

PUBLIC PREP CHARTER SCHOOL ACADEMIES

ADVISORY COMMENT LETTER

JUNE 30, 2022



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

November 30, 2022

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

In planning and performing our audit of the consolidated financial statements of Public Prep Charter School Academies (the “Organization”) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Organization’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

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

We consider the following deficiency in the entity’s internal control to be a material weakness:

Significant auditor adjustments

During the 2021 fiscal year, the Organization transitioned to a new outsourced financial consulting firm. During the transition, the intricacies of the required financial reporting for the different charters and programs operated by the Organization were not fully understood. As a result, during our 2021 audit, certain significant auditor adjustments were necessary to properly state consolidated financial statement balances in accordance with accounting principles generally accepted in the United States of America (GAAP).

Recommendation

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

Status as of June 30, 2022

During our 2022 audit, we noted significant auditor adjustments were again required to properly state consolidated financial statement balances in accordance with accounting principles generally accepted in the United States (GAAP). The adjustments included journal entries to accounts receivable, accrued expenses, grant revenue, and payroll and benefits expense. Although the net effect of the entries was not material, this was due to significant offsetting adjustments which resulted in a small net impact, rather than minor adjustments in multiple areas.

Management's Response

Since 2014, the organization has outsourced its accounting department and only held a small internal team to mainly process a few key functions being accounts payable, payroll, and budgets. In January 2021, the Organization switched from one accounting consultant to another for cost efficiencies. After the FY21 audits, many accounting deficiencies were denoted by the independent auditors thereby signaling to leadership that stronger controls were needed internally, and they began building an accounting and finance team to conduct the day to day accounting processes. In the meantime, leadership worked with the consultants to revise their contract to ensure that there would be improved oversight, monitoring, and improvements to key areas. Ultimately the financial consultants did not provide the services they were contractually obligated to perform for the closing of the 2021-22 books. In FY23, the organization will rely solely on their internal finance team who have the skills, knowledge and experience to perform the accounting functions that were previously contracted out to the financial consultant. This will allow the Organization to devote the necessary resources to managing the finance and accounting function on a more accurate and timely basis going forward.

* * * * *

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

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

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NEW YORK, NEW YORK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2022

(With Comparative Totals for 2021)



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 Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Public Prep Charter School Academies (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022 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.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Public Prep Charter School Academies and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Prep Charter School Academies' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Public Prep Charter School Academies' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Public Prep Charter School Academies' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Public Prep Charter School Academies' consolidated financial statements as of and for the year ended June 30, 2021, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 29, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2022 on our consideration of Public Prep Charter School Academies' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Prep Charter School Academies' internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 30, 2022

PUBLIC PREP CHARTER SCHOOL ACADEMIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022
(With Comparative Totals for 2021)

<u>ASSETS</u>	June 30,	
	2022	2021
<u>CURRENT ASSETS</u>		
Cash	\$ 18,660,948	\$ 17,945,495
Grants and contracts receivable	3,506,391	1,911,476
Property tax refund receivable	950,280	-
Prepaid expenses and other current assets	715,189	809,067
TOTAL CURRENT ASSETS	23,832,808	20,666,038
<u>OTHER ASSETS</u>		
Property and equipment, net	11,903,211	12,103,870
Related party receivables, net	30,174	755,622
Security deposits	534,015	502,325
Cash in escrow	200,416	200,329
Restricted cash	625,000	-
TOTAL ASSETS	\$ 37,125,624	\$ 34,228,184
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 1,686,455	\$ 1,607,378
Accrued payroll and benefits	2,371,998	3,768,596
Deferred revenue	475,438	-
Current portion of deferred lease incentive	13,399	26,003
Current portion of long-term debt	281,611	288,882
TOTAL CURRENT LIABILITIES	4,828,901	5,690,859
<u>LONG-TERM LIABILITIES</u>		
Long-term debt, net of unamortized debt issuance costs of \$400,889 and \$415,164 at June 30, 2022 and 2021, respectively	6,262,950	6,547,267
Deferred lease incentive	-	13,400
Deferred lease liability	2,627,815	2,037,613
Security deposit payable	-	16,667
TOTAL LIABILITIES	13,719,666	14,305,806
<u>NET ASSETS</u>		
Without donor restrictions	23,403,116	19,919,536
With donor restrictions	2,842	2,842
TOTAL NET ASSETS	23,405,958	19,922,378
TOTAL LIABILITIES AND NET ASSETS	\$ 37,125,624	\$ 34,228,184

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, 2022
(With Comparative Totals for 2021)

	Year ended June 30,			2021
	2022		Total	
	Without donor restrictions	With donor restrictions		
Revenue, gains and other support:				Total
Public school district:				
Resident student enrollment	\$ 33,881,548	\$ -	\$ 33,881,548	\$ 34,603,774
Students with disabilities	5,131,322	-	5,131,322	5,607,158
Grants and contracts:				
State and local	831,801	-	831,801	711,388
Federal - Title and IDEA	1,937,826	-	1,937,826	1,679,870
Federal - other	5,634,033	-	5,634,033	1,565,181
NYC DOE rental assistance	4,481,485	-	4,481,485	3,952,468
In-kind rent	5,481,411	-	5,481,411	6,228,049
Food Service/Child Nutrition Program	889,214	-	889,214	455,992
TOTAL REVENUE, GAINS AND OTHER SUPPORT	58,268,640	-	58,268,640	54,803,880
Expenses:				
Program services:				
Regular education	37,832,046	-	37,832,046	33,889,943
Special education	10,005,211	-	10,005,211	8,805,463
Pre-K	1,541,683	-	1,541,683	2,054,595
Total program services	49,378,940	-	49,378,940	44,750,001
Management and general	6,001,784	-	6,001,784	5,916,973
Fundraising and special events	55,911	-	55,911	57,986
TOTAL OPERATING EXPENSES	55,436,635	-	55,436,635	50,724,960
SURPLUS FROM SCHOOL OPERATIONS	2,832,005	-	2,832,005	4,078,920
Support and other revenue:				
Contributions:				
Foundations	80,000	-	80,000	10,000
Individuals	1,000	-	1,000	1,100
Corporations	33,333	-	33,333	-
Interest income	87	-	87	53
Other income	137,996	-	137,996	18,772
Rental income	44,943	-	44,943	112,990
Property tax rebate	354,216	-	354,216	-
Paycheck Protection Program loan forgiveness	-	-	-	4,301,000
TOTAL SUPPORT AND OTHER REVENUE	651,575	-	651,575	4,443,915
CHANGE IN NET ASSETS	3,483,580	-	3,483,580	8,522,835
Net assets at beginning of year	19,919,536	2,842	19,922,378	11,399,543
NET ASSETS AT END OF YEAR	\$ 23,403,116	\$ 2,842	\$ 23,405,958	\$ 19,922,378

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, 2022
(With Comparative Totals for 2021)

	No. of Positions	Program Services				Supporting Services			Total	
		Regular Education	Special Education	Pre-K	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
									2022	2021
Personnel services costs:										
Administrative staff personnel	63	\$ 2,309,074	\$ 633,237	\$ 45,000	\$ 2,987,311	\$ 2,685,907	\$ -	\$ 2,685,907	\$ 5,673,218	\$ 5,161,191
Instructional personnel	297	14,338,373	3,876,147	776,304	18,990,824	-	-	-	18,990,824	17,414,444
Non-instructional personnel	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,207</u>	<u>-</u>	<u>104,207</u>	<u>104,207</u>	<u>132,482</u>
Total personnel services costs	361	16,647,447	4,509,384	821,304	21,978,135	2,790,114	-	2,790,114	24,768,249	22,708,117
Fringe benefits and payroll taxes		3,380,372	922,566	137,537	4,440,475	557,074	-	557,074	4,997,549	4,832,729
Retirement		238,300	63,077	13,762	315,139	41,889	-	41,889	357,028	468,855
Management company fees		3,913,781	782,756	-	4,696,537	838,666	55,911	894,577	5,591,114	5,798,628
Legal services		92,906	21,259	-	114,165	41,931	-	41,931	156,096	-
Accounting / audit services		56,168	15,011	101	71,280	7,920	-	7,920	79,200	25,775
Other purchased / professional / consulting services		1,573,372	432,927	25,358	2,031,657	312,610	-	312,610	2,344,267	1,194,705
Building rent / lease / facility finance interest		2,237,879	628,603	111,688	2,978,170	330,908	-	330,908	3,309,078	3,259,804
In-kind rent		3,772,550	941,516	243,560	4,957,626	523,785	-	523,785	5,481,411	6,228,049
Repairs and maintenance		500,587	140,894	19,885	661,366	73,486	-	73,486	734,852	353,893
Insurance		203,234	56,760	14,934	274,928	28,888	-	28,888	303,816	232,819
Utilities		357,004	101,160	13,174	471,338	55,240	-	55,240	526,578	560,529
Supplies / materials		1,153,696	346,790	24,727	1,525,213	-	-	-	1,525,213	764,905
Equipment / furnishings		32,983	8,954	-	41,937	4,660	-	4,660	46,597	52,262
Staff development		366,842	99,709	840	467,391	54,084	-	54,084	521,475	640,358
Marketing / recruiting		17,868	4,812	-	22,680	2,521	-	2,521	25,201	70,137
Technology		284,905	78,292	-	363,197	40,355	-	40,355	403,552	282,861
Food service		647,173	199,084	41,508	887,765	-	-	-	887,765	352,745
Student services		424,229	115,195	1,062	540,486	21,729	-	21,729	562,215	218,731
Office expense		726,298	200,104	16,499	942,901	103,096	-	103,096	1,045,997	597,674
Depreciation and amortization		1,188,508	332,444	55,744	1,576,696	170,622	-	170,622	1,747,318	1,315,593
Other		15,944	3,914	-	19,858	2,206	-	2,206	22,064	765,791
		<u>\$ 37,832,046</u>	<u>\$ 10,005,211</u>	<u>\$ 1,541,683</u>	<u>\$ 49,378,940</u>	<u>\$ 6,001,784</u>	<u>\$ 55,911</u>	<u>\$ 6,057,695</u>	<u>\$ 55,436,635</u>	<u>\$ 50,724,960</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, 2022
(With Comparative Totals for 2021)

	<u>Year ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 3,483,580	\$ 8,522,835
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	1,747,318	1,315,593
Bad debt expense	-	159,434
Amortization of debt issuance costs included in interest expense	14,275	13,085
Paycheck Protection Program loan forgiveness	-	(4,301,000)
Changes in certain assets and liabilities affecting operations:		
Grants and other contracts receivable	(1,594,915)	402,383
Property tax refund receivable	(950,280)	-
Prepaid expenses and other current assets	93,878	(412,968)
Related party receivables and payables	725,448	332,145
Security deposits	(31,690)	-
Accounts payable and accrued expenses	(16,401)	(307,215)
Accrued payroll and benefits	(1,396,598)	1,037,203
Deferred revenue	475,438	-
Deferred lease incentive	(26,004)	(26,004)
Deferred lease liability	590,202	625,636
NET CASH PROVIDED FROM OPERATING ACTIVITIES	3,114,251	7,361,127
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(1,451,181)	(540,861)
Security deposit payable	(16,667)	-
NET CASH USED FOR INVESTING ACTIVITIES	(1,467,848)	(540,861)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Proceeds from long-term debt	-	20,574
Repayments of long-term debt	(305,863)	(242,351)
NET CASH USED FOR FINANCING ACTIVITIES	(305,863)	(221,777)
NET INCREASE IN CASH AND RESTRICTED CASH	1,340,540	6,598,489
Cash and restricted cash at beginning of year	18,145,824	11,547,335
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 19,486,364</u>	<u>\$ 18,145,824</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATED STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)

	Year ended June 30,	
	2022	2021
<u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Purchases of property and equipment in accounts payable	<u>\$ 95,478</u>	<u>\$ 662,024</u>
<u>NON-CASH OPERATING AND FINANCING ACTIVITIES</u>		
Accrued interest paid through debt refinancing	<u>\$ -</u>	<u>\$ 349,107</u>
<u>NON-CASH INVESTING AND FINANCING ACTIVITIES</u>		
Purchases of property and equipment financed with long-term debt	<u>\$ -</u>	<u>\$ 347,555</u>
<u>NON-CASH FINANCING ACTIVITIES</u>		
Long-term debt borrowings in connection with debt refinancing, including debt issuance costs of \$428,249	<u>\$ -</u>	<u>\$ 6,659,750</u>
Long-term debt repayments through debt refinancing	<u>\$ -</u>	<u>\$ 6,231,501</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid for interest	<u>\$ 272,244</u>	<u>\$ 268,002</u>
Reconciliation of cash and restricted cash reported within the consolidated statement of financial position that sum to the total amounts reported in the statement of cash flows:		
	June 30,	
	2022	2021
<u>CASH AND RESTRICTED CASH</u>		
Cash	\$ 18,660,948	\$ 17,945,495
Cash in escrow	200,416	200,329
Restricted cash	<u>625,000</u>	<u>-</u>
	<u>\$ 19,486,364</u>	<u>\$ 18,145,824</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, 2022

(With Comparative Totals for 2021)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

The Organization

Public Prep Charter School Academies is an education corporation that has authority to operate the Charter Schools as described below. Each of the Charter Schools were established to prepare underserved elementary and middle school students for higher education, civic involvement and lifelong success through a structured, caring environment of high academic expectations. Friends was organized under the laws of the State of New York as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation law. Girls Prep Bronx II, LLC was organized under the laws of the State of New York as a limited liability company under Section 203 of the Limited Liability Company Law as of October 18, 2021. The sole member of the limited liability company is Friends. See Note D.

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

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

Girls Prep Bronx operates in the borough of Bronx, New York. On February 23, 2009, the Board of Regents of the University of the State of New York granted Girls Prep Bronx a provisional charter valid for a term of five years and renewable upon expiration. Girls Prep Bronx obtained a renewal through July 31, 2025.

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

In December 2020, Girls Prep LES, Boys Prep, and Girls Prep Bronx each received approval from SUNY for a revision to their charters to create a joint high school program with another Charter School beginning in the 2022-23 school year. This was rejected by the NY State Education Department and SUNY has overridden this rejection and the high school has opened for the 2022-2023 school year. Public Prep Charter School Academies has contracted with Vertex Partnership Academies, Inc., a not-for-profit organization, to provide management and other administrative services for the high school.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

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

PrePrep operates in the borough of Bronx, New York. The Organization obtained approval from the New York City Department of Education to open a Pre-K program. The contract authorized operation of a universal prekindergarten program for a term of three years through June 30, 2018 and was renewable for two years upon expiration. PrePrep obtained a renewal through June 30, 2023.

PrePrep2 operates in the borough of Bronx, New York. The Organization obtained approval from the New York City Department of Education to open a second Pre-K program. The contract authorizes operation of a universal prekindergarten program for a term of three years through June 30, 2021. PrePrep2 obtained a renewal through June 30, 2023.

PrePrep3 operates in the borough of Manhattan, New York. The Organization obtained approval from the New York City Department of Education to open a third Pre-K program. The contract authorizes operation of a universal prekindergarten program for a term of two years through June 30, 2021. PrePrep3 obtained a renewal through June 30, 2023.

Financial Statement presentation

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

These classes of net assets are defined as follows:

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

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

Revenue recognition

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

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

Public school district revenue

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

Universal Pre-Kindergarten (Pre-K)

Similar to public school district revenue, the Organization recognizes Pre-K revenue as educational programming is provided to students throughout the year. The maximum revenue amount is based on a contractually determined fixed amount per student and the number of students enrolled at a point in time. This amount could be further reduced if actual costs incurred in providing the Pre-K program are less than the maximum calculated amount of the contract. Amounts are paid in installments throughout the course of the year, with the final 5% paid upon submission of all required documentation at the end of the contract year. Revenue recognized from Pre-K programs totaled \$1,392,357 and \$1,451,446 for the years ended June 30, 2022 and 2021, respectively.

Rental assistance

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

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

	June 30,		
	2022	2021	2020
Grants and contracts receivable	\$ 107,030	\$ 110,050	\$ 791,954

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

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

Contributions

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

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

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

Grant revenue

Some of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying consolidated statement of financial position. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the accompanying consolidated statement of financial position. The amount reported as deferred revenue at June 30, 2022 amounted to \$475,438. There was no revenue deferred at June 30, 2021. The Organization received cost-reimbursement grants of \$10,121,082 and \$116,245 that had not been recognized at June 30, 2022 and 2021, respectively, because qualifying expenditures had not yet been incurred.

Cash

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

Cash in escrow

The Organization maintains cash in escrow accounts for dissolution reserves in accordance with the terms of their charter agreements. The amount in escrow for dissolution as of June 30, 2022 and 2021 was \$200,416 and \$200,329, respectively. The escrow is restricted to fund legal and other costs related to the dissolution of the Organization, should dissolution become necessary.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

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

Restricted cash

The Organization maintains cash in a certificate of deposit for collateral in accordance with the terms of their standby letter of credit as required by the Girls Prep Bronx II, LLC lease agreement. The amount of the certificate of deposit as of June 30, 2022 is \$625,000 and has an interest rate of 0.3%. The cash is restricted as collateral for the standby letter of credit. See Note D.

Grants and contracts receivable

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2022 or 2021.

Property tax refund receivable

In connection with the lease agreement entered by Friends and subleased to Boys Prep as described in Note D, Friends was responsible for payment of property taxes in excess of a base level. During the year ended June 30, 2022, the landlord and Friends completed the process of forming a leasehold condominium and subsequently filing for tax-exempt status for the property. As a result, property taxes previously paid by Friends were refunded to the landlord by the taxing authority and are due to Friends under the terms of the lease. Friends does not anticipate incurring future property tax expense with respect to this lease.

Property and equipment

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

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

Tax exempt status

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

Public Prep Academies and Friends file Form 990 tax returns in the U.S. federal jurisdiction. In addition, Friends files in New York. The tax returns for the years ended June 30, 2019 through June 30, 2022 are still subject to potential audit by the IRS and NY. Management of the Organization believes it has no material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Contributed services

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

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

Marketing and recruiting costs

The Organization expenses marketing and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$25,000 and \$70,000 for the years ended June 30, 2022 and 2021, respectively.

Security deposit payable

The Organization subleased a portion of one of the buildings it occupies and received a security deposit in relation to the sublease. The security deposit was refunded at the end of the lease term.

Deferred lease (liability) receivable

The Organization leases one of its facilities. The lease contains significant pre-determined fixed escalations of the base rent. In accordance with GAAP, the Organization recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts paid under the lease as a deferred lease liability. The amount of additional rent expense recognized in excess of the amounts paid under the lease was \$590,202 and \$625,636 for the years ended June 30, 2022 and 2021, respectively.

Use of estimates in the preparation of financial statements

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

Reclassifications

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

Functional allocation of expenses

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

Adoption of new accounting standard - gifts-in-kind

In September 2020, the FASB issued a new accounting update to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind. The update requires not-for-profit entities to present contributed nonfinancial assets separately on the statement of activities, apart from contributions of cash and other financial assets. In addition, the update requires not-for-profit entities to disclose in the notes to the financial statements a breakout of the different types of gifts-in-kinds recognized, any donor restrictions associated with the gift, the valuation technique(s) used to arrive at the fair value measure, whether or not the gift-in-kind was monetized, and any policies on monetization. The update is effective for fiscal years beginning after June 15, 2021 and is being applied on a retrospective basis. The Organization adopted this standard during the year ended June 30, 2022. See Note E.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

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

New accounting pronouncement - leases

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

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through November 30, 2022, which is the date the financial statements are available to be issued. See Note G.

NOTE B: RELATED PARTY TRANSACTIONS

The Organization has related party receivables from and payables to one related organization, Public Preparatory Network, Inc. (PPN). PPN, a not-for-profit organization, provides management and other administrative support services to the Organization. For the years ended June 30, 2022 and 2021, the Organization paid an annual service fee of 15% of the year end student enrollment full time equivalents multiplied by the approved per pupil reimbursement rate for the school year for general education and special education funding. The term of the agreement renews annually unless terminated by either party with at least six months’ notice. The fee incurred for the years ended June 30, 2022 and 2021 was \$5,591,114 and \$5,798,628, respectively.

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022
(With Comparative Totals for 2021)

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

Amounts due (to) from these related parties have no set repayment terms and as of June 30, 2022 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>Girls Preparatory Charter School of the Bronx II</u>	<u>PrePrep: the Joan Ganz Cooney Early Learning Program</u>	<u>PrePrep 2</u>	<u>PrePrep 3</u>	<u>Friends of Girls Preparatory Charter School of New York</u>	<u>Eliminations</u>	<u>Total</u>
Due from (to) Public Preparatory Network, Inc.	\$ (100,453)	\$ 75,878	\$ (25,953)	\$ 82,840	\$ (9,477)	\$ (791)	\$ (120)	\$ 8,250	\$ -	\$ 30,174
Due from (to) Girls Preparatory Charter School of New York	-	(4,576,399)	403,550	(1,742,628)	106,884	842,190	(35,204)	(1,614,490)	6,616,097	-
Due from (to) Boys Preparatory Charter School of New York	4,576,399	-	2,344,601	(6,585)	(365)	(692,253)	-	(6,193,494)	(28,303)	-
Due from (to) Girls Preparatory Charter School of the Bronx	(403,550)	(2,344,601)	-	(183,676)	(414,790)	130,416	21,826	(100)	3,194,475	-
Due from (to) Girls Preparatory Charter School of the Bronx II	1,742,628	6,585	183,676	-	(344)	(97,472)	(131)	30,497	(1,865,439)	-
Due from (to) PrePrep: the Joan Ganz Cooney Early Learning Program	(106,884)	365	414,790	344	-	(5,919)	-	-	(302,696)	-
Due from (to) PrePrep 2	(842,190)	692,253	(130,416)	97,472	5,919	-	-	107,000	69,962	-
Due from (to) PrePrep 3	35,204	-	(21,826)	131	-	-	-	-	(13,509)	-
Due from (to) Friends of Girls Preparatory Charter School of New York	<u>1,614,490</u>	<u>6,193,494</u>	<u>100</u>	<u>(30,497)</u>	<u>-</u>	<u>(107,000)</u>	<u>-</u>	<u>-</u>	<u>(7,670,587)</u>	<u>-</u>
	<u>\$ 6,515,644</u>	<u>\$ 47,575</u>	<u>\$ 3,168,522</u>	<u>\$ (1,782,599)</u>	<u>\$ (312,173)</u>	<u>\$ 69,171</u>	<u>\$ (13,629)</u>	<u>\$ (7,662,337)</u>	<u>\$ -</u>	<u>\$ 30,174</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022
(With Comparative Totals for 2021)

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

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

	Girls Preparatory Charter School of New York	Boys Preparatory Charter School of New York	Girls Preparatory Charter School of the Bronx	Girls Preparatory Charter School of the Bronx II	PrePrep: the Joan Ganz Cooney Early Learning Program	PrePrep 2	PrePrep 3	Friends of Girls Preparatory Charter School of New York	Eliminations	Total
Due from (to) Public Preparatory Network, Inc.	\$ (13,030)	\$ 577,260	\$ 149,176	\$ 36,894	\$ (2,928)	\$ -	\$ -	\$ 8,250	\$ -	\$ 755,622
Due from (to) Girls Preparatory Charter School of New York	-	(3,592,770)	4,365,110	348,712	39,022	726,546	(20,103)	(1,948,910)	82,393	-
Due from (to) Boys Preparatory Charter School of New York	3,592,770	-	2,184,378	(5,723)	(365)	(660,840)	-	(6,491,935)	1,381,715	-
Due from (to) Girls Preparatory Charter School of the Bronx	(4,365,110)	(2,184,378)	-	(184,678)	(392,558)	130,416	21,826	(100)	6,974,582	-
Due from (to) Girls Preparatory Charter School of the Bronx II	(348,712)	5,723	184,678	-	(393)	(97,472)	(131)	30,497	225,810	-
Due from (to) PrePrep: the Joan Ganz Cooney Early Learning Program	(39,022)	365	392,558	393	-	(5,919)	-	-	(348,375)	-
Due from (to) PrePrep 2	(726,546)	660,840	(130,416)	97,472	5,919	-	-	55,000	37,731	-
Due from (to) PrePrep 3	20,103	-	(21,826)	131	-	-	-	-	1,592	-
Due from (to) Friends of Girls Preparatory Charter School of New York	<u>1,948,910</u>	<u>6,491,935</u>	<u>100</u>	<u>(30,497)</u>	<u>-</u>	<u>(55,000)</u>	<u>-</u>	<u>-</u>	<u>(8,355,448)</u>	<u>-</u>
	<u>\$ 69,363</u>	<u>\$ 1,958,975</u>	<u>\$ 7,123,758</u>	<u>\$ 262,704</u>	<u>\$ (351,303)</u>	<u>\$ 37,731</u>	<u>\$ 1,592</u>	<u>\$ (8,347,198)</u>	<u>\$ -</u>	<u>\$ 755,622</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

NOTE C: LIQUIDITY AND AVAILABILITY

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

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

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for fiscal years 2022 and 2021.

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

	June 30,	
	<u>2022</u>	<u>2021</u>
Cash	\$ 18,660,948	\$ 17,945,495
Grants and contracts receivable	3,506,391	1,911,476
Property tax refund receivable	<u>950,280</u>	<u>-</u>
Total financial assets available within one year	23,117,619	19,856,971
Less amounts unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	<u>(2,842)</u>	<u>(2,842)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 23,114,777</u>	<u>\$ 19,854,129</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

NOTE D: SCHOOL FACILITY

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

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

Effective May 1, 2019, the Organization agreed to sublet a portion of the Boys Prep facility for a fourteen month period through June 30, 2020 at \$4,167 per month. This sublease was extended at the same terms through July 31, 2021. This sublease was further extended through June 30, 2022 under new sublease terms, with no rent expense being charged. In place of monthly rent, the sub-tenant is required to pay for any security charges incurred for services provided beyond normal building hours. Additionally, effective July 1, 2019, the Organization sublet space in the Boys Prep facility to PPN at a rate of \$4,125 per month on a month-to-month basis. Effective July 1, 2021, the rate decreased to \$2,000 per month on a month-to-month basis. Rent expense paid during the years ended June 30, 2022 and 2021 (net of sublease income) was approximately \$2,410,000 and \$2,250,000, respectively.

Effective April 7, 2022, Girls Prep Bronx II, LLC entered into a lease agreement with a third-party landlord to construct a building to be leased to Girls Prep Bronx II, LLC. The lease commencement date depends upon when the construction is substantially completed but will be no sooner than July 1, 2024. The lease shall run for 39 years from date of commencement with monthly rental payments beginning at \$125,000 and increasing to \$589,000 over the lease term. The lease can be renewed for an additional ten-year period. Future minimum lease payments below have been calculated assuming the lease commences on July 1, 2024 as expected. Public Prep Charter School Academies guarantees the lease. Management does not anticipate any losses from this guaranty, and, accordingly, no amounts have been provided for this guaranty in the accompanying consolidated financial statements. At June 30, 2022, the maximum amount of future payments (undiscounted) that the Organization could be required to make under the guaranty is approximately \$289,021,000. At this time, the Organization fully expects that the above lease obligation will be repaid by Girls Prep Bronx II, LLC in accordance with the lease terms. In accordance with the lease terms, the tenant shall pay or provide a letter of credit for one-half of the security deposit at the execution of the lease. This amounted to \$625,000 and the Organization obtained a standby letter of credit for this amount effective April 4, 2022 with a final expiration date of August 30, 2063. Further, the Organization maintains a certificate of deposit account that holds \$625,000 as collateral for this standby letter of credit as required by the standby letter of credit agreement.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

NOTE D: SCHOOL FACILITY, Cont'd

Future minimum payments under these leases are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ 2,433,716
2024	2,470,222
2025	4,007,275
2026	5,044,885
2027	5,783,057
Thereafter	<u>365,109,087</u>
	<u>\$ 384,848,242</u>

During September 2019, the Organization finalized a sublease between Friends and Public Prep Charter School Academies for the Boys Prep school facility space which commenced September 10, 2018 through June 30, 2053. Effective July 1, 2020, the lease was amended to reduce the term to June 30, 2021 at a fixed annual rental of \$4,066,328. Effective July 1, 2021, the lease was amended to extend the term to June 30, 2041. Under the amended sublease, annual rental payments increase by approximately 2% annually. In accordance with GAAP, Friends recognizes the related rental income on a straight-line basis and records the difference between the recognized rental income and the amounts received under the lease as a deferred lease receivable. Boys Prep recognizes the related rental expense on a straight-line basis and records the difference between the recognized rental expense and the amounts paid under the lease as a deferred lease payable. The amount of additional rental income recognized by Friends and rental expense recognized by Boys Prep in excess of the amounts received under the lease was \$944,229 for the year ended June 30, 2022. All intercompany rent is eliminated in the accompanying consolidated financial statements; \$6,699,651 and \$4,121,329 for June 30, 2022 and 2021, respectively.

The minimum future payments and receipts are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ 5,803,682
2024	5,906,573
2025	6,011,691
2026	6,119,088
2027	6,228,818
Thereafter	<u>97,171,107</u>
	<u>\$ 127,240,959</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

NOTE E: SCHOOL FACILITIES – GIFTS-IN-KIND

Girls Prep LES, Girls Prep Bronx, PrePrep and PrePrep3 are located in NYCDOE facilities at no charge. In valuing the contributed space in the school buildings, the Organization estimated the fair value of \$5,481,411 and \$6,228,049 for the years ending June 30, 2022 and 2021, respectively, on the basis of financial information provided to the Organization under the New York City School Rental Assistance Program. There were no associated donor restrictions with the contributed facilities.

<u>Program or Supporting Service</u>	<u>Year ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
Regular education	\$ 3,772,550	\$ 4,301,803
Special education	941,516	1,085,965
Pre-K	243,560	241,640
Management and general	523,785	598,641
	<u>\$ 5,481,411</u>	<u>\$ 6,228,049</u>

NOTE F: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Furniture and fixtures	\$ 2,744,582	\$ 2,515,848
Computer equipment	3,475,773	2,779,777
Office equipment	2,120,320	1,680,369
Web development	5,250	5,250
Leasehold improvements	11,894,794	11,864,216
Construction in progress	151,400	-
	<u>20,392,119</u>	<u>18,845,460</u>
Less accumulated depreciation and amortization	<u>8,488,908</u>	<u>6,741,590</u>
	<u>\$ 11,903,211</u>	<u>\$ 12,103,870</u>

No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Total depreciation and amortization expense was \$1,747,318 and \$1,315,593 for the years ended June 30, 2022 and 2021, respectively.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

NOTE G: COMMITMENTS

At June 30, 2022 and 2021, the Organization had three capital leases for computer equipment. Amortization of capital leases is included in depreciation expense.

The Organization also leases office equipment under non-cancelable lease agreements expiring at various dates through September 2027. During August and October 2022, the Organization entered into additional office equipment leases, these are included in the future minimum payments shown below.

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

<u>Year ending June 30,</u>	<u>Capital leases</u>	<u>Operating leases</u>
2023	\$ 152,777	\$ 392,500
2024	10,660	222,700
2025	-	144,800
2026	-	110,600
2027	-	70,600
Thereafter	-	11,300
Net minimum lease payments	163,437	<u>\$ 952,500</u>
Less amount representing interest	(5,360)	
Present value of net minimum lease payments included in future maturities of long-term debt as shown in Note K	158,077	
Less current maturities of capital lease obligations included in current portion of long-term debt	<u>(151,783)</u>	
Long-term capital lease obligations	<u>\$ 6,294</u>	

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

NOTE H: 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 5% of base salary. The Organization's total contribution to the Plan for the years ended June 30, 2022 and 2021 was \$357,028 and \$468,855, respectively.

NOTE I: 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 J: CONCENTRATIONS

At June 30, 2022 and 2021, approximately 79% and 74%, respectively of grants and contracts receivables are due from New York State relating to certain grants. At June 30, 2022 and 2021, approximately 8% and 13% of grants and contracts receivables are due from NYCDOE relating to certain grants, respectively. At June 30, 2022, all of the property tax refund receivable is due from the Organization's landlord.

During the years ended June 30, 2022, and 2021, 67% and 73%, respectively of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which each Charter School's students reside.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

NOTE K: LONG-TERM DEBT

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Capital lease, due in monthly installments of \$3,680, including interest at 5.8%, through May 2023. The lease is collateralized by the underlying equipment with a net book value of \$36,886 and \$77,124 at June 30, 2022 and 2021, respectively.	\$ 36,423	\$ 77,113
Capital lease, due in monthly installments of \$6,997, including interest at 6.2%, through August 2023. The lease is collateralized by the underlying equipment with a net book value of \$89,638 and \$166,470 at June 30, 2022 and 2021, respectively.	74,750	167,288
Capital lease, due in monthly installments of \$3,553, including interest at 6.2%, through September 2023. The lease is collateralized by the underlying equipment with a net book value of \$48,775 and \$87,793 at June 30, 2022 and 2021.	46,904	85,078
Loan payable to nonprofit revolving loan fund, due in monthly installments of \$32,359, including interest at 3.7% through August 2050. The loan is secured by a leasehold mortgage on certain property as well as a first priority lien security interest in the gross revenues of Friends. In connection with this loan, Public Prep Academies and Boys Prep specifically are both subject to certain financial and operational covenants. The Organization was in compliance with these covenants as of June 30, 2022.	6,787,373	6,921,834
	6,945,450	7,251,313
Less unamortized debt issuance costs	(400,889)	(415,164)
Less current portion of long-term debt	(281,611)	(288,882)
	<u>\$ 6,262,950</u>	<u>\$ 6,547,267</u>

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

NOTE K: LONG-TERM DEBT, Cont'd

Estimated annual maturities of long-term debt at June 30, 2022 as described above, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ 281,611
2024	160,757
2025	150,219
2026	155,873
2027	161,739
Thereafter	<u>6,035,251</u>
	<u>\$ 6,945,450</u>

NOTE L: FUNCTIONAL EXPENSES

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

NOTE M: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Undesignated	\$ 18,044,466	\$ 14,651,815
Invested in property and equipment, net of related debt	<u>5,358,650</u>	<u>5,267,721</u>
	<u>\$ 23,403,116</u>	<u>\$ 19,919,536</u>

Net assets with donor restrictions are as follows:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Eyeglasses	<u>\$ 2,842</u>	<u>\$ 2,842</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2022

(With Comparative Totals for 2021)

NOTE N: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2023.

In response to the COVID-19 outbreak, the Federal Government passed several COVID relief acts which include funding for elementary and secondary education. The Elementary and Secondary School Emergency Relief Fund (ESSER Fund) was established to award grants to state and local educational agencies. The Organization has recognized \$4,759,130 and \$1,036,594 of revenue relative to ESSER grants during the years ended June 30, 2022 and 2021, respectively. As of June 30, 2022, the Organization has approximately \$9,991,300 of ESSER grants still available through September 30, 2024.

The Emergency Connectivity Fund (ECF) was also established to award grants to state and local educational agencies. The Organization has recognized \$321,869 of revenue relative to ECF grants during the year ended June 30, 2022.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Public Prep Charter School Academies

We have audited the consolidated financial statements of Public Prep Charter School Academies as of and for the year ended June 30, 2022, and have issued our report thereon dated November 30, 2022, 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 other financial information hereinafter is presented for purposes of additional analysis and are not required parts of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements for the year ended June 30, 2022, as a whole.

We have also audited the consolidated financial statements of Public Prep Charter School Academies as of and for the year ended June 30, 2021, and our report thereon dated October 29, 2021 expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on those consolidated financial statements as a whole. The 2021 financial information hereinafter is presented for purposes of additional analysis and is not a required part of the 2021 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 2021 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 2021 consolidated financial statements or to the 2021 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements for the year ended June 30, 2021, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
November 30, 2022

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2022

ASSETS	Public Prep Charter School Academies								Friends of Girls Preparatory Charter School of New York	Eliminations	Consolidated Total
	Girls Preparatory Charter School of New York	Boys Preparatory Charter School of New York	Girls Preparatory Charter School of the Bronx	Girls Preparatory Charter School of the Bronx II	PrePrep: the Joan Ganz Cooney Early Learning Program	PrePrep 2	Pre Prep 3	Total			
CURRENT ASSETS											
Cash	\$ (3,418,605)	\$ 10,579,524	\$ 6,792,179	\$ 439,616	\$ 181,942	\$ -	\$ -	\$ 14,574,656	\$ 4,086,292	\$ -	\$ 18,660,948
Grants and contracts receivable	637,012	1,067,445	811,280	954,668	16,140	981	327	3,487,853	18,538	-	3,506,391
Property tax refund receivable	-	-	-	-	-	-	-	-	950,280	-	950,280
Prepaid expenses and other current assets	100,217	176,905	161,769	36,378	9,104	3,575	1,461	489,409	225,780	-	715,189
TOTAL CURRENT ASSETS	(2,681,376)	11,823,874	7,765,228	1,430,662	207,186	4,556	1,788	18,551,918	5,280,890	-	23,832,808
OTHER ASSETS											
Property and equipment, net	522,645	957,506	710,188	353,306	19,582	89,386	11,478	2,664,091	9,239,120	-	11,903,211
Related party receivables (payables)	6,515,644	47,575	3,168,522	(1,782,599)	(312,173)	69,171	(13,629)	7,692,511	(7,662,337)	-	30,174
Security deposits	-	502,325	-	-	-	-	-	502,325	31,690	-	534,015
Deferred lease receivable	-	-	-	-	-	-	-	-	944,229	(944,229)	-
Cash in escrow	200,416	-	-	-	-	-	-	200,416	-	-	200,416
Restricted cash	-	-	-	625,000	-	-	-	625,000	-	-	625,000
TOTAL ASSETS	\$ 7,238,705	\$ 1,507,406	\$ 3,878,710	(804,293)	(292,591)	158,557	(2,151)	11,684,343	2,552,702	(944,229)	13,292,816
TOTAL ASSETS	\$ 4,557,329	\$ 13,331,280	\$ 11,643,938	\$ 626,369	\$ (85,405)	\$ 163,113	\$ (363)	\$ 30,236,261	\$ 7,833,592	\$ (944,229)	\$ 37,125,624
LIABILITIES AND NET ASSETS (DEFICIT)											
CURRENT LIABILITIES											
Accounts payable and accrued expenses	\$ 428,793	\$ 507,988	\$ 403,912	\$ 187,270	\$ 9,332	\$ 10,710	\$ 2,689	\$ 1,550,694	\$ 135,761	\$ -	\$ 1,686,455
Accrued payroll and benefits	520,272	810,225	771,389	188,531	42,541	28,545	10,495	2,371,998	-	-	2,371,998
Deferred revenue	95,088	190,174	161,650	28,526	-	-	-	475,438	-	-	475,438
Current portion of deferred lease incentive	9,785	-	3,614	-	-	-	-	13,399	-	-	13,399
Current portion of long-term debt	53,139	9,877	52,717	26,358	-	-	-	142,091	139,520	-	281,611
TOTAL CURRENT LIABILITIES	1,107,077	1,518,264	1,393,282	430,685	51,873	39,255	13,184	4,553,620	275,281	-	4,828,901
LONG-TERM LIABILITIES											
Long-term debt, net of unamortized debt issuance costs of \$400,889 and \$415,164 at June 30, 2022 and 2021, respectively	8,025	-	2,993	4,968	-	-	-	15,986	6,246,964	-	6,262,950
Deferred lease liability	-	944,229	-	-	-	-	-	944,229	2,627,815	(944,229)	2,627,815
TOTAL LIABILITIES	1,115,102	2,462,493	1,396,275	435,653	51,873	39,255	13,184	5,513,835	9,150,060	(944,229)	13,719,666
NET ASSETS (DEFICIT)											
Without donor restrictions	3,439,385	10,868,787	10,247,663	190,716	(137,278)	123,858	(13,547)	24,719,584	(1,316,468)	-	23,403,116
With donor restrictions	2,842	-	-	-	-	-	-	2,842	-	-	2,842
TOTAL NET ASSETS (DEFICIT)	3,442,227	10,868,787	10,247,663	190,716	(137,278)	123,858	(13,547)	24,722,426	(1,316,468)	-	23,405,958
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 4,557,329	\$ 13,331,280	\$ 11,643,938	\$ 626,369	\$ (85,405)	\$ 163,113	\$ (363)	\$ 30,236,261	\$ 7,833,592	\$ (944,229)	\$ 37,125,624

PUBLIC PREP CHARTER SCHOOL ACADEMIES

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2022

	Public Prep Charter School Academies										
	Girls Preparatory Charter School of New York	Boys Preparatory Charter School of New York	Girls Preparatory Charter School of the Bronx	Girls Preparatory Charter School of the Bronx II	PrePrep: the Joan Ganz Cooney Early Learning Program	PrePrep 2	Pre Prep 3	Total	Friends of Girls Preparatory Charter School of New York	Eliminations	Consolidated Total
Revenue, gains and other support:											
Public school district:											
Resident student enrollment	\$ 6,472,958	\$ 12,982,613	\$ 10,986,547	\$ 2,047,073	\$ 602,336	\$ 580,492	\$ 209,529	\$ 33,881,548	\$ -	\$ -	\$ 33,881,548
Students with disabilities	1,214,972	2,176,402	1,536,687	203,261	-	-	-	5,131,322	-	-	5,131,322
Grants and contracts:											
State and local	275,946	26,379	525,766	3,710	-	-	-	831,801	-	-	831,801
Federal - Title and IDEA	344,583	772,152	696,452	124,639	-	-	-	1,937,826	-	-	1,937,826
Federal - other	1,179,203	1,752,938	1,627,261	1,072,342	981	981	327	5,634,033	-	-	5,634,033
NYC DOE rental assistance	-	3,860,447	-	621,038	-	-	-	4,481,485	-	-	4,481,485
Contributions - nonfinancial assets	1,941,887	-	3,295,964	-	180,701	-	62,859	5,481,411	-	-	5,481,411
Food Service/Child Nutrition Program	-	889,214	-	-	-	-	-	889,214	-	-	889,214
TOTAL REVENUE, GAINS AND OTHER SUPPORT	11,429,549	22,460,145	18,668,677	4,072,063	784,018	581,473	272,715	58,268,640	-	-	58,268,640
Expenses:											
Program services:											
Regular education	8,222,507	14,684,684	12,894,802	3,163,358	-	-	-	38,965,351	3,420,902	(4,554,207)	37,832,046
Special education	2,325,642	4,629,107	2,913,481	604,756	-	-	-	10,472,986	960,904	(1,428,679)	10,005,211
Pre-K	-	-	-	-	683,008	492,318	247,627	1,422,953	170,730	(52,000)	1,541,683
Total Program Services	10,548,149	19,313,791	15,808,283	3,768,114	683,008	492,318	247,627	50,861,290	4,552,536	(6,034,886)	49,378,940
Management and general	1,465,621	1,986,507	2,034,463	559,109	32,544	34,241	18,980	6,131,465	535,084	(664,765)	6,001,784
Fundraising and special events	11,482	22,472	18,547	3,410	-	-	-	55,911	-	-	55,911
TOTAL OPERATING EXPENSES	12,025,252	21,322,770	17,861,293	4,330,633	715,552	526,559	266,607	57,048,666	5,087,620	(6,699,651)	55,436,635
(DEFICIT) SURPLUS FROM SCHOOL OPERATIONS	(595,703)	1,137,375	807,384	(258,570)	68,466	54,914	6,108	1,219,974	(5,087,620)	6,699,651	2,832,005
Support and other revenue:											
Contributions:											
Foundations	80,000	-	-	-	-	-	-	80,000	-	-	80,000
Individuals	1,000	-	-	-	-	-	-	1,000	-	-	1,000
Corporate	-	-	-	33,333	-	-	-	33,333	-	-	33,333
Interest income	87	-	-	-	-	-	-	87	-	-	87
Other income	1,924	134,968	-	-	-	-	-	136,892	1,104	-	137,996
Rental income	-	-	-	-	-	-	-	-	6,744,594	(6,699,651)	44,943
Property tax rebate	-	-	-	-	-	-	-	-	354,216	-	354,216
TOTAL SUPPORT AND OTHER REVENUE	83,011	134,968	-	33,333	-	-	-	251,312	7,099,914	(6,699,651)	651,575
CHANGE IN NET ASSETS	(512,692)	1,272,343	807,384	(225,237)	68,466	54,914	6,108	1,471,286	2,012,294	-	3,483,580
Net assets (deficit) at beginning of year	3,954,919	9,596,444	9,440,279	415,953	(205,744)	68,944	(19,655)	23,251,140	(3,328,762)	-	19,922,378
NET ASSETS (DEFICIT) AT END OF YEAR	\$ 3,442,227	\$ 10,868,787	\$ 10,247,663	\$ 190,716	\$ (137,278)	\$ 123,858	\$ (13,547)	\$ 24,722,426	\$ (1,316,468)	\$ -	\$ 23,405,958

PUBLIC PREP CHARTER SCHOOL ACADEMIES

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

YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)

	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
								2022	2021
Personnel services costs:									
Administrative staff personnel	15	\$ 620,292	\$ 177,681	\$ 797,973	\$ 785,741	\$ -	\$ 785,741	\$ 1,583,714	\$ 1,567,629
Instructional personnel	65	3,233,792	926,310	4,160,102	-	-	-	4,160,102	4,649,372
Total personnel services costs	80	3,854,084	1,103,991	4,958,075	785,741	-	785,741	5,743,816	6,217,001
Fringe benefits and payroll taxes		678,201	194,269	872,470	138,266	-	138,266	1,010,736	1,356,193
Retirement		73,256	20,984	94,240	14,935	-	14,935	109,175	142,685
Management company fees		803,709	160,742	964,451	172,223	11,482	183,705	1,148,156	1,521,577
Accounting and auditing services		13,328	3,817	17,145	1,905	-	1,905	19,050	4,554
Other professional and consulting services		382,777	109,713	492,490	54,714	-	54,714	547,204	171,118
Rent		-	-	-	-	-	-	-	5,006
In-kind rent		1,358,546	389,152	1,747,698	194,189	-	194,189	1,941,887	2,526,484
Repairs and maintenance		16,096	4,611	20,707	2,301	-	2,301	23,008	22,786
Insurance		65,000	18,619	83,619	9,291	-	9,291	92,910	53,812
Utilities		37,045	11,471	48,516	8,724	-	8,724	57,240	73,613
Supplies and materials		243,788	108,296	352,084	-	-	-	352,084	204,709
Equipment and furnishings		16,399	4,697	21,096	2,344	-	2,344	23,440	12,070
Staff development		88,032	25,217	113,249	13,713	-	13,713	126,962	198,045
Marketing and recruiting		2,712	777	3,489	388	-	388	3,877	20,497
Technology		60,335	17,283	77,618	8,624	-	8,624	86,242	101,785
Food service		8,052	2,306	10,358	-	-	-	10,358	2,045
Student services		147,575	42,272	189,847	4,658	-	4,658	194,505	70,374
Office expense		173,330	50,066	223,396	24,983	-	24,983	248,379	155,472
Depreciation and amortization		200,242	57,359	257,601	28,622	-	28,622	286,223	180,219
Other		-	-	-	-	-	-	-	7,741
		<u>\$ 8,222,507</u>	<u>\$ 2,325,642</u>	<u>\$ 10,548,149</u>	<u>\$ 1,465,621</u>	<u>\$ 11,482</u>	<u>\$ 1,477,103</u>	<u>\$ 12,025,252</u>	<u>\$ 13,047,786</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

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

YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)

	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
								2022	2021
Personnel services costs:									
Administrative staff personnel	18	\$ 692,781	\$ 227,654	\$ 920,435	\$ 599,415	\$ -	\$ 599,415	\$ 1,519,850	\$ 1,349,667
Instructional personnel	105	4,873,838	1,601,589	6,475,427	-	-	-	6,475,427	5,202,969
Non-instructional personnel	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,207</u>	<u>-</u>	<u>104,207</u>	<u>104,207</u>	<u>132,482</u>
Total personnel services costs	124	5,566,619	1,829,243	7,395,862	703,622	-	703,622	8,099,484	6,685,118
Fringe benefits and payroll taxes		1,253,707	411,979	1,665,686	158,466	-	158,466	1,824,152	1,531,751
Retirement		59,577	19,578	79,155	7,530	-	7,530	86,685	101,075
Management company fees		1,573,061	314,612	1,887,673	337,084	22,472	359,556	2,247,229	2,070,899
Accounting and auditing services		12,905	4,240	17,145	1,905	-	1,905	19,050	4,554
Other professional and consulting services		360,561	118,484	479,045	53,227	-	53,227	532,272	246,356
Building rent / lease / facility finance interest		3,874,041	1,273,046	5,147,087	571,898	-	571,898	5,718,985	3,700,359
Repairs and maintenance		46,836	15,391	62,227	6,914	-	6,914	69,141	11,129
Insurance		65,239	21,438	86,677	9,631	-	9,631	96,308	75,998
Utilities		71,157	23,383	94,540	10,505	-	10,505	105,045	155,707
Supplies and materials		342,285	118,306	460,591	-	-	-	460,591	224,255
Equipment and furnishings		4,640	1,524	6,164	685	-	685	6,849	17,296
Staff development		110,687	36,372	147,059	16,003	-	16,003	163,062	177,080
Marketing and recruiting		5,673	1,865	7,538	838	-	838	8,376	32,476
Technology		96,437	31,690	128,127	14,236	-	14,236	142,363	74,459
Food service		551,139	181,176	732,315	-	-	-	732,315	332,434
Student services		114,429	37,602	152,031	8,977	-	8,977	161,008	40,702
Office expense		235,571	77,412	312,983	34,776	-	34,776	347,759	229,453
Depreciation and amortization		337,443	110,887	448,330	49,815	-	49,815	498,145	376,161
Other		2,677	879	3,556	395	-	395	3,951	6,346
		<u>\$ 14,684,684</u>	<u>\$ 4,629,107</u>	<u>\$ 19,313,791</u>	<u>\$ 1,986,507</u>	<u>\$ 22,472</u>	<u>\$ 2,008,979</u>	<u>\$ 21,322,770</u>	<u>\$ 16,093,608</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

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

YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)

	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
								2022	2021
Personnel services costs:									
Administrative staff personnel	24	\$ 819,030	\$ 187,408	\$ 1,006,438	\$ 1,014,086	\$ -	\$ 1,014,086	\$ 2,020,524	\$ 1,868,599
Instructional personnel	96	5,136,010	1,175,205	6,311,215	-	-	-	6,311,215	5,982,991
Total personnel services costs	120	5,955,040	1,362,613	7,317,653	1,014,086	-	1,014,086	8,331,739	7,851,590
Fringe benefits and payroll taxes		1,200,272	274,643	1,474,915	204,395	-	204,395	1,679,310	1,626,376
Retirement		78,916	18,057	96,973	13,439	-	13,439	110,412	170,362
Management company fees		1,298,305	259,661	1,557,966	278,208	18,547	296,755	1,854,721	2,007,850
Legal services		73,241	16,759	90,000	10,000	-	10,000	100,000	-
Accounting and auditing services		13,953	3,192	17,145	1,905	-	1,905	19,050	4,554
Other professional and consulting services		338,758	77,642	416,400	46,252	-	46,252	462,652	268,700
Rent		-	-	-	-	-	-	-	2,601
In-kind rent		2,414,004	552,364	2,966,368	329,596	-	329,596	3,295,964	3,459,926
Repairs and maintenance		38,446	8,797	47,243	5,249	-	5,249	52,492	30,981
Insurance		60,834	13,920	74,754	8,306	-	8,306	83,060	66,877
Utilities		56,219	12,864	69,083	7,676	-	7,676	76,759	128,442
Supplies and materials		427,109	97,950	525,059	-	-	-	525,059	228,079
Equipment and furnishings		10,325	2,363	12,688	1,410	-	1,410	14,098	16,295
Staff development		140,029	32,041	172,070	20,022	-	20,022	192,092	208,903
Marketing and recruiting		5,814	1,330	7,144	794	-	794	7,938	15,640
Technology		95,801	21,921	117,722	13,080	-	13,080	130,802	82,680
Food service		23,952	5,481	29,433	-	-	-	29,433	8,894
Student services		126,307	28,901	155,208	6,661	-	6,661	161,869	85,389
Office expense		254,122	58,147	312,269	34,697	-	34,697	346,966	168,336
Depreciation and amortization		278,899	63,816	342,715	38,079	-	38,079	380,794	276,580
Other		4,456	1,019	5,475	608	-	608	6,083	6,771
		<u>\$ 12,894,802</u>	<u>\$ 2,913,481</u>	<u>\$ 15,808,283</u>	<u>\$ 2,034,463</u>	<u>\$ 18,547</u>	<u>\$ 2,053,010</u>	<u>\$ 17,861,293</u>	<u>\$ 16,715,826</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

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

YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)

	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Year ended June 30,	
								2022	2021
Personnel services costs:									
Administrative staff personnel	6	\$ 176,971	\$ 40,494	\$ 217,465	\$ 286,665	\$ -	\$ 286,665	\$ 504,130	\$ 327,763
Instructional personnel	20	1,094,733	173,043	1,267,776	-	-	-	1,267,776	544,831
Total personnel services costs	26	1,271,704	213,537	1,485,241	286,665	-	286,665	1,771,906	872,594
Fringe benefits and payroll taxes		248,192	41,675	289,867	55,947	-	55,947	345,814	184,180
Retirement		26,551	4,458	31,009	5,985	-	5,985	36,994	27,956
Management company fees		238,706	47,741	286,447	51,151	3,410	54,561	341,008	198,302
Legal services		19,665	4,500	24,165	2,685	-	2,685	26,850	-
Accounting and auditing services		13,953	3,192	17,145	1,905	-	1,905	19,050	12,113
Other professional and consulting services		182,179	40,265	222,444	26,947	-	26,947	249,391	72,456
Building rent / lease / facility finance interest		680,166	155,634	835,800	92,867	-	92,867	928,667	365,970
Repairs and maintenance		780	179	959	107	-	107	1,066	11,465
Insurance		12,161	2,783	14,944	1,660	-	1,660	16,604	9,750
Utilities		12,543	2,870	15,413	1,713	-	1,713	17,126	6,704
Supplies and materials		140,514	22,238	162,752	-	-	-	162,752	81,882
Equipment and furnishings		1,619	370	1,989	221	-	221	2,210	6,601
Staff development		28,094	6,079	34,173	4,346	-	4,346	38,519	55,490
Marketing and recruiting		3,669	840	4,509	501	-	501	5,010	-
Technology		32,332	7,398	39,730	4,415	-	4,415	44,145	23,937
Food service		64,030	10,121	74,151	-	-	-	74,151	9,170
Student services		35,918	6,420	42,338	1,433	-	1,433	43,771	432
Office expense		63,275	14,479	77,754	8,640	-	8,640	86,394	33,176
Depreciation and amortization		78,496	17,961	96,457	10,718	-	10,718	107,175	41,862
Other		8,811	2,016	10,827	1,203	-	1,203	12,030	3,382
		<u>\$ 3,163,358</u>	<u>\$ 604,756</u>	<u>\$ 3,768,114</u>	<u>\$ 559,109</u>	<u>\$ 3,410</u>	<u>\$ 562,519</u>	<u>\$ 4,330,633</u>	<u>\$ 2,017,422</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

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

YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)

	No. of Positions	Program Services	Supporting Services		Total	
		Pre-K	Management and general	Fundraising and special events	Year ended June 30,	
						2022
Personnel services costs:						
Administrative staff personnel	-	\$ 15,000	\$ -	\$ -	\$ 15,000	\$ 17,050
Instructional personnel	<u>5</u>	<u>357,687</u>	<u>-</u>	<u>-</u>	<u>357,687</u>	<u>426,883</u>
Total personnel services costs	5	372,687	-	-	372,687	443,933
Fringe benefits and payroll taxes		84,657	-	-	84,657	84,418
Retirement		7,903	-	-	7,903	12,267
Other professional and consulting services		-	32,544	-	32,544	8,991
In-kind rent		180,701	-	-	180,701	179,430
Insurance		5,037	-	-	5,037	14,679
Utilities		1,795	-	-	1,795	5,188
Supplies and materials		10,017	-	-	10,017	17,566
Staff development		360	-	-	360	360
Marketing and recruiting		-	-	-	-	910
Food service		3,706	-	-	3,706	202
Student services		266	-	-	266	482
Office expense		7,072	-	-	7,072	5,308
Depreciation and amortization		8,807	-	-	8,807	3,825
Other		-	-	-	-	110,751
		<u>\$ 683,008</u>	<u>\$ 32,544</u>	<u>\$ -</u>	<u>\$ 715,552</u>	<u>\$ 888,310</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES BY PROGRAM –
PREPREP 2

YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)

	No. of Positions	Program Services	Supporting Services		Total	
		Pre-K 2	Management and general	Fundraising and special events	Year ended June 30,	
					2022	2021
Personnel services costs:						
Administrative staff personnel	-	\$ 15,000	\$ -	\$ -	\$ 15,000	\$ 18,083
Instructional personnel	4	287,761	-	-	287,761	440,368
Total personnel services costs	4	302,761	-	-	302,761	458,451
Fringe benefits and payroll taxes		27,929	-	-	27,929	35,494
Retirement		5,676	-	-	5,676	11,939
Other professional and consulting services		9,932	34,241	-	44,173	11,711
Rent		52,000	-	-	52,000	55,000
Insurance		7,764	-	-	7,764	7,261
Utilities		1,795	-	-	1,795	28,848
Supplies and materials		11,495	-	-	11,495	6,226
Staff development		360	-	-	360	360
Marketing and recruiting		-	-	-	-	589
Food service		37,802	-	-	37,802	21,204
Student services		740	-	-	740	22
Office expense		7,070	-	-	7,070	2,710
Depreciation and amortization		26,994	-	-	26,994	22,000
Other		-	-	-	-	45,332
		<u>\$ 492,318</u>	<u>\$ 34,241</u>	<u>\$ -</u>	<u>\$ 526,559</u>	<u>\$ 707,147</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES BY PROGRAM –
PREPREP 3

YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)

	No. of Positions	Program Services	Supporting Services		Total	
		Pre-K 3	Management and general	Fundraising and special events	Year ended June 30,	
			2022	2021		
Personnel services costs:						
Administrative staff personnel	-	\$ 15,000	\$ -	\$ -	\$ 15,000	\$ 12,400
Instructional personnel	<u>2</u>	<u>130,856</u>	<u>-</u>	<u>-</u>	<u>130,856</u>	<u>167,030</u>
Total personnel services costs	2	145,856	-	-	145,856	179,430
Fringe benefits and payroll taxes		24,951	-	-	24,951	14,317
Retirement		183	-	-	183	2,571
Other professional and consulting services		-	18,980	-	18,980	9,079
In-kind rent		62,859	-	-	62,859	62,209
Insurance		2,133	-	-	2,133	4,442
Utilities		598	-	-	598	3,448
Supplies and materials		3,215	-	-	3,215	2,188
Staff development		120	-	-	120	120
Marketing and recruiting		-	-	-	-	25
Student services		56	-	-	56	126
Office expense		2,357	-	-	2,357	3,219
Depreciation and amortization		5,299	-	-	5,299	3,894
Other		-	-	-	-	590
		<u>\$ 247,627</u>	<u>\$ 18,980</u>	<u>\$ -</u>	<u>\$ 266,607</u>	<u>\$ 285,658</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

STATEMENT OF FUNCTIONAL EXPENSES – FRIENDS OF GIRLS PREP

YEAR ENDED JUNE 30, 2022
 (With Comparative Totals for 2021)

	Program Services				Supporting Services	Total	
	Regular Education	Special Education	Pre-K	Sub-total	Management and general	Year ended June 30, 2022	2021
Legal Services	\$ -	\$ -	\$ -	\$ -	\$ 29,246	\$ 29,246	\$ -
Accounting and auditing services	2,029	570	101	2,700	300	3,000	-
Other professional and consulting services	309,097	86,823	15,426	411,346	45,705	457,051	406,294
Building rent / lease / facility finance interest	2,237,879	628,602	111,688	2,978,169	330,908	3,309,077	3,252,197
Repairs and maintenance	398,429	111,916	19,885	530,230	58,915	589,145	277,532
Utilities	180,040	50,572	8,986	239,598	26,622	266,220	158,579
Taxes	-	-	-	-	-	-	584,878
Depreciation and amortization	293,428	82,421	14,644	390,493	43,388	433,881	411,052
	<u>\$ 3,420,902</u>	<u>\$ 960,904</u>	<u>\$ 170,730</u>	<u>\$ 4,552,536</u>	<u>\$ 535,084</u>	<u>\$ 5,087,620</u>	<u>\$ 5,090,532</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2022



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

November 30, 2022

Finance Committee
Public Prep Charter School Academies

We have audited the consolidated financial statements of Public Prep Charter School Academies (the “Organization”) as of and for the year ended June 30, 2022, and have issued our reports thereon dated November 30, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 13, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the consolidated financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the consolidated financial statements does not relieve you or management of its respective responsibilities.

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

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

We have provided our comments regarding material weaknesses and other matters noted during our audit in a separate letter to you dated November 30, 2022.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope we previously communicated to you. As noted below, completion of our audit was delayed as a result of delays in receiving necessary information and related corrections necessary to properly state financial statement balances.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence. Safeguards in place to eliminate or reduce threats to independence to an acceptable level include a skilled, knowledgeable and experienced CFO who reviews draft financial statements prior to issuance and accepts responsibility for them.

Significant Risks Identified

We have identified the following significant risks:

- Management override
- Improper revenue recognition
- Improper allocation of expenses to grants
- Misappropriation of assets

Professional auditing standards require that we identify and assess risks and design and perform our audit procedures to assess those risks. The identification of risk does not mean that it has occurred, but rather it has the potential to impact the consolidated financial statements.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Public Prep Charter School Academies is included in Note A to the consolidated financial statements. As described in Note A to the consolidated financial statements, during the year, the Organization adopted new guidance for gifts-in-kind (ASU 2020-07). No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

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

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Organization's financial statements relate to revenue and support recognition, liquidity and availability, related party transactions, long-term debt, and lease commitments, which are referred to in the notes of the consolidated financial statements.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all significant, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following schedule details significant misstatements that we identified as a result of our audit procedures and were brought to the attention of, and corrected by, management.

Disagreements with Management

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

Representations Requested from Management

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

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings or Issues

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

Other Matters

FPPM

During our audit, we noted certain policies and procedures included in the Organization’s current Fiscal Policies & Procedures Manual (FPPM) differ from the actual practices in place. We recommend updating the FPPM to incorporate any changes made to operating procedures, whether from efficiency improvements, changes in organizational structure, level of approvals needed, or other matters. Once updated, it is important the Organization follow the policies and procedures as described in the FPPM. Although procedures in place appear adequate, we noted differences between current operations and the FPPM in the following areas:

- Documentation of reasoning for bids not being obtained for purchases over threshold.
- Documentation of review of bank reconciliations as well as who completed reconciliations are shared with

Supplementary information

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

* * * * *

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

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

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

Public Prep Charter School Academies
Summary of Significant Journal Entries
June 30, 2022

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
To adjust payroll accrual.	\$ -	\$ (306,333)	\$ -	\$ -	\$ (306,333)
To adjust per pupil based on YE reconciliation invoice.	49,316	7,142	-	42,174	-
To record ER match for 10.5 month employee payroll accrual.	-	35,324	-	-	35,324
To accrue half of August medical insurance for teachers covered through that period.	-	106,827	-	-	106,827
To record E-Rate revenue for FY22.	-	-	-	110,807	110,807
To reconcile DYCD revenue FY22.	165,661	-	-	165,661	-
To reduce ESSER revenue to match total approved budget.	(135,803)	-	-	(135,803)	-
To record donation from PPN to cover COVID testing expenses at GPLES.	80,000	-	-	80,000	-
To record child nutrition revenues.	81,219	-	-	81,219	-
To record in-kind rent.	-	-	-	5,481,411	5,481,411
To reverse double recording of June 2022 rental income.	<u>(475,247)</u>	<u>-</u>	<u>-</u>	<u>(475,247)</u>	<u>-</u>
Effect of Corrected Misstatements: Current Period	<u>\$ (234,854)</u>	<u>\$ (157,040)</u>	<u>\$ -</u>	<u>\$ 5,350,222</u>	<u>\$ 5,428,036</u>

Public Prep Charter School Academies
Summary of Uncorrected Misstatements
June 30, 2022

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
To adjust for FY21 out of district revenues booked in FY22.	\$ -	\$ -	\$ 85,439	\$ (85,439)	\$ -
Effect of Uncorrected Misstatements: Current Period	-	-	85,439	(85,439)	-
Turnaround Effect of Prior Period Uncorrected Misstatements			(138,436)	138,436	-
Net Effect of Uncorrected Misstatements	\$ -	\$ -	\$ (52,997)	\$ 52,997	\$ -

PUBLIC PREP CHARTER SCHOOL ACADEMIES

NEW YORK, NEW YORK

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

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2022



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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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 financial statements of Public Prep Charter School Academies, which comprise the consolidated statement of financial position as of June 30, 2022 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 November 30, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Public Prep Charter School Academies' internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

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

We noted certain matters that we have reported to management of Public Prep Charter School Academies in a separate letter dated November 30, 2022.

Public Prep Charter School Academies' Response to Finding

Public Prep Charter School Academies' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Public Prep Charter School Academies' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
November 30, 2022

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

Board of Trustees
Public Prep Charter School Academies

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Public Prep Charter School Academies' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Public Prep Charter School Academies' major federal programs for the year ended June 30, 2022. Public Prep Charter School Academies' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Public Prep Charter School Academies complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Public Prep Charter School Academies and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Public Prep Charter School Academies' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Public Prep Charter School Academies' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Public Prep Charter School Academies' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Public Prep Charter School Academies' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Public Prep Charter School Academies' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Public Prep Charter School Academies' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Public Prep Charter School Academies' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Public Prep Charter School Academies' response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. Public Prep Charter School Academies' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the consolidated financial statements of Public Prep Charter School Academies as of and for the year ended June 30, 2022, and have issued our report thereon dated November 30, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 30, 2022

PUBLIC PREP CHARTER SCHOOL ACADEMIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

	<u>Federal AL Number</u>	<u>Pass-through Grantor's Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education:			
<u>Passed through New York State Education Department:</u>			
Title I - Grants to Local Educational Agencies	84.010	0021-22	\$ 1,255,763
Title IIA - Supporting Effective Instruction State Grant	84.367	0147-22	160,826
Title IV- Student Support and Academic Enrichment Program	84.424	0204-22	88,061
Charter School Planning and Implementation Grant	84.282	C403555	430,615
<u>Education Stabilization Funds -</u>			
ESSER II - Elementary and Secondary School Emergency Relief Fund	84.425D	5891-21	3,389,120
ARP ESSER - American Rescue Plan-Elementary and Secondary School Emergency Relief	84.425U	5880-21	1,358,428
ESSER HCY - Elementary and Secondary School Emergency Relief Fund - Homeless Children & Youth	84.425W	5218-21	11,582
<i>Total Education Stabilization Funds</i>			<u>4,759,130</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			6,694,395
U.S. Department of Agriculture:			
<u>Passed through New York State Education Department:</u>			
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	320700860994	279,488
National School Lunch Program	10.555	320700860994	588,998
Summer Food Service Program	10.559	320700860994	2,000
<i>Total Child Nutrition Cluster</i>			<u>870,486</u>
State Pandemic Electronic Benefit Transfer (P-EBT) Administrative Cost Grant	10.649	320700860994	601
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>871,087</u>
Federal Communications Commission:			
<u>Passed through Public Prep Network, Inc.</u>			
Emergency Connectivity Fund Program - COVID	32.009	16051550	321,869
TOTAL FEDERAL COMMUNICATIONS COMMISSION			<u>321,869</u>
TOTAL ALL PROGRAMS			<u>\$ 7,887,351</u>

PUBLIC PREP CHARTER SCHOOL ACADEMIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

NOTE A: BASIS OF PRESENTATION

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

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major federal programs:

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

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

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

Identification of major federal program:

AL Number:

84.425D, 84.425U, 84.425W
32.009

Name of Federal Program or Cluster:

ESSER II, ARP ESSER & ESSER HCY
Emergency Connectivity Fund Program - COVID

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

Auditee qualified as low-risk auditee? x yes no

PUBLIC PREP CHARTER SCHOOL ACADEMIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd
YEAR ENDED JUNE 30, 2022

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2022-001

Criteria: During our 2022 audit, we identified the need for certain significant adjustments to properly state consolidated financial statement balances in accordance with accounting principles generally accepted in the United States of America (GAAP). We consider this to be a material weakness in internal control over financial reporting.

Condition: The adjustments included journal entries to accounts receivable, accrued expenses, grant revenue, and payroll and benefits expense. Although the net impact of the entries was not material, this was due to significant offsetting adjustments which resulted in a small net impact, rather than minor adjustments in multiple areas.

Cause: During the 2022 fiscal year, the outsourced financial consulting firm did not record transactions or reconcile certain accounts on a timely basis throughout the year, resulting in significant adjustments at year-end to properly state consolidated financial statement balances in accordance with GAAP.

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

Context: After receipt of finding 2021-001, management of the Organization began meeting biweekly with the outsourced financial consulting firm to address the issues noted and to provide additional oversight of the consulting firm. The consulting firm also planned to incorporate increased internal controls within their services to prevent future occurrences of these errors. However, despite the increased oversight and internal controls, certain transactions, including properly recording revenue and related accounts receivable, applying payments against receivables, and properly recording accrued expenses, were not recorded on a timely or accurate basis throughout the year, resulting in significant effort after year-end to properly close the books.

Recommendation: As part of the planned corrective action from finding 2021-001, management began developing an expanded internal finance team, including team members with prior experience in the charter school industry. We recommend the Organization transfer the day-to-day finance operations to the internal finance team to reduce reliance on the outsourced financial consulting firm. This will allow the Organization to devote the necessary resources to managing the finance and accounting function on a more accurate and timely basis. Additionally, implementation of a monthly, quarterly, and year-end closing checklist, delineating responsibilities of each team member and documenting when items are completed and by whom in regard to the reconciliation of accounts and ongoing accounting function will ensure transactions are recorded on a timely basis and any errors are detected and corrected.

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

PUBLIC PREP CHARTER SCHOOL ACADEMIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2022

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding of 2022-002

Identification of the Federal Program:

AL 84.425D & 84.425U – ESSER II and ARP ESSER, Department of Education, passed through NYSED

Criteria: Requirements per section 2 CFR Part 200 Subpart E of the Uniform Guidance state that costs charged to federal awards must be determined in accordance with GAAP, be adequately documented, and be allocable to the federal award, and be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Condition: During our audit procedures, we reviewed the grant schedules prepared by the outsourced financial consulting firm and noted they did not properly reconcile to the grant activity as recorded. Consequently, we proposed significant adjustments to properly record the grant activity. We consider this to be a material weakness in internal control over compliance in the area of allowable costs/cost principles.

Cause: During the 2022 fiscal year, the outsourced financial consulting firm did not identify expenditures of federal funds on a timely or consistent basis throughout the year, resulting in significant effort to properly identify and reflect allowable expenditures of federal funds at year-end.

Effect or Potential Effect: If expenditures of federal funds are not properly tracked throughout the year, management may not fully utilize grant funds during the grant period or may improperly identify unallowable costs as federal expenditures under the applicable grants. This could result in disallowance of grant expenditures.

Questioned Costs: N/A

Context: The outsourced financial consulting firm estimated amounts of federal grant expenditures throughout the year but did not have a process in place to reconcile the estimated amounts to the specific expenditures. As a result, the outsourced financial consulting firm went through multiple iterations of preparing the federal expenditure details.

Recommendation: We recommend the Organization transfer the day-to-day finance operations to the expanded internal finance team to reduce reliance on the outsourced financial consulting firm. This will allow the Organization to devote the necessary resources to managing the finance and accounting function, including tracking of expenditures of federal funds, on a more accurate and timely basis. Federal grant revenues and expenditures should be reconciled on a monthly basis to ensure charges are in accordance with GAAP, adequately documented, and allocable to the federal award.

Views of responsible officials: Public Prep agrees with the audit finding and acknowledges our responsibility for the design, implementation and reviews of internal controls related to financial reporting on Federal awards.

PUBLIC PREP CHARTER SCHOOL ACADEMIES

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

Finding 2021-001

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

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

Status: Refer to Finding 2022-001.



Finding 2022-001
Corrective Action Plan

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

Public Prep will:

1. Create, design and implement a monthly, quarterly, and year-end closing checklist reconciling all asset, liability, revenue, expense, and intercompany balances.
2. Will have a senior finance member to review all of the monthly analysis and reconciliations on all the asset, liability, revenue, expense, and intercompany balances.
3. Senior Finance members will review all current FPP and revise where needed to align to the current procedures to policy, ensuring compliance.
4. Engage our independent auditors to perform an agreed-upon procedures engagement as of 12/31/22 to determine if the above changes have been implemented and are operating as intended.
5. The finance team will conduct soft closes and a hard close of books following Q3 2023 so any adjustments may be made prior to year-end 2023.

Finding 2022-002
Corrective Action Plan

Public Prep agrees with the audit finding and acknowledges our responsibility for the design, implementation and reviews of internal controls related to financial reporting on Federal awards, the internal finance team will:

1. Assign several accountants who understands the reporting/ invoicing/ and accounting components required for Federal awards.
2. On a monthly basis, the accountants will tag all the allowable, allocable, and appropriate expenses to each of the various federal awards.
3. The accountants will provide Grant Status reports to the schools to report on all expenses expended against the grant funds, to ensure the funds are used appropriately for their intended use.
4. The accountants will have a cost allocation plan to monitor all the expenses being allocated to all the grants funds.

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