(2,037,427)

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	<u>(319,681)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(319,681)</u>

NET DECREASE IN CASH (2,357,108)

Cash at beginning of period	<u>4,558,430</u>
CASH AT END OF PERIOD	<u>\$ 2,201,322</u>

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying 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”) and Girls Preparatory Charter School of the Bronx (“Girls Prep Bronx”), collectively forming Public Prep Charter School Academies (collectively referred to as the “Organization”).

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. All intercompany balances and transactions have been eliminated in the accompanying financial statements.

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.

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.

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.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

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

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, 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, 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.

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.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

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

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, 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.

The Organization has filed for and received income tax exemptions in the various jurisdictions where they are required to do so. The Organization files Form 990 tax returns in the U.S. federal jurisdiction. With few exceptions, as of June 30, 2015, the Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for years ended before June 30, 2012. Years ended June 30, 2012 through June 30, 2015 are still subject to potential audit by the IRS. Management of the Organization believes they have no material uncertain tax positions and, accordingly, will not recognize 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 \$18,700 for the period from October 1, 2014 to June 30, 2015.

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.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

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

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 27, 2015, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: RELATED PARTY TRANSACTIONS

The Organization has related party receivables from 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 period from October 1, 2014 to June 30, 2015, was \$1,544,678.

Amounts due (to) from these related parties 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 FINANCIAL STATEMENTS, Cont'd

JUNE 30, 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.

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and fixtures	\$ 818,783
Equipment	562,800
Computer equipment	1,125,823
Office equipment	476,539
Web development	5,250
Leasehold improvements	<u>929,131</u>
	3,918,326
Less accumulated depreciation and amortization	<u>2,090,345</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 January 2020. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 58,220
2017	48,378
2018	40,338
2019	29,373
2020	<u>5,258</u>
	<u>\$ 181,567</u>

NOTE F: RETIREMENT PLAN

The Organization sponsors a defined contribution 403(b) plan covering all regular employees. The Organization matches employees' contributions up to 5% of base salary. The Organization's total contribution to the Plan for the period from October 1, 2014 to June 30, 2015 was \$295,969.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 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 financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE H: CONCENTRATIONS

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

During the period from October 1, 2014 to June 30, 2015, 89% 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 FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Public Prep Charter School Academies

We have audited the financial statements of Public Prep Charter School Academies as of June 30, 2015 and for the period from October 1, 2104 to June 30, 2015, and have issued our report thereon dated October 27, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Financial Position by Charter and the Statement of Activities and Changes in Net Assets by Charter is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements for the period from October 1, 2014 to June 30, 2015, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 27, 2015

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2015

<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>Eliminations</u>	<u>Total</u>
<u>CURRENT ASSETS</u>					
Cash	\$ 747,815	\$ 344,192	\$ 1,109,315	\$ -	\$ 2,201,322
Grants and other receivables	192,583	136,577	139,831	-	468,991
Prepaid expenses and other current assets	95,732	32,836	445,060	-	573,628
Related party receivables (payables)	<u>195,199</u>	<u>41,837</u>	<u>(126,154)</u>	-	<u>110,882</u>
TOTAL CURRENT ASSETS	1,231,329	555,442	1,568,052	-	3,354,823
<u>PROPERTY AND EQUIPMENT, net</u>	<u>549,216</u>	<u>346,452</u>	<u>932,313</u>	-	<u>1,827,981</u>
TOTAL ASSETS	<u>\$ 1,780,545</u>	<u>\$ 901,894</u>	<u>\$ 2,500,365</u>	<u>\$ -</u>	<u>\$ 5,182,804</u>
<u>LIABILITIES AND NET ASSETS</u>					
<u>CURRENT LIABILITIES</u>					
Accounts payable and accrued expenses	\$ 155,515	\$ 63,293	\$ 145,997	\$ -	\$ 364,805
Accrued payroll and benefits	784,837	216,990	750,518	-	1,752,345
Deferred revenue	<u>26,783</u>	<u>12,399</u>	<u>1,336</u>	-	<u>40,518</u>
TOTAL CURRENT LIABILITIES	967,135	292,682	897,851	-	2,157,668
<u>NET ASSETS</u>					
Unrestricted	798,410	609,212	1,582,514	-	2,990,136
Temporarily restricted	<u>15,000</u>	<u>-</u>	<u>20,000</u>	-	<u>35,000</u>
TOTAL NET ASSETS	<u>813,410</u>	<u>609,212</u>	<u>1,602,514</u>	-	<u>3,025,136</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,780,545</u>	<u>\$ 901,894</u>	<u>\$ 2,500,365</u>	<u>\$ -</u>	<u>\$ 5,182,804</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

PERIOD FROM OCTOBER 1, 2014 TO JUNE 30, 2015

	<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>
Operating revenue and support:					
State and local per pupil operating revenue	\$ 6,750,915	\$ 1,479,024	\$ 6,521,438	\$ -	\$ 14,751,377
Federal grants	218,659	108,759	347,946	-	675,364
State and local grants	352,995	82,281	34,319	-	469,595
Contributions	75,653	540,582	147,674	-	763,909
Other income	3,010	-	-	-	3,010
Interest income	-	-	143	-	143
	<u>7,401,232</u>	<u>2,210,646</u>	<u>7,051,520</u>	-	<u>16,663,398</u>
	TOTAL OPERATING REVENUE AND SUPPORT				
Expenses:					
Program:					
Regular education	5,786,009	1,626,531	5,270,756	-	12,683,296
Special education	1,902,210	356,099	1,759,001	-	4,017,310
Management and general	656,223	213,804	601,822	-	1,471,849
Fundraising and special events	6,984	1,693	6,770	-	15,447
	<u>8,351,426</u>	<u>2,198,127</u>	<u>7,638,349</u>	-	<u>18,187,902</u>
	TOTAL EXPENSES				
CHANGE IN NET ASSETS	(950,194)	12,519	(586,829)	-	(1,524,504)
Net assets at beginning of period	<u>1,763,604</u>	<u>596,693</u>	<u>2,189,343</u>	-	<u>4,549,640</u>
NET ASSETS AT END OF PERIOD	<u>\$ 813,410</u>	<u>\$ 609,212</u>	<u>\$ 1,602,514</u>	<u>\$ -</u>	<u>\$ 3,025,136</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

ADVISORY COMMENT LETTER

JUNE 30, 2015



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 27, 2015

To the Board of Trustees
Public Prep Charter School Academies

In planning and performing our audit of the financial statements of Public Prep Charter School Academies as of June 30, 2015 and for the period from October 1, 2014 to June 30, 2015, and the separate audits of the financial statements of Girls Preparatory Charter School of New York (Girls Prep LES) as of September 30, 2014 and for the period from July 1, 2014 to September 30, 2014; Girls Preparatory Charter School of the Bronx (Girls Prep Bronx) as of September 30, 2014 and for the period from July 1, 2014 to September 30, 2014; and Boys Preparatory Charter School of New York (Boys Prep) as of September 30, 2014 and for the period from December 14, 2010 (date of inception) to September 30, 2014, collectively, the “Charter Schools”, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter Schools' 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 Charter Schools' 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 financial statements of the Charter Schools as of June 30, 2015 and for the period then ended, we observed the Charter Schools' 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:

- 1 -

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.

Check Signing

During our audit, we noted the Charter Schools' 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.

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.

Payroll Approval Procedures

We noted during the audit that the Charter Schools’ 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.

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.

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.

* * * * *

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 Charter Schools' 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 Charter Schools' personnel were cooperative, courteous and forthcoming in answering all of our questions throughout our audit. It is a privilege to serve the Charter Schools. 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