

Democracy Prep New York Charter Schools

Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2019 and 2018

Democracy Prep New York Charter Schools

Financial Statements and Uniform Guidance Schedules Together With Independent Auditors' Reports

June 30, 2019 and 2018

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Independent Auditors' Report

Board of Trustees Democracy Prep New York Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Democracy Prep New York Charter Schools (the "School") (formerly known as Bronx Preparatory Charter School), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Democracy Prep New York Charter Schools adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 15 to the financial statements, theft of cash was discovered in two of the School's inactive bank accounts. These amounts were deemed by the School to be uncollectible and were written off to other expense in the accompanying statement of functional expenses for the year ended June 30, 2019. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of activities and functional expenses by school for the year ended June 30, 2019 on pages 21 through 28 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 29 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the School's 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 the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Democracy Prep New York Charter Schools

Statements of Financial Position

	June 30,	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 8,761,917	\$ 2,713,448
Investments	2,109,489	2,071,438
Grants and contracts receivable	2,082,011	3,993,191
Due from related parties	1,336,142	1,448,403
Prepaid expenses and other current assets	618,884	1,750,260
Total Current Assets	14,908,443	11,976,740
Prepaid expenses and other assets, less current portion	1,800,000	-
Property and equipment, net	15,518,755	17,111,230
Restricted cash	-	217,700
	\$ 32,227,198	\$ 29,305,670
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,044,370	\$ 1,149,325
Accrued payroll and payroll taxes	4,337,417	3,706,139
Capital lease obligation	364,758	338,025
Refundable advances	279,777	43,316
Deferred rent	20,424	49,795
Total Current Liabilities	6,046,746	5,286,600
Deferred rent, less current portion	925,074	837,356
Capital lease obligation, less current portion	414,623	779,380
Total Liabilities	7,386,443	6,903,336
Net Assets		
Without donor restrictions		
Undesignated	12,696,612	9,641,429
Board designated	897,030	1,012,812
Total Without Donor Restrictions	13,593,642	10,654,241
With donor restrictions	11,247,113	11,748,093
Total Net Assets	24,840,755	22,402,334
	\$ 32,227,198	\$ 29,305,670

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Activities Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and local per pupil operating revenue			
Regular student enrollment	\$ 52,226,156	\$ -	\$ 52,226,156
Students with disabilities	4,892,597	-	4,892,597
Facilities funding	1,183,411	-	1,183,411
Grants and contracts			
Federal E-Rate, IDEA, and Titles	2,794,433	-	2,794,433
State	254,304	-	254,304
Total Operating Revenue	61,350,901	-	61,350,901
EXPENSES			
Regular education	40,825,702	-	40,825,702
Special education	9,126,365	-	9,126,365
Total Program Services	49,952,067	-	49,952,067
Supporting Services			
Management and general	9,709,047	-	9,709,047
Total Expenses	59,661,114	-	59,661,114
Surplus from Operations	1,689,787	-	1,689,787
SUPPORT AND OTHER REVENUE			
Contributions	5,294	43,866	49,160
Rental income	660,086	-	660,086
Other income	39,388	-	39,388
Net assets released from restrictions	58,843	(58,843)	-
Total Support and Other Revenue	763,611	(14,977)	748,634
Result of Operations	2,453,398	(14,977)	2,438,421
Net assets released from restriction - amortization of interest in Friends' Building	486,003	(486,003)	-
Change in Net Assets	2,939,401	(500,980)	2,438,421
NET ASSETS			
Beginning of year	10,654,241	11,748,093	22,402,334
End of year	\$ 13,593,642	\$ 11,247,113	\$ 24,840,755

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and local per pupil operating revenue			
Regular student enrollment	\$ 47,338,436	\$ -	\$ 47,338,436
Students with disabilities	4,528,212	-	4,528,212
Facilities funding	849,712	-	849,712
Grants and contracts			
Federal E-Rate, IDEA, and Titles	2,345,380	-	2,345,380
Total Operating Revenue	55,061,740	-	55,061,740
EXPENSES			
Program Services			
Regular education	40,638,731	-	40,638,731
Special education	7,852,999	-	7,852,999
Total Program Services	48,491,730	-	48,491,730
Supporting Services			
Management and general	9,767,169	-	9,767,169
Total Expenses	58,258,899	-	58,258,899
Deficit from Operations	(3,197,159)	-	(3,197,159)
SUPPORT AND OTHER REVENUE			
Contributions	2,142	37,500	39,642
Rental income	598,007	-	598,007
Other income	86,860	-	86,860
Net assets released from restrictions	30,847	(30,847)	-
Total Support and Other Revenue	717,856	6,653	724,509
Result of Operations	(2,479,303)	6,653	(2,472,650)
Net assets released from restriction - amortization of interest in Friends' Building	486,003	(486,003)	-
Change in Net Assets	(1,993,300)	(479,350)	(2,472,650)
NET ASSETS			
Beginning of year	1,943,321	12,186,226	14,129,547
Transfer of net assets pursuant to merger of related charter schools	10,704,220	41,217	10,745,437
End of year	\$ 10,654,241	\$ 11,748,093	\$ 22,402,334

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Functional Expenses
Year Ended June 30, 2019

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	80	\$ 933,474	\$ 210,284	\$ 1,143,758	\$ 5,133,098	\$ 6,276,856
Instructional personnel	336	19,180,501	4,332,019	23,512,520	-	23,512,520
Non-instructional personnel	7	353,645	68,493	422,138	-	422,138
<u>Total Salaries and Staff</u>	<u>423</u>	<u>20,467,620</u>	<u>4,610,796</u>	<u>25,078,416</u>	<u>5,133,098</u>	<u>30,211,514</u>
Fringe benefits and payroll taxes		4,154,190	904,908	5,059,098	1,022,393	6,081,491
Retirement		659,588	148,723	808,311	166,964	975,275
Management company fees		5,299,806	1,164,739	6,464,545	1,308,757	7,773,302
Accounting/audit services		-	-	-	93,000	93,000
Other purchased/professional/consulting services		521,284	124,019	645,303	135,361	780,664
Occupancy		2,003,987	489,058	2,493,045	513,230	3,006,275
Repair and maintenance		993,124	205,453	1,198,577	230,743	1,429,320
Insurance		252,626	56,939	309,565	63,354	372,919
Utilities		476,776	97,532	574,308	112,954	687,262
Supplies/materials		1,204,294	272,388	1,476,682	-	1,476,682
Equipment/furnishings		4,961	1,210	6,171	1,438	7,609
Staff development		595,079	134,289	729,368	150,541	879,909
Marketing/recruitment		92,761	22,146	114,907	23,668	138,575
Technology		479,462	105,903	585,365	120,387	705,752
Student services		1,574,094	350,394	1,924,488	-	1,924,488
Office expense		247,160	54,697	301,857	61,052	362,909
Depreciation and amortization		1,105,071	253,271	1,358,341	235,573	1,593,914
Travel		9,659	1,757	11,416	2,133	13,549
<u>Other (See Note 15)</u>		<u>345,562</u>	<u>81,633</u>	<u>427,195</u>	<u>233,507</u>	<u>660,702</u>
Total expenses before amortization of interest in Friends' building		40,487,104	9,079,855	49,566,958	9,608,153	59,175,111
Amortization of interest in Friends' building		338,598	46,510	385,109	100,894	486,003
<u>Total Expenses</u>		<u>\$ 40,825,702</u>	<u>\$ 9,126,365</u>	<u>\$ 49,952,067</u>	<u>\$ 9,709,047</u>	<u>\$ 59,661,114</u>

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Functional Expenses
Year Ended June 30, 2018

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	86	\$ 993,882	\$ 194,824	\$ 1,188,706	\$ 5,106,490	\$ 6,295,196
Instructional personnel	306	18,571,881	3,595,904	22,167,785	-	22,167,785
Non-instructional personnel	9	380,674	65,807	446,481	-	446,481
Total Salaries and Staff	<u>401</u>	<u>19,946,437</u>	<u>3,856,535</u>	<u>23,802,972</u>	<u>5,106,490</u>	<u>28,909,462</u>
Fringe benefits and payroll taxes						
Retirement		4,239,221	796,003	5,035,224	1,113,472	6,148,696
Management company fees		676,177	130,093	806,270	173,597	979,867
Accounting/audit services		5,063,871	977,065	6,040,936	1,299,663	7,340,599
Other purchased/professional/consulting services		-	-	-	45,950	45,950
Occupancy		684,649	137,459	822,108	169,538	991,646
Repair and maintenance		2,152,687	454,331	2,607,018	519,912	3,126,930
Insurance		1,490,768	292,758	1,783,526	376,978	2,160,504
Utilities		227,552	44,147	271,699	58,581	330,280
Supplies/materials		505,978	93,127	599,105	129,806	728,911
Equipment/furnishings		940,525	181,507	1,122,032	-	1,122,032
Staff development		12,888	2,073	14,961	3,615	18,576
Marketing/recruitment		401,297	78,390	479,687	102,053	581,740
Technology		116,182	23,070	139,252	29,176	168,428
Student services		426,841	84,253	511,094	108,858	619,952
Office expense		1,750,121	332,618	2,082,739	-	2,082,739
Depreciation and amortization		191,099	36,920	228,019	48,980	276,999
Travel		1,133,556	220,540	1,354,095	290,414	1,644,509
Other		20,202	4,053	24,255	4,989	29,244
		<u>320,082</u>	<u>61,547</u>	<u>381,629</u>	<u>84,203</u>	<u>465,832</u>
Total expenses before amortization of interest in Friends' building		40,300,133	7,806,489	48,106,621	9,666,275	57,772,896
Amortization of interest in Friends' building		338,598	46,510	385,109	100,894	486,003
Total Expenses		<u>\$ 40,638,731</u>	<u>\$ 7,852,999</u>	<u>\$ 48,491,730</u>	<u>\$ 9,767,169</u>	<u>\$ 58,258,899</u>

See notes to financial statements

Democracy Prep New York Charter Schools

Statements of Cash Flows

	Year Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,438,421	\$ (2,472,650)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,593,914	1,644,509
Retirement of property and equipment	-	275,700
Amortization of interest in Friends' building	486,003	486,003
Deferred rent	58,347	120,409
Changes in operating assets and liabilities		
Grants and contracts receivable	1,911,180	(837,783)
Restricted cash	217,700	-
Due from related parties	112,261	10,554
Prepaid expenses and other current assets	(668,624)	(1,167,505)
Accounts payable and accrued expenses	(104,955)	(1,159,135)
Accrued payroll and payroll taxes	631,278	1,217,924
Refundable advances	<u>236,461</u>	<u>(9,327)</u>
Net Cash from Operating Activities	<u>6,911,986</u>	<u>(1,891,301)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(487,442)	(92,305)
Purchase of investments	<u>(38,051)</u>	<u>(1,292,268)</u>
Net Cash from Investing Activities	<u>(525,493)</u>	<u>(1,384,573)</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Payments made on capital lease obligation	<u>(338,024)</u>	<u>(254,928)</u>
Net Change in Cash and Cash Equivalents	6,048,469	(3,530,802)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,713,448</u>	<u>6,244,250</u>
End of Year	<u>\$ 8,761,917</u>	<u>\$ 2,713,448</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 157,944	\$ 98,684
Computer and equipment acquired under a capital lease	-	76,709

See notes to financial statements

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

1. Organization and Tax Status

Democracy Prep New York Charter Schools (the "School") is a New York State, not-for-profit educational corporation that was incorporated to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School is dedicated to providing a high quality college preparatory education to primarily disadvantaged students. The School provided education to approximately 3,300 students in grades kindergarten through twelfth during the 2018-2019 academic year.

The accompanying financial statements include the following charter schools collectively forming the School:

Bronx Preparatory Charter School ("BPCS") – BPCS was granted a provisional charter on April 4, 2000 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York ("Board of Regents"). The Board of Regents approved and issued several renewals to the School's charter expiring on June 30, 2020.

Democracy Preparatory Charter School ("DPCS") – DPCS was granted a provisional charter on December 9, 2005 valid for a term of five years and renewable upon expiration by the Board of Regents. The Board of Regents approved and issued several renewals to the School's charter expiring on June 30, 2020.

Democracy Preparatory Harlem Charter School ("DPH") – DPH was granted a provisional charter on February 9, 2010 valid for a term of five years and renewable upon expiration by the Board of Regents. The Board of Regents approved and issued several renewals to the School's charter expiring on July 30, 2024.

Harlem Prep Charter School ("HPCS") – HPCS was granted a provisional charter on May 14, 2001, valid for a term of five years and renewable upon expiration by the Board of Regents. The Board of Regents approved and issued several renewals to the School's charter expiring on July 31, 2021.

Effective July 1, 2017, DPCS, DPH and HPCS merged into a single legal entity under BPCS. BPCS was renamed Democracy Prep New York Charter Schools also effective July 1, 2017. DPCS, DPH and HPCS were dissolved and ceased to exist as separate legal entities in conjunction with the merger. The plan of merger was approved by the New York State Board of Regents on April 4, 2017.

Effective July 1, 2019, Democracy Preparatory Endurance Charter School ("DPE") merged into the School. DPE ceased to exist as a separate legal entity in conjunction with the merger. The plan of merger was approved by the New York State Board of Regents.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

1. Organization and Tax Status *(continued)*

Friends of Bronx Preparatory Charter School, Inc. (“Friends”) was organized under the laws of the State of New York on June 29, 1999 as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation Law. Friends was established to create a plan for a charter school in New York City, drafting an application for such a charter and making contributions to such a school and other tax-exempt organizations. The by-laws of Friends was amended, restated, and approved by the board of directors. Under the amended by-laws, Friends ceased to be controlled by the School effective July 1, 2014. Upon the School and Friends’ separation, a consolidation is no longer required and Friends’ net assets, except for the School’s interest in Friends’ building (see Note 5), were transferred out from the School’s financial statements. As of July 1, 2014, \$1,792,958 of net assets was transferred to Friends from the separation of Friends from the School.

The New York City Department of Education provides free lunches and transportation directly to some of the School’s students. Such costs are not included in these financial statements. The School covers a portion of the cost of lunches for children not entitled to the free lunches.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which 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 revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Change in Accounting Principle

On July 1, 2018, the School adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the School to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the School to make certain expanded disclosures relating to the liquidity of financial assets, and expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for unrestricted net assets and temporarily restricted net assets were reclassified as net assets without donor restrictions and net assets with donor restrictions, respectively.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (*continued*)

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Net assets without donor restrictions - consist of resources available for the general support of the School's operations. Net assets without donor restrictions may be used at the discretion of the School's management and/or the Board of Trustees.

Net assets with donor restrictions – represents amounts restricted by donors for specific activities of the School or to be used at a future date. The School records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cash and Cash Equivalents

The School considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted Cash

Under the provisions of its charter, the School is required to establish a dissolution reserve account to pay for legal and audit expenses that would be associated with a dissolution, should it occur. The School had not established a separate escrow account as of June 30, 2019.

Fair Value Measurements

The School follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation and Income Recognition

Investments are carried at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case such assets are expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 and 5 years
Furniture and fixtures	7 years
Software	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2019 and 2018.

Refundable Advances

The School records certain government grants and contracts as refundable advances until the related services are performed, at which time it is recognized as revenue.

Deferred Rent

The School records its rent in accordance with U.S. GAAP whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statements of financial position.

Revenue and Support

Revenue from state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies *(continued)*

Revenue and Support (continued)

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as net assets with donor restrictions if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Marketing and Recruiting Costs

The School uses marketing and recruitment specifically aimed at hiring staff and obtaining new students. Accordingly, all costs in marketing and recruiting were allocated to program and management and general expenditures and expensed as incurred. For the years ended June 30, 2019 and 2018, marketing and recruiting costs totaled \$138,575 and \$168,428.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2016.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

3. Investments

The School's investments at June 30, 2019 and 2018 consist of money market funds held by two financial institutions totaling \$2,109,489 and \$2,071,438.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

4. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state and city entitlements and grants. The School expects to collect these receivables within one year, and has not provided an allowance for doubtful accounts.

5. Property and Equipment

Property and equipment consists of the following at June 30:

	2019	2018
Computers and equipment	\$ 14,406,977	\$14,082,487
Furniture and fixtures	1,857,760	1,720,746
Leasehold improvements	2,195,322	2,169,384
Interest in Friends' Building (a)	13,608,077	13,608,077
	32,068,136	31,580,694
Accumulated depreciation and amortization	(16,549,381)	(14,469,464)
	\$ 15,518,755	\$17,111,230

(a) On July 1, 2014, the lease agreement between Friends of Bronx Prep and BPCS, originally commenced in fiscal year 2007, was amended and restated. The amended and restated lease agreement expires on the earlier of: 1) the last day of the month of the 99th anniversary of the commencement date; 2) the termination for any reason of the management agreement between the School and Democracy Prep Public Schools ("DPPS", a related party) (see Note 7); or 3) revocation or nonrenewal of the BPCS charter.

The annual base rent equals to an amount sufficient to pay Friends' reasonable and necessary actual, third party costs of owning the property (including, but not limited to, such costs arising from abatement or remediation of any hazardous or illegal condition not remedied by the School in accordance with and within the cure periods provided by this lease), plus Friends' reasonable and necessary operational and administrative expenses directly associated with the ownership of the property and compliance with this lease for such lease year. The base rent based on Friends' operating cost was \$48,000 for the years ended June 30, 2019 and 2018.

Due to the estimated fair value rental over the estimated lease payment amount throughout the lease term being higher than the net book value of the building, the School recognizes its interest in Friends' building and amortizes its interest over the building's remaining useful life which is approximately 28 years. The amortization expense for the years ended June 30, 2019 and 2018 was \$486,003. Interest in the School's building, net of accumulated amortization at June 30, 2019 and 2018 is \$11,205,108 and \$11,691,111, and is included in property and equipment in the accompanying statements of financial position.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

6. Liquidity and Availability of Financial Assets

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, are comprised of the following at June 30, 2019:

Cash and cash equivalents	\$ 8,761,917
Investments	2,109,489
Grants and contracts receivable	2,082,011
Due from related parties	<u>1,336,142</u>
Total Financial Assets	14,289,559
Less amounts unavailable for general expenditure:	
Net assets with donor restrictions (net of \$11,205,108	
Interest in Friends' Building - see Note 5)	(42,005)
Board designated net assets	<u>(897,030)</u>
	<u>\$ 13,350,524</u>

As part of the School's liquidity management plan, the status of grants and contracts receivable is monitored regularly and any excess cash is held in money market accounts and other liquid instruments until it is required for operational use. The Board of Trustees has designated net assets without donor restrictions that could be drawn upon through board resolution and can be made available for current operations, unbudgeted expenses and unanticipated loss in funding.

7. Related Party Transactions (not disclosed elsewhere)

The School is an affiliate of Democracy Prep Public Schools ("DPPS"), a New York State not-for-profit charter management organization, which provides management services to the School. DPPS provides similar management services to Democracy Prep Endurance Charter School ("DPE"), a New York State not-for-profit organization, Democracy Prep Congress Heights ("DPCH"), a Washington, DC not-for-profit organization, Democracy Prep Baton Rouge ("DPBR"), a Louisiana not-for-profit organization, and Democracy Prep Agassi Campus ("DPAC"), a Nevada not-for-profit organization.

The predecessors of the School (BPCS, DPCS, DPH and HPCS) entered into management agreements with DPPS to assume responsibility for their educational process, management and operations. As compensation to DPPS for these services rendered, the School pays DPPS an annual fee, originally equal to 12% to 15% of each predecessor's non-competitive public revenue, which percentage decreases by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of non-competitive public revenue, which rate will remain in effect for all subsequent renewal terms. Following the initial term, the agreements (now consolidated into a single agreement with the School) automatically extended for successive one-year periods unless terminated by either party. For the year ended June 30, 2019, DPPS charged an annual management fee ranging from 12% to 13.5% to the School.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

7. Related Party Transactions (not disclosed elsewhere) (continued)

On July 1, 2015, BPCS, DPCS, and DPH amended their management agreements to include a provision which states that in the event that school incurs an operating deficit due to management fees charged, the management fees will be reduced to an amount that would result in a zero change in net assets, excluding depreciation and amortization (including amortization of Friends' building) and capital lease interest. This provision was eliminated as of July 1, 2018.

For the year ended June 30, 2018, management fees charged by DPPS were reduced by \$408,468 to reduce the operating deficits. For the years ended June 30, 2019 and 2018, the School incurred \$7,773,302 and \$7,340,599 in management fees.

On September 20, 2016, HPCS entered into a non-cancelable operating lease with DPPS for additional office and instructional space expiring on August 30, 2047. During the year ended June 30, 2019, HPCS prepaid \$2,000,000 of base rent. The School will be entitled to a monthly credit of \$16,667 starting July 1, 2019. The prepaid rent is included in the statements of financial position under current and long term prepaid expenses and other current assets.

For operational efficiency and purchasing power, the School shares expenses with the related charter schools and DPPS. The balance of due from related parties consists of the following at June 30:

	2019	2018
DPE	\$ 362,723	\$ 273,588
DPPS	962,513	1,107,020
DPBR	6,703	6,358
DPCH	-	59,004
DPAC	4,203	2,433
	<u>\$ 1,336,142</u>	<u>\$1,448,403</u>

8. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2019 and 2018, approximately \$7,746,000 and \$2,400,000 of cash was maintained with two institutions in excess of FDIC limits.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

9. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2019 and 2018, the School received approximately 94% of its total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Korean dual language program	\$ 40,639	\$ 56,366
Field trips and classroom incentives	1,366	616
Interest in Friends' building (Note 5)	11,205,108	11,691,111
	<u>\$ 11,247,113</u>	<u>\$ 11,748,093</u>

Net assets were released from donor restrictions by satisfying the purpose specified by the donors as follows for years ended June 30:

	2019	2018
Korean dual language program	\$ 49,375	\$ 30,847
Field trips and classroom incentives	9,468	-
Interest in Friends' building (Note 5)	486,003	486,003
	<u>\$ 544,846</u>	<u>\$ 516,850</u>

11. Commitments

On October 1, 2007, DPCS entered into a triple-net sublease agreement with Civic Builders Property Holding Corp. ("Sub-landlord") for new facilities at St. Philips Church (207 West 133rd Street). DPCS also entered into license agreements for the use of the undercroft, the elevator and additional classroom space. On August 25, 2008, DPCS occupied the space. The sublease provides that DPCS pay a monthly base rent plus triple-net charges for DPCS' share of expenses related to the lease property. The term of the sublease is twenty two years from the commencement date.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

11. Commitments (*continued*)

Effective July 1, 2012, DPCS entered into a sub-sublease agreement with DPH for use of office and classroom facilities at St. Philips Church. The rent payments are based on a fraction, determined annually for each rent year and expressed as a percentage, the numerator of which is the number of students of DPH during the rent year, and the denominator of which is the aggregate number of students at both DPCS and DPH during the rent year. The number of students is determined by the New York City Department of Education as of the end of the rent year for purposes of reconciling school funding allocations. DPH is also responsible for utilities and other building costs. The term shall end on the earlier of December 31, 2029, or the date on which the sublease agreement is terminated. Rental income was \$660,086 and \$598,007 for the years ended June 30, 2019 and 2018. The School does not disclose the minimum future rent to be received due to the undetermined number of future students served, and merger of the two entities.

On June 4, 2001, HPCS entered into a non-cancelable operating lease for office and instructional space that expired on June 30, 2011, with a renewal option for an additional five years. HPCS exercised its option until June 30, 2016. During fiscal year 2017, the lease was renewed for another five years expiring on June 30, 2021.

On June 1, 2005, HPCS entered into a non-cancelable operating lease for additional office and instructional space expiring on June 30, 2021, with a renewal option for an additional 10 years.

On September 20, 2016, HPCS entered into a non-cancelable operating lease with DPPS for additional office and instructional space expiring on August 30, 2047 (see note 7).

The future minimum lease payments under these operating leases are as follows for the years ended June 30:

2020	\$ 2,059,383
2021	2,071,969
2022	1,641,555
2023	1,674,608
2024	1,698,279
Thereafter	<u>28,210,106</u>
	<u>\$ 37,355,900</u>

Rent expense under these leases was \$2,160,403 and \$2,316,229 for the years ended June 30, 2019 and 2018.

12. Capital Lease Obligation

The School leases computers and equipment under capital leases that expire at various dates through in June 2023. The assets and liabilities under the capital leases are recorded at the present value of the minimum lease payments. The assets are being depreciated over their estimated useful life.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2019 and 2018

12. Capital Lease Obligation (*continued*)

Following is a summary of property and equipment held under capital leases at June 30:

	<u>2019</u>	<u>2018</u>
Computers and equipment	\$ 1,796,732	\$ 1,796,732
Accumulated depreciation	<u>(1,101,750)</u>	<u>(765,724)</u>
	<u>\$ 694,982</u>	<u>\$ 1,031,008</u>

The future minimum lease payments are as follows for the years ending June 30:

2020	\$ 412,955
2021	412,955
2022	17,796
2023	<u>2,966</u>
Total minimum lease payments	846,672
Amounts representing interest	<u>(67,291)</u>
Present value of minimum lease payments	779,381
Current portion	<u>(364,758)</u>
Capital lease obligation, less current portion	<u>\$ 414,623</u>

13. Employee Benefit Plan

The School maintains a retirement plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 5% of the participant's annual compensation. Employer match for the years ended June 30, 2019 and 2018 amounted to \$964,089 and \$968,663.

14. Contingency

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

15. Misappropriation of Funds

Theft of cash was discovered in two of the School's inactive bank accounts under DPCS and DPH. These accounts were established as dissolution reserve accounts required by the School's charter agreements. These accounts were closed on March 28, 2019 without prior authorization. The School has informed authorities and commenced a formal investigation. The balance in these accounts amounted to \$142,152. Management believes that these amounts are uncollectible and has written them off to other expense under management and general in the accompanying statement of functional expenses.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2019 and 2018

16. Merger Information

As stated in Note 1, the New York State Board of Regents approved the merger of DPCS, DPH and HPCS effective July 1, 2017 into a single entity under BPCS, which serves as the sole surviving entity. Below is a summary of opening balances as of July 1, 2017 for DPCS, DPH and HPCS:

	DPCS	DPH	HPCS	Total
ASSETS				
Cash and cash equivalents	\$ 35,696	\$ 2,459,612	\$ 3,740,505	\$ 6,235,813
Grants and contracts receivable	682,596	845,375	916,490	2,444,461
Due from related parties	1,466,482	139,674	-	1,606,156
Prepaid expenses and other assets	377,422	29,535	151,166	558,123
Property and equipment, net	1,149,699	1,245,119	3,050,504	5,445,322
Restricted cash	71,632	70,521	75,548	217,701
	<u>\$ 3,783,527</u>	<u>\$ 4,789,836</u>	<u>\$ 7,934,213</u>	<u>\$ 16,507,576</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 675,718	\$ 530,640	\$ 614,518	\$ 1,820,876
Accrued payroll and payroll taxes	572,364	753,286	605,504	1,931,154
Due to related parties	-	-	173,646	173,646
Capital lease obligation	219,113	409,359	388,606	1,017,078
Refundable advances	26,301	25,641	701	52,643
Deferred rent	54,207	-	712,535	766,742
Total Liabilities	<u>1,547,703</u>	<u>1,718,926</u>	<u>2,495,510</u>	<u>5,762,139</u>
Net Assets				
Unrestricted				
Undesignated	1,934,296	2,570,633	5,114,061	9,618,990
Board designated	282,785	481,902	320,543	1,085,230
Total Unrestricted	2,217,081	3,052,535	5,434,604	10,704,220
Temporarily restricted	18,743	18,375	4,099	41,217
Total Net Assets	<u>2,235,824</u>	<u>3,070,910</u>	<u>5,438,703</u>	<u>10,745,437</u>
	<u>\$ 3,783,527</u>	<u>\$ 4,789,836</u>	<u>\$ 7,934,213</u>	<u>\$ 16,507,576</u>

17. Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 25, 2019.

Effective July 1, 2019, DPE was merged into the School. DPE ceased to exist as a legal entity in conjunction with the merger. The plan of merger was approved by the Board of Regents.

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Democracy Prep New York Charter Schools

Supplementary Information

June 30, 2019

Democracy Prep New York Charter Schools

Schedule of Activities by School
Bronx Preparatory Charter School
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING REVENUE			
Public School District			
Regular student enrollment	\$ 10,920,134	\$ -	\$ 10,920,134
Students with disabilities	417,690	-	417,690
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	552,499	-	552,499
State and city	<u>54,194</u>	<u>-</u>	<u>54,194</u>
Total Operating Revenue	<u>11,944,517</u>	<u>-</u>	<u>11,944,517</u>
EXPENSES			
Program Services			
Regular education	9,935,344	-	9,935,344
Special education	<u>1,541,141</u>	<u>-</u>	<u>1,541,141</u>
Total Program Services	11,476,485	-	11,476,485
Supporting Services			
Management and general	<u>1,890,988</u>	<u>-</u>	<u>1,890,988</u>
Total Expenses	<u>13,367,473</u>	<u>-</u>	<u>13,367,473</u>
Deficit from Operations	<u>(1,422,956)</u>	<u>-</u>	<u>(1,422,956)</u>
SUPPORT AND OTHER REVENUE			
Contributions	-	10,500	10,500
Other income	14,953	-	14,953
Net assets released from restrictions	<u>21,789</u>	<u>(21,789)</u>	<u>-</u>
Total Support and Other Revenue	<u>36,742</u>	<u>(11,289)</u>	<u>25,453</u>
Result of Operations	(1,386,214)	(11,289)	(1,397,503)
Net assets released from restriction - amortization of interest in Friends' Building	<u>486,003</u>	<u>(486,003)</u>	<u>-</u>
Change in Net Assets	(900,211)	(497,292)	(1,397,503)
NET ASSETS			
Beginning of year	<u>1,125,073</u>	<u>11,699,858</u>	<u>12,824,931</u>
End of year	<u>\$ 224,862</u>	<u>\$ 11,202,566</u>	<u>\$ 11,427,428</u>

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Activities by School Democracy Preparatory Charter School Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Public School District			
Regular student enrollment	\$ 10,518,079	\$ -	\$ 10,518,079
Students with disabilities	1,041,880	-	1,041,880
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	631,855	-	631,855
State and city	48,490	-	48,490
Total Operating Revenue	12,240,304	-	12,240,304
EXPENSES			
Program Services			
Regular education	8,203,374	-	8,203,374
Special education	1,999,160	-	1,999,160
Total Program Services	10,202,534	-	10,202,534
Supporting Services			
Management and general	2,141,422	-	2,141,422
Total Expenses	12,343,956	-	12,343,956
Deficit from Operations	(103,652)	-	(103,652)
SUPPORT AND OTHER REVENUE			
Contributions	1,092	16,967	18,059
Rental income	660,086	-	660,086
Net assets released from restrictions	17,533	(17,533)	-
Total Support and Other Revenue	678,711	(566)	678,145
Change in Net Assets	575,059	(566)	574,493
NET ASSETS			
Beginning of year	1,919,794	22,423	1,942,217
End of year	\$ 2,494,853	\$ 21,857	\$ 2,516,710

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Activities by School Democracy Preparatory Harlem Charter School Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Public School District			
Regular student enrollment	\$ 16,033,008	\$ -	\$ 16,033,008
Students with disabilities	1,748,490	-	1,748,490
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	815,421	-	815,421
State and city	75,735	-	75,735
Total Operating Revenue	18,672,654	-	18,672,654
EXPENSES			
Program Services			
Regular education	11,252,902	-	11,252,902
Special education	2,745,380	-	2,745,380
Total Program Services	13,998,282	-	13,998,282
Supporting Services			
Management and general	3,140,966	-	3,140,966
Total Expenses	17,139,248	-	17,139,248
Surplus from Operations	1,533,406	-	1,533,406
SUPPORT AND OTHER REVENUE			
Contributions	4,202	9,250	13,452
Other income	1,312	-	1,312
Net assets released from restrictions	12,372	(12,372)	-
Total Support and Other Revenue	17,886	(3,122)	14,764
Change in Net Assets	1,551,292	(3,122)	1,548,170
NET ASSETS			
Beginning of year	2,850,927	18,312	2,869,239
End of year	\$ 4,402,219	\$ 15,190	\$ 4,417,409

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Activities by School
Harlem Prep Charter School
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING REVENUE			
Public School District			
Regular student enrollment	\$ 14,754,935	\$ -	\$ 14,754,935
Students with disabilities	1,684,537	-	1,684,537
Facilities funding	1,183,411	-	1,183,411
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	794,658	-	794,658
State and city	75,885	-	75,885
Total Operating Revenue	<u>18,493,426</u>	<u>-</u>	<u>18,493,426</u>
EXPENSES			
Program Services			
Regular education	11,434,082	-	11,434,082
Special education	2,840,684	-	2,840,684
Total Program Services	14,274,766	-	14,274,766
Supporting Services			
Management and general	2,535,671	-	2,535,671
Total Expenses	<u>16,810,437</u>	<u>-</u>	<u>16,810,437</u>
Surplus from Operations	<u>1,682,989</u>	<u>-</u>	<u>1,682,989</u>
SUPPORT AND OTHER REVENUE			
Contributions	-	7,149	7,149
Other income	23,123	-	23,123
Net assets released from restrictions	7,149	(7,149)	-
Total Support and Other Revenue	<u>30,272</u>	<u>-</u>	<u>30,272</u>
Change in Net Assets	1,713,261	-	1,713,261
NET ASSETS			
Beginning of year	<u>4,758,447</u>	<u>7,500</u>	<u>4,765,947</u>
End of year	<u>\$ 6,471,708</u>	<u>\$ 7,500</u>	<u>\$ 6,479,208</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School
Bronx Preparatory Charter School
Year Ended June 30, 2019

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	26	\$ 207,444	\$ 32,178	\$ 239,622	\$ 923,042	\$ 1,162,664
Instructional personnel	66	4,174,324	647,509	4,821,833	-	4,821,833
Non-instructional personnel	4	202,788	31,456	234,244	-	234,244
Total Salaries and Staff	<u>96</u>	<u>4,584,556</u>	<u>711,143</u>	<u>5,295,699</u>	<u>923,042</u>	<u>6,218,741</u>
Fringe benefits and payroll taxes						
Retirement		1,270,237	197,036	1,467,273	255,747	1,723,020
Management company fees		145,098	22,507	167,605	29,213	196,818
Accounting/audit services		1,510,102	234,243	1,744,345	304,040	2,048,385
Other purchased/professional/consulting services		-	-	-	22,500	22,500
Occupancy		43,882	6,807	50,689	8,835	59,524
Repair and maintenance		45,701	7,089	52,790	9,202	61,992
Insurance		426,824	66,208	493,032	85,935	578,967
Utilities		56,321	8,736	65,057	11,339	76,396
Supplies/materials		213,852	33,172	247,024	43,057	290,081
Staff development		258,009	40,021	298,030	-	298,030
Marketing/recruitment		129,683	20,116	149,799	26,111	175,910
Technology		7,309	1,134	8,443	1,471	9,914
Student services		128,604	19,949	148,553	25,893	174,446
Office expense		396,953	61,574	458,527	-	458,527
Depreciation		66,280	10,281	76,561	13,345	89,906
Travel		273,608	48,453	322,060	22,366	344,426
Other		6,793	1,054	7,847	1,368	9,215
		<u>32,934</u>	<u>5,108</u>	<u>38,042</u>	<u>6,630</u>	<u>44,672</u>
Total expenses before amortization of interest in Friends' building		9,596,746	1,494,631	11,091,376	1,790,094	12,881,470
Amortization of interest in Friends' building						
		<u>338,598</u>	<u>46,510</u>	<u>385,109</u>	<u>100,894</u>	<u>486,003</u>
Total Expenses		<u>\$ 9,935,344</u>	<u>\$ 1,541,141</u>	<u>\$ 11,476,485</u>	<u>\$ 1,890,988</u>	<u>\$ 13,367,473</u>

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School
Democracy Preparatory Charter School
Year Ended June 30, 2019

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	16	\$ 308,472	\$ 75,174	\$ 383,646	\$ 1,103,381	\$ 1,487,027
Instructional personnel	68	3,726,361	908,114	4,634,475	-	4,634,475
Non-instructional personnel	2	93,278	22,732	116,010	-	116,010
Total Salaries and Staff	86	4,128,111	1,006,020	5,134,131	1,103,381	6,237,512
Fringe benefits and payroll taxes						
Retirement		764,564	186,324	950,888	204,356	1,155,244
Management company fees		132,530	32,298	164,828	35,423	200,251
Accounting/audit services		960,865	234,162	1,195,027	256,824	1,451,851
Other purchased/professional/consulting services		-	-	-	22,500	22,500
Occupancy		125,398	30,560	155,958	33,517	189,475
Repair and maintenance		503,452	122,691	626,143	134,565	760,708
Insurance		237,366	57,846	295,212	63,445	358,657
Utilities		49,187	11,987	61,174	13,147	74,321
Supplies/materials		147,629	35,977	183,606	39,459	223,065
Equipment/furnishings		220,503	53,737	274,240	-	274,240
Staff development		543	132	675	145	820
Marketing/recruitment		125,476	30,578	156,054	33,539	189,593
Technology		23,973	5,842	29,815	6,408	36,223
Student services		124,456	30,330	154,786	33,265	188,051
Office expense		323,287	78,785	402,072	-	402,072
Depreciation		52,468	12,786	65,254	14,024	79,278
Travel		160,302	39,065	199,367	42,846	242,213
Other (See Note 15)		943	230	1,173	252	1,425
		122,321	29,810	152,131	104,326	256,457
Total Expenses		\$ 8,203,374	\$ 1,999,160	\$ 10,202,534	\$ 2,141,422	\$ 12,343,956

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School
Democracy Preparatory Harlem Charter School
Year Ended June 30, 2019

	No. of Positions	Program Services			Total	Management and General	Total
		Regular Education	Special Education	Education			
Personnel Services Costs							
Administrative staff personnel	23	\$ 180,422	\$ 44,018	\$ 224,440	\$ 1,754,173	\$ 1,978,613	
Instructional personnel	102	5,809,221	1,417,282	7,226,503	-	7,226,503	
Non-instructional personnel	-	-	-	-	-	-	
Total Salaries and Staff	<u>125</u>	<u>5,989,643</u>	<u>1,461,300</u>	<u>7,450,943</u>	<u>1,754,173</u>	<u>9,205,116</u>	
Fringe benefits and payroll taxes							
Retirement		1,117,062	272,530	1,389,592	327,151	1,716,743	
Management company fees		218,343	53,269	271,612	63,945	335,557	
Accounting/audit services		1,446,000	352,782	1,798,782	423,488	2,222,270	
Other purchased/professional/consulting services		-	-	-	22,500	22,500	
Occupancy		179,013	43,674	222,687	52,427	275,114	
Repair and maintenance		483,379	117,930	601,309	141,566	742,875	
Insurance		72,040	17,576	89,616	21,098	110,714	
Utilities		74,739	18,234	92,973	21,889	114,862	
Supplies/materials		58,202	14,199	72,401	17,045	89,446	
Equipment/furnishings		376,128	91,762	467,890	-	467,890	
Staff development		4,418	1,078	5,496	1,293	6,789	
Marketing/recruitment		191,298	46,671	237,969	56,025	293,994	
Technology		23,440	5,719	29,159	6,865	36,024	
Student services		139,273	33,978	173,251	40,788	214,039	
Office expense		469,524	114,553	584,077	-	584,077	
Depreciation		61,048	14,894	75,942	17,880	93,822	
Travel		221,555	54,053	275,608	64,886	340,494	
Other (See Note 15)		1,065	260	1,325	312	1,637	
		126,732	30,918	157,650	107,635	265,285	
Total Expenses		<u>\$ 11,252,902</u>	<u>\$ 2,745,380</u>	<u>\$ 13,998,282</u>	<u>\$ 3,140,966</u>	<u>\$ 17,139,248</u>	

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School
Harlem Prep Charter School
Year Ended June 30, 2019

	No. of Positions	Program Services			Total	Management and General	Total
		Regular Education	Special Education				
Personnel Services Costs							
Administrative staff personnel	15	\$ 237,136	\$ 58,914	\$ 296,050	\$ 1,352,502	\$ 1,648,552	
Instructional personnel	100	5,470,595	1,359,114	6,829,709	-	6,829,709	
Non-instructional personnel	1	57,579	14,305	71,884	-	71,884	
Total Salaries and Staff	116	5,765,310	1,432,333	7,197,643	1,352,502	8,550,145	
Fringe benefits and payroll taxes							
Retirement		1,002,327	249,018	1,251,345	235,139	1,486,484	
Management company fees		163,617	40,649	204,266	38,383	242,649	
Accounting/audit services		1,382,839	343,552	1,726,391	324,405	2,050,796	
Other purchased/professional/consulting services		-	-	-	25,500	25,500	
Occupancy		172,991	42,978	215,969	40,582	256,551	
Repair and maintenance		971,455	241,348	1,212,803	227,897	1,440,700	
Insurance		256,894	63,823	320,717	60,265	380,982	
Utilities		72,379	17,982	90,361	16,979	107,340	
Supplies/materials		57,093	14,184	71,277	13,393	84,670	
Staff development		349,654	86,868	436,522	-	436,522	
Marketing/recruitment		148,622	36,924	185,546	34,866	220,412	
Technology		38,039	9,451	47,490	8,924	56,414	
Student services		87,129	21,646	108,775	20,441	129,216	
Office expense		384,330	95,482	479,812	-	479,812	
Depreciation		67,364	16,736	84,100	15,803	99,903	
Travel		449,606	111,700	561,306	105,475	666,781	
Other		858	213	1,071	201	1,272	
		63,575	15,797	79,372	14,916	94,288	
Total Expenses		\$ 11,434,082	\$ 2,840,684	\$ 14,274,766	\$ 2,535,671	\$ 16,810,437	

Democracy Prep New York Charter Schools

Uniform Guidance
Schedules and Reports

June 30, 2019

Democracy Prep New York Charter Schools

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Education</u>				
Passed Through the New York State				
Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021-19-4125	\$ -	\$ 393,813
Title I Grants to Local Educational Agencies	84.010	0021-19-4685	-	469,022
Title I Grants to Local Educational Agencies	84.010	0021-19-4349	-	365,675
Title I Grants to Local Educational Agencies	84.010	0021-19-4220	-	457,549
				<u>1,686,059</u>
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-19-4125	-	35,289
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-19-4685	-	36,782
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-19-4349	-	41,584
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-19-4220	-	37,983
				<u>151,638</u>
Student Support and Academic Enrichment Grant	84.424	0204-19-4125	-	31,754
Student Support and Academic Enrichment Grant	84.424	0204-19-4685	-	36,003
Student Support and Academic Enrichment Grant	84.424	0204-19-4349	-	27,197
Student Support and Academic Enrichment Grant	84.424	0204-19-4220	-	33,662
				<u>128,616</u>
Total U.S. Department of Education			-	<u>1,966,313</u>
Total Expenditures of Federal Awards			\$ -	<u>\$ 1,966,313</u>

See independent auditors' report and notes to the schedule of expenditures of federal awards

Democracy Prep New York Charter Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2019

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the 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"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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*

Independent Auditors' Report

**Board of Trustees
Democracy Prep New York Charter Schools**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Democracy Prep New York Charter Schools (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 to be material weaknesses.

Internal Control Over Financial Reporting (continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-003 and 2019-004 to be significant deficiencies.

Compliance and Other Matters

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

The School's Response to the Findings

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
November 25, 2019

**Report on Compliance for Each Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance**

Independent Auditors' Report

**Board of Trustees
Democracy Prep New York Charter Schools**

Report on Compliance for Each Major Federal Program

We have audited Democracy Prep New York Charter Schools' (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2019. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of 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, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-005. Our opinion on each major federal program is not modified with respect to this matter.

The School's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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 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. 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.

Report on Internal Control Over Compliance (continued)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-005 that we consider to be a significant deficiency.

The School's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the 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.

PKF O'Connor Davies, LLP

Harrison, New York
November 25, 2019

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? X yes no
Significant deficiency(ies) identified? X yes none reported
Noncompliance material to the financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified? X yes none reported
Type of auditors' report issued on compliance for major federal programs: Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs: \$750,000
Auditee qualified as low-risk auditee? yes X no

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs (*continued*)
Year Ended June 30, 2019

Section II – Financial Statement Findings

2019-001- General Ledger Maintenance and Account Analysis (*Repeat Finding*)

Criteria

An effective financial closing process provides the School with accurate and timely financial statements

Condition

Schedules and reconciliations were not prepared and updated throughout the fiscal year. This delayed management's preparation of the year-end financial statements and the completion of the audit. We noted that improvements are needed in the financial statement closing process to address the timeliness of the School's year-end financial reporting.

Cause

The finance department appears to be understaffed and continual training is required to enable a good understanding of effective internal controls.

Effect

The School's system of internal control is not effective for managing its resources and resulted in difficulties with meeting external deadlines for submission of the audited financial statements.

Recommendation

We recommend that the School assess the adequacy of resources in the finance department in relation to its periodic reporting responsibility. The School may consider an increased level of financial analysis of significant accounts on a regular basis, as well as providing additional support to the finance department in the area of financial reporting.

Views of Responsible Officials

See management corrective action plan in Appendix A.

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs (*continued*)
Year Ended June 30, 2019

Section II – Financial Statement Findings (*continued*)

2019-002- Timely Bank Reconciliations

Criteria

The School must be in compliance with its policies and procedures manual (the “Manual”). All bank accounts should be reconciled timely and regularly to ensure that financial records are accurate and assets are safeguarded.

Condition

During our audit of the School’s cash accounts, we noted that bank reconciliations were not performed timely. As a result of our audit procedures we noted that two inactive bank accounts, segregated as a dissolution reserve, were closed during the year ended June 30, 2019. Management believes that these accounts were closed due to fraudulent activity and has commenced a formal investigation.

Cause

The School did not have the proper controls in place to detect that bank reconciliations were not being performed timely. The finance department is understaffed and perpetual training is required to enable an understanding of effective internal controls.

Effect

The School is not in compliance with its Manual, and interim financial statements could be misleading or incorrect. The School encountered a misappropriation of assets in the amount of \$142,152.

Recommendation

We recommend that the School reconcile bank statements on a timely matter. In addition, the School should periodically review the authorized signors, update it for any changes in board or management personnel, and promptly and formally notify the bank of any changes.

Views of Responsible Officials

See management corrective action plan in Appendix A.

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs (*continued*)
Year Ended June 30, 2019

Section II – Financial Statement Findings (*continued*)

2019-003- Competitive Bidding

Criteria

The School's Financial Policies and Procedures Manual ("FPP"), requires three price quotes for purchases and/or contracts greater than \$5,000.

Condition

During our test of three procurement transactions over \$5,000, we noted that the School did not perform sufficient competitive bidding procedures on the selections.

Cause

This condition was caused by management's ineffective monitoring and review of the competitive bidding procedures in its FPP.

Effect

The School is not in compliance with its FPP with regard to procurement procedures.

Recommendation

The School should strictly comply with the FPP and retain required documentation of at least three quotes when competitive bidding is required. We recommend that management periodically review transactions that require competitive bidding. We also recommend that management consider increasing the threshold for bidding.

Views of Responsible Officials

See management corrective action plan in Appendix A.

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs (*continued*)
Year Ended June 30, 2019

Section II – Financial Statement Findings (*continued*)

2019-004- Credit Card Transactions

Criteria

The fiscal policies and procedures manual (“FPP”) states that all credit card transactions over \$75 should be supported by duly approved receipts or other supporting documentation.

Condition

A substantial portion of charges were missing receipts and approvals.

Cause

This condition is caused by lack of oversight over credit card transactions.

Effect

Lack of control over credit card transactions could result in the payment of unauthorized expenses.

Recommendation

The School should support all credit card charges with receipts, invoices, or other supporting documentation. The School should also enforce the approval process for credit card charges by authorized School personnel. The School should document in writing all decisions that are not consistent with its FPP and consideration should also be given to modifying the FPP when appropriate and practical.

Views of Responsible Officials

See management corrective action plan in Appendix A.

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs (*continued*)
Year Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

2019-005- Time and Effort Reporting – Periodic Certification for Employees Who Work on Multiple Activities of Cost Objectives

CFDA

84.010, Grants to Local Educational Agencies (Title 1, Part A)
U.S. Department of Education

Criteria

Cost principles under the Uniform Guidance requires that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. For employees that work on multiple activities or cost objectives, a distribution of the employee's salary and wages must be supported by a personnel activity report ("PAR") or equivalent document. PARs must be prepared at least monthly and signed by the employee.

Condition

Monthly PARs indicating total distribution of employee activity were not prepared.

Cause

Management did not closely monitor time and effort records for federal activities.

Effect

The School is not in compliance with the Uniform Guidance.

Questioned Costs

None

Context

The School failed to provide the PARs for all payroll samples selected for testing.

Recommendation

The School should monitor and ensure that employees who work on multiple activities are supported by PAR or equivalent documents.

Views of Responsible Officials

See management corrective action plan in Appendix A.

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs (*continued*)
Year Ended June 30, 2019

Section IV – Prior Year Findings

2018-001 - General Ledger Maintenance and Account Analysis.

Condition

Schedules and reconciliations were not prepared and updated throughout the fiscal year. This delayed management's preparation of the year-end financial statements and the completion of the audit. We noted that improvements are needed in the financial statement closing processes to address the timeliness of the School's year-end financial reporting.

Status

This condition still exists in 2019, see finding 2019-001.

* * * * *



DEMOCRACY PREP PUBLIC SCHOOLS

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Democracy Prep Public Schools Response to Audit Findings

Pursuant to a Management Agreement, Democracy Prep Public Schools provided financial and back office support to Democracy Prep New York Charter Schools and has prepared the following response on behalf of Democracy Prep New York Charter Schools.

Response to 2019-001 General Ledger Maintenance and Account Analysis Material Weakness

In response to this finding and the previous year's finding, Democracy Prep Public Schools has retained Charter School Business Management to review and improve accounting and financial practices for schools throughout the Democracy Prep network. Part of CSBM's charge is to create and refine systems such that general ledger maintenance and account analysis is performed in a timely basis throughout the year. Management has increased the resources provided to the finance function and has adopted systems such as Bill.com and revised its financial policies and procedures. The organization is also working with its financial consulting team to review and implement financial policies and processes that will facilitate accurate and timely financial reporting including establishing a robust monthly close process that will ensure that all accounts are reconciled and adjusting journal entries are recorded on a monthly basis.

Response to 2019-002 Timely Bank Reconciliations

DPNY has continued to tighten its financial controls and, with CSBM, has reviewed its bank accounts and updated authorized signors with the ultimate intent to consolidate and combine bank accounts where possible to allow for more effective control. As part of the process detailed above, DPNY is building systems for timely reconciliations of all bank accounts.

Response to 2019-003 Competitive Bidding

The organization has tightened controls on purchasing to ensure that the financial policies and procedures are strictly adhered to through regular oversight. In addition, Democracy Prep New York Charter Schools has amended its financial policies and procedures manual to increase the bidding threshold to \$10,000 to further streamline the bidding process.

Response to 2019-004 Credit Card Transactions

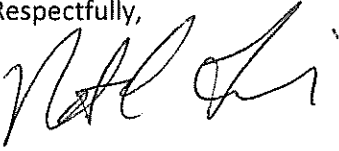
Similar to the response to 2019-003 above, the organization has tightened controls on all purchasing and is implementing procedures for accurate and timely reporting. There are no corporate credit cards in the network and all reimbursement claims will be reviewed carefully through a multiple approval process using Bill.com.

Corrective Action Plan for DPPS FY 19 Management Responses

Response to 2019-005 Time and Effort Reporting – Periodic Certification for Employees Who Work on Multiple Activities of Cost Objectives

In addition to the response to 2019-001 above, DPPS has been working with CSBM to improve its overall financial management including monthly PAR reporting, which will be entered into the accounting system and reconciled by DPPS's grants manager.

Respectfully,

A handwritten signature in black ink, appearing to read 'Natasha Trivers', written in a cursive style.

Natasha Trivers
Chief Executive Officer

Democracy Prep New York Charter Schools

Independent Auditors' Report on Communication of
Internal Control Matters

June 30, 2019

Independent Auditors Communication on Internal Control Matters

The Board of Trustees Democracy Prep New York Charter Schools

In planning and performing our audit of the financial statements of Democracy Prep New York Charter Schools (the "School") as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the School'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in the School's internal control presented in Addendum A to this letter to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the School's internal control presented in Addendum B to this letter to be significant deficiencies.

We have other observations and recommendations that are opportunities for strengthening internal control and/or operating efficiency, presented in Addendum C to this letter.

This communication is intended solely for the information and use of management, the Board of Trustees, The State Education Department of the State University of New York, and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.

PKF O'Connor Davies, LLP

November 25, 2019

Democracy Prep New York Charter Schools

Addendum A

Deficiency in Internal Control that We Consider to be Material Weaknesses

1. General Ledger Maintenance and Account Analysis (Prior Year Comment)

During our audit, we noted that schedules and reconciliations were not prepared and updated throughout the fiscal year. This delayed management's preparation of the year-end financial statements and the completion of the audit. We noted that improvements are needed in the financial statement closing processes to address the timeliness of the Organization's year-end financial reporting.

We recommend that the School should assess the adequacy of resources in the finance department in relation to its periodic reporting responsibility. The Organization may consider an increased level of financial analysis of significant accounts on a regular basis, as well as providing additional support to the finance department in the area of financial reporting.

2. Timely Bank Reconciliations

During our audit of the School's cash accounts, we noted that bank reconciliations were not performed on a timely basis and bank authorized signature lists were not timely reviewed and updated. As a result of our audit procedures we noted that two inactive bank accounts, segregated as a dissolution reserve, were closed during the year ended June 30, 2019. Management believes that these accounts were closed due to fraudulent activity and has commenced a formal investigation.

We recommend that the School reconcile bank statements on a timely matter. In addition, the School should periodically review the authorized signors, update it for any changes in board or management personnel, and promptly and formally notify the bank of any changes.

Democracy Prep New York Charter School

Addendum B

Deficiencies in Internal Control that We Consider to be Significant Deficiencies

3. Competitive Bidding

The School's Financial Policies and Procedures Manual ("FPP"), requires three price quotes for purchases and/or contracts greater than \$5,000. During our test of three procurement transactions over \$5,000, we noted that the School did not perform sufficient competitive bidding procedures on the selections.

The School should strictly comply with the FPP and retain required documentation of at least three quotes when competitive bidding is required. We recommend that management periodically reviews transactions that require competitive bidding. We also recommend that management considers increasing the threshold for bidding.

4. Credit Card Transactions

The FPP states that all credit card transactions over \$75 should be supported by duly approved receipts or other supporting documentation. During our test of credit card transactions, we noted that a substantial portion of charges were missing receipts and approvals.

The School should support all credit card charges with receipts, invoices, or other supporting documentation. The School should also enforce the approval process for credit card charges by authorized School personnel. The School should document in writing all decisions that are not consistent with its FPP and consideration should also be given to modifying the FPP when appropriate and practical.

5. Time and Effort Reporting – Periodic Certification for Employees Who Work on Multiple Activities of Cost Objectives

Cost principles under the Uniform Guidance requires that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. For employees that work on multiple activities or cost objectives, a distribution of the employee's salary and wages must be supported by a personnel activity report ("PAR") or equivalent document. PARs must be prepared at least monthly and signed by the employee. Monthly PARs indicating total distribution of employee activity were not prepared.

The School should monitor and ensure that employees who work on multiple activities are supported by PAR or equivalent documents.

Democracy Prep New York Charter Schools

Addendum C

Other Observations and Recommendations for Strengthening Internal Control and/or Operating Efficiency

6. Updating the Policies and Procedures Manual

We noted that although the School previously adopted and implemented a formal financial policies and procedures manual (the “manual”), we concluded that there is a number of procedures and thresholds that should be updated and reviewed pursuant to employee turnover in the finance department and merger of four charters. This will help improve the School’s ability to process, record, summarize, and report financial information.

We recommend that consideration be given to updating the manual to reflect the updated structure of the finance department.

7. Maintenance of Fixed Asset Tracker

The School was not able to provide us with a detailed inventory listing of property and equipment

As indicated in the School’s FPP, Property and equipment acquisitions should be identified, tagged and entered into a detailed fixed asset ledger, and there should be a clear trail of tracing the capital asset to the fixed asset ledger maintained by the School. In addition, the School should take a physical inventory of all capital assets to ensure the completeness and accuracy of the School’s records.

8. Updating Authorized Signers of School Accounts

During our audit, we noted that the sole authorized signer of one of the School’s investment accounts is no longer affiliated with the School.

We recommend that consideration be given to updating the authorized signers of the School’s accounts to include current School personnel and Board members. We also recommend that the School periodically review its authorized signers list and promptly remove terminated employees or former Board members.

9. Voided Checks

The School was unable to provide us with a substantial portion of checks indicated as voided in the general ledger.

We recommend that all voided checks be properly defaced to ensure that they could not be improperly completed and cashed. All voided checks should be kept and filed in a separate folder in a secured place.

Democracy Prep New York Charter Schools

Addendum C (continued)

**Other Observations and Recommendations for Strengthening
Internal Control and/or Operating Efficiency**

10. Restricted cash

Under the provisions of its charter, the School is required to establish a dissolution reserve account in the amount of no less than \$200,000 to pay for legal and audit expenses that would be associated with a dissolution should it occur. The School had established three separate bank accounts that total over \$200,000, but these accounts were closed during the year ended June 30, 2019.

We recommend the School establish one bank account to cover all the charters, including Democracy Prep Endurance, pursuant to effective date of merger.