

**PUBLIC PREP CHARTER SCHOOL ACADEMIES**

**NEW YORK, NEW YORK**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**OTHER CONSOLIDATED FINANCIAL INFORMATION**

**REPORT REQUIRED BY**  
**GOVERNMENT AUDITING STANDARDS**

**AND**

**INDEPENDENT AUDITOR'S REPORTS**

**JUNE 30, 2017**

**(With Comparative Totals for 2016)**



**MENGEL METZGER BARR & CO. LLP**

Certified Public Accountants

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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, 2017 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Public Prep Charter School Academies as of June 30, 2017, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017 on our consideration of Public Prep Charter School Academies' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Prep Charter School Academies' internal control over other financial reporting and compliance.

### **Report on Summarized Comparative Information**

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

*Mengel, Metzger, Baw & Co. LLP*

Rochester, New York  
October 17, 2017

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Comparative Totals for 2016)

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

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

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

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

|  | No. of<br>Positions | Program Services     |                      |                   |                      | Supporting Services          |                                      |                     | Total                |                      |
|--|---------------------|----------------------|----------------------|-------------------|----------------------|------------------------------|--------------------------------------|---------------------|----------------------|----------------------|
|  |                     | Regular<br>Education | Special<br>Education | Pre-K             | Sub-total            | Management<br>and<br>general | Fundraising<br>and special<br>events | Sub-total           | Year ended June 30,  |                      |
|  |                     |                      |                      |                   |                      |                              |                                      |                     | 2017                 | 2016                 |
| Personnel services costs:                  |                     |                      |                      |                   |                      |                              |                                      |                     |                      |                      |
| Administrative staff personnel             | 57                  | \$ 2,036,098         | \$ 407,294           | \$ 4,134          | \$ 2,447,526         | \$ 1,364,566                 | \$ -                                 | \$ 1,364,566        | \$ 3,812,092         | \$ 3,687,959         |
| Instructional personnel                    | 252                 | 9,584,765            | 3,248,659            | 231,268           | 13,064,692           | -                            | -                                    | -                   | 13,064,692           | 12,470,184           |
| Non-instructional personnel                | 6                   | 33,394               | 7,542                | -                 | 40,936               | -                            | -                                    | -                   | 40,936               | 129,455              |
| Total personnel services costs             | 315                 | 11,654,257           | 3,663,495            | 235,402           | 15,553,154           | 1,364,566                    | -                                    | 1,364,566           | 16,917,720           | 16,287,598           |
| Fringe benefits and payroll taxes          |                     | 2,524,945            | 793,505              | 84,955            | 3,403,405            | 287,191                      | -                                    | 287,191             | 3,690,596            | 3,596,501            |
| Retirement                                 |                     | 260,130              | 80,439               | 7,535             | 348,104              | 29,461                       | -                                    | 29,461              | 377,565              | 414,619              |
| Management company fees                    |                     | 1,969,278            | 410,222              | -                 | 2,379,500            | 267,360                      | 26,736                               | 294,096             | 2,673,596            | 2,416,638            |
| Accounting and auditing services           |                     | -                    | -                    | -                 | -                    | 44,510                       | -                                    | 44,510              | 44,510               | 47,574               |
| Other professional and consulting services |                     | 339,116              | 57,457               | (1,867)           | 394,706              | 251,784                      | -                                    | 251,784             | 646,490              | 541,475              |
| Rent                                       |                     | -                    | -                    | -                 | -                    | -                            | -                                    | -                   | -                    | 100,624              |
| Repairs and maintenance                    |                     | 17,418               | 5,222                | -                 | 22,640               | 3,376                        | -                                    | 3,376               | 26,016               | 44,323               |
| Insurance                                  |                     | 88,046               | 27,744               | 3,054             | 118,844              | 10,023                       | -                                    | 10,023              | 128,867              | 134,605              |
| Utilities                                  |                     | 174,075              | 55,670               | -                 | 229,745              | 20,362                       | -                                    | 20,362              | 250,107              | 270,470              |
| Supplies and materials                     |                     | 724,818              | 160,997              | 3,567             | 889,382              | -                            | -                                    | -                   | 889,382              | 744,945              |
| Equipment and furnishings                  |                     | 43,626               | 10,598               | -                 | 54,224               | 1,908                        | -                                    | 1,908               | 56,132               | 31,283               |
| Staff development                          |                     | 629,035              | 130,836              | 362               | 760,233              | 1,160                        | -                                    | 1,160               | 761,393              | 332,693              |
| Marketing and recruiting                   |                     | 18,567               | 4,827                | 182               | 23,576               | 1,191                        | -                                    | 1,191               | 24,767               | 44,054               |
| Technology                                 |                     | 20,565               | 5,030                | 1,555             | 27,150               | 118                          | -                                    | 118                 | 27,268               | 64,844               |
| Food service                               |                     | 64,695               | 13,774               | 119               | 78,588               | -                            | -                                    | -                   | 78,588               | 119,423              |
| Student services                           |                     | 468,979              | 108,207              | 905               | 578,091              | 9,812                        | -                                    | 9,812               | 587,903              | 513,832              |
| Office expense                             |                     | 224,541              | 71,937               | 1,417             | 297,895              | 30,563                       | -                                    | 30,563              | 328,458              | 268,447              |
| Depreciation and amortization              |                     | 487,435              | 149,860              | -                 | 637,295              | 91,464                       | -                                    | 91,464              | 728,759              | 716,444              |
|  |                     | <u>\$ 19,709,526</u> | <u>\$ 5,749,820</u>  | <u>\$ 337,186</u> | <u>\$ 25,796,532</u> | <u>\$ 2,414,849</u>          | <u>\$ 26,736</u>                     | <u>\$ 2,441,585</u> | <u>\$ 28,238,117</u> | <u>\$ 26,690,392</u> |

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF CASH FLOWS, Cont'd

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

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

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated financial statements include the accounts of Girls Preparatory Charter School of New York (“Girls Prep LES”), Boys Preparatory Charter School of New York (“Boys Prep”), Girls Preparatory Charter School of the Bronx (“Girls Prep Bronx”), PrePrep: the Joan Ganz Cooney Early Learning Program (“PrePrep”), collectively forming Public Prep Charter School Academies and Friends of Girls Preparatory Charter School of New York, Inc. (“Friends”), (collectively referred to as the “Organization”). Friends had minimal activity for the years ended June 30, 2017 and 2016, which is included with Girls Prep LES. The Organization is presenting consolidated financial statements because they have a common Board of Trustees and economic interest. All intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

The Organization

Public Prep Charter School Academies is an education corporation that has authority to operate the Charter Schools as described below. Friends was organized under the laws of the State of New York as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation law.

Girls Prep LES operates in the borough of Manhattan, New York. On March 23, 2004, the Board of Regents of the University of the State of New York granted Girls Prep LES a provisional charter valid for a term of five years and renewable upon expiration. Girls Prep LES obtained a renewal through June 30, 2020.

Boys Prep operates in the borough of Bronx, New York. On December 14, 2010, the Board of Regents of the University of the State of New York granted Boys Prep a provisional charter valid for a term of five years and renewable upon expiration. Boys Prep obtained a renewal through July 31, 2019.

Girls Prep Bronx operates in the borough of Bronx, New York. On February 23, 2009, the Board of Regents of the University of the State of New York granted Girls Prep Bronx a provisional charter valid for a term of five years and renewable upon expiration. In March 2017, Girls Prep Bronx obtained a renewal through July 31, 2022.

Each of the Charter Schools were established to prepare underserved elementary and middle school students for higher education, civic involvement and lifelong success through a structured, caring environment of high academic expectations.

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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

Financial Statement presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

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

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

*Unrestricted* – The net assets over which the Governing Board has discretionary control to use in carrying on the Organization's operations in accordance with the guidelines established by the Organization. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

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

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

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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

Contributions

Contributions and unconditional promises to give are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same period for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

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

Cash in escrow

The Organization maintains cash in escrow accounts for dissolution reserves in accordance with the terms of their charter agreements. The amount in escrow for dissolution as of June 30, 2017 and 2016 was \$175,009 and \$175,000, respectively. The escrow is restricted to fund legal and other costs related to the dissolution of the Organization. In addition, Boys Prep had a balance of \$2,256,000 in escrow as of June 30, 2017 related to the construction of a facility, see Note C.

Grants and contracts receivable

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2017 or 2016.

Property and equipment

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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

Tax exempt status

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

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it has not recognized any liability for unrecognized tax benefits.

Contributed services

The Organization receives contributed services from volunteers to serve on the Board of Trustees. In addition the Organization received transportation services, special education services and speech therapy instruction for the students from the local district. These services are not valued in the financial statements.

Marketing and recruiting costs

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

Deferred revenue

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

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

Subsequent events

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE B: RELATED PARTY TRANSACTIONS

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

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

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

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

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE C: SCHOOL FACILITY

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

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

In December 2016 Friends entered into a lease agreement with a third party for school facility space for use by Boys Prep. The Organization intends to execute a sublease between Friends and Public Prep Charter School Academies for the school facility space. The lease required a security deposit of \$495,000 which was paid in fiscal 2017. The lease term is 35 years, set to commence upon occupancy in August 2018, with the option to renew the agreement for two renewal terms, the first for ten years and the second for four years. The current agreement provides for monthly payments of approximately \$202,300 for the first year, increasing annually based upon changes in the Consumer Price Index above a base year or a fixed percentage of 1.5%. The landlord is in the process of making improvements to the space, including construction of additional space, the cost of which is to be shared between the landlord and Friends. This amount (anticipated at \$3,000,000) is expected to be repaid to the landlord through a ten year loan with a fixed interest rate of 5%, with payment commencing upon the date the space is ready for occupancy. The anticipated loan payments are included in the future minimum payments as shown below. The lease required \$2,256,000 to be deposited in an escrow account to be used toward construction and for Friends to pay up to \$608,000 directly to the architect and up to \$92,000 to the construction manager upon receipt of invoices. As of June 30, 2017 Boys Prep incurred \$349,743 for architect fees which is included in construction in progress in the accompanying statement of financial position.

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

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

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

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

NOTE E: OPERATING LEASES

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

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE F: RETIREMENT PLAN

The Organization sponsors a defined contribution 403(b) plan covering all regular employees. The Organization matches employees' contributions based on years of service, up to a maximum of 7.5% of base salary. The Organization's total contribution to the Plan for the years ended June 30, 2017 and 2016 was \$377,565 and \$414,619, respectively.

NOTE G: CONTINGENCY

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

NOTE H: CONCENTRATIONS

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

During both the years ended June 30, 2017, and 2016, 92% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which each Charter School's students are located.

**PUBLIC PREP CHARTER SCHOOL ACADEMIES**  
**OTHER CONSOLIDATED FINANCIAL INFORMATION**

INDEPENDENT AUDITOR'S REPORT ON OTHER CONSOLIDATED FINANCIAL INFORMATION

Board of Trustees  
Public Prep Charter School Academies

We have audited the consolidated financial statements of Public Prep Charter School Academies as of and for the year ended June 30, 2017, and have issued our report thereon dated October 17, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidated Statement of Financial Position by Charter and the Consolidated Statement of Activities and Changes in Net Assets by Charter are presented for purposes of additional analysis and are not required parts of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements for the year ended June 30, 2017, as a whole.

*Mengel, Metzger, Barr & Co. LLP*

Rochester, New York  
October 17, 2017

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2017

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2017

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

**PUBLIC PREP CHARTER SCHOOL ACADEMIES**

**REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Public Prep Charter School Academies

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Public Prep Charter School Academies, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated October 17, 2017.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Public Prep Charter School Academies' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

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

*Mengel, Metzger, Baw & Co. LLP*

Rochester, New York  
October 17, 2017