

Democracy Prep New York Charter Schools

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

June 30, 2020 and 2019

Democracy Prep New York Charter Schools

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

June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of activities and functional expenses by school for the year ended June 30, 2020 on pages 23 through 32 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 33 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 2, 2020, 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

November 2, 2020

Democracy Prep New York Charter Schools

Statements of Financial Position

	June 30,	
	2020	2019
ASSETS		
Current Assets		
Cash	\$ 22,234,065	\$ 8,761,917
Investments	810,098	2,109,489
Grants and contracts receivable	4,644,060	2,082,011
Due from related parties	850,052	1,336,142
Prepaid expenses and other current assets	<u>1,151,432</u>	<u>618,884</u>
Total Current Assets	29,689,707	14,908,443
Prepaid expenses and other assets, less current portion	2,400,000	1,800,000
Property and equipment, net	16,862,654	15,518,755
Restricted cash	<u>225,057</u>	<u>-</u>
	<u>\$ 49,177,418</u>	<u>\$ 32,227,198</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,146,835	\$ 1,044,370
Accrued payroll and payroll taxes	4,387,403	4,337,417
Capital lease obligation	652,572	364,758
Refundable advances	197,089	279,777
Deferred rent	<u>87,823</u>	<u>20,424</u>
Total Current Liabilities	6,471,722	6,046,746
Deferred rent, less current portion	1,530,924	925,074
Capital lease obligation, less current portion	<u>2,474,857</u>	<u>414,623</u>
Total Liabilities	<u>10,477,503</u>	<u>7,386,443</u>
Net Assets		
Without Donor Restrictions		
Undesignated	26,940,372	12,696,612
Board designated	<u>987,367</u>	<u>897,030</u>
Total Without Donor Restrictions	27,927,739	13,593,642
With donor restrictions	<u>10,772,176</u>	<u>11,247,113</u>
Total Net Assets	<u>38,699,915</u>	<u>24,840,755</u>
	<u>\$ 49,177,418</u>	<u>\$ 32,227,198</u>

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Activities Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 68,624,869	\$ -	\$ 68,624,869
Students with disabilities	6,102,801	-	6,102,801
Facilities funding	1,668,676	-	1,668,676
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	3,334,698	-	3,334,698
State and City	376,595	-	376,595
Total Operating Revenue	<u>80,107,639</u>	<u>-</u>	<u>80,107,639</u>
EXPENSES			
Program Services			
Regular education	49,668,622	-	49,668,622
Special education	11,674,529	-	11,674,529
Total Program Services	<u>61,343,151</u>	<u>-</u>	<u>61,343,151</u>
Supporting Services			
Management and general	7,034,223	-	7,034,223
Fundraising	474,014	-	474,014
Total Expenses	<u>68,851,388</u>	<u>-</u>	<u>68,851,388</u>
Surplus from Operations	<u>11,256,251</u>	<u>-</u>	<u>11,256,251</u>
SUPPORT AND OTHER REVENUE			
Contributions	7,056	23,727	30,783
Rental income	563,543	-	563,543
Other income	239,468	-	239,468
Net assets released from restrictions	23,727	(23,727)	-
Total Support and Other Revenue	<u>833,794</u>	<u>-</u>	<u>833,794</u>
Result of Operations	<u>12,090,045</u>	<u>-</u>	<u>12,090,045</u>
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	<u>12,576,048</u>	<u>(486,003)</u>	<u>12,090,045</u>
NET ASSETS			
Beginning of year	13,593,642	11,247,113	24,840,755
Transfer of net assets pursuant to merger of DPE	<u>1,758,049</u>	<u>11,066</u>	<u>1,769,115</u>
End of year	<u>\$ 27,927,739</u>	<u>\$ 10,772,176</u>	<u>\$ 38,699,915</u>

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	<u>61,350,901</u>	<u>-</u>	<u>61,350,901</u>
EXPENSES			
Program Services			
Regular education	40,825,702	-	40,825,702
Special education	9,126,365	-	9,126,365
Total Program Services	<u>49,952,067</u>	<u>-</u>	<u>49,952,067</u>
Supporting Services			
Management and general	9,709,047	-	9,709,047
Total Expenses	<u>59,661,114</u>	<u>-</u>	<u>59,661,114</u>
Surplus from Operations	<u>1,689,787</u>	<u>-</u>	<u>1,689,787</u>
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	<u>763,611</u>	<u>(14,977)</u>	<u>748,634</u>
Result of Operations	<u>2,453,398</u>	<u>(14,977)</u>	<u>2,438,421</u>
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	<u>2,939,401</u>	<u>(500,980)</u>	<u>2,438,421</u>
NET ASSETS			
Beginning of year	<u>10,654,241</u>	<u>11,748,093</u>	<u>22,402,334</u>
End of year	<u>\$ 13,593,642</u>	<u>\$ 11,247,113</u>	<u>\$ 24,840,755</u>

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Functional Expenses Year Ended June 30, 2020

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	101	\$ 2,878,810	\$ 822,517	\$ 3,701,327	\$ 3,264,595	\$ -	\$ 6,965,922
Instructional personnel	342	21,995,049	5,073,523	27,068,572	-	-	27,068,572
Non-instructional personnel	30	1,064,453	216,199	1,280,652	-	-	1,280,652
Total Salaries and Staff	<u>473</u>	<u>25,938,312</u>	<u>6,112,239</u>	<u>32,050,551</u>	<u>3,264,595</u>	<u>-</u>	<u>35,315,146</u>
Fringe benefits and payroll taxes		5,041,025	1,163,734	6,204,759	615,539	-	6,820,298
Retirement		1,055,560	244,410	1,299,970	130,802	-	1,430,772
Management company fees		6,162,179	1,422,042	7,584,221	1,422,042	474,014	9,480,277
Legal services		-	-	-	4,470	-	4,470
Accounting/audit services		10,819	2,340	13,159	145,060	-	158,219
Other purchased/professional/consulting services		61,616	21,850	83,466	127,748	-	211,214
Occupancy		3,622,136	909,345	4,531,481	515,618	-	5,047,099
Repair and maintenance		731,098	155,788	886,886	77,678	-	964,564
Insurance		339,002	79,261	418,263	42,481	-	460,744
Utilities		471,245	97,584	568,829	50,168	-	618,997
Supplies/materials		942,445	212,663	1,155,108	16,841	-	1,171,949
Equipment/furnishings		215,891	49,796	265,687	26,538	-	292,225
Staff development		254,653	59,045	313,698	32,005	-	345,703
Marketing/recruitment		169,515	40,457	209,972	7,166	-	217,138
Technology		555,509	134,714	690,223	72,968	-	763,191
Food services		477	123	600	-	-	600
Student services		1,327,259	305,667	1,632,926	36,076	-	1,669,002
Office expense		780,125	195,855	975,980	100,461	-	1,076,441
Depreciation and amortization		1,264,755	334,876	1,599,631	198,761	-	1,798,392
Travel		31,812	7,045	38,857	3,755	-	42,612
Other		354,590	79,185	433,775	42,556	-	476,331
Total Expenses Before Amortization of Interest in Friends' Building		49,330,023	11,628,019	60,958,042	6,933,328	474,014	68,365,385
Amortization of interest in Friends' building		<u>338,598</u>	<u>46,510</u>	<u>385,109</u>	<u>100,894</u>	<u>-</u>	<u>486,003</u>
Total Expenses		<u>\$ 49,668,622</u>	<u>\$ 11,674,529</u>	<u>\$ 61,343,151</u>	<u>\$ 7,034,223</u>	<u>\$ 474,014</u>	<u>\$ 68,851,388</u>

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	Total
		Regular Education	Special Education	Total	General	
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
Total Salaries and Staff	423	20,467,620	4,610,796	25,078,416	5,133,098	30,211,514
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	253,270	1,358,341	235,573	1,593,914
Travel		9,659	1,757	11,416	2,133	13,549
Other		345,562	81,633	427,195	233,507	660,702
Total Expenses Before Amortization of Interest in Friends' Building		40,487,104	9,079,854	49,566,958	9,608,153	59,175,111
Amortization of interest in Friends' building		338,598	46,511	385,109	100,894	486,003
Total Expenses		<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

Statements of Cash Flows

	Year Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,090,045	\$ 2,438,421
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,798,392	1,593,914
Gain on disposal of property and equipment	(48,088)	-
Amortization of interest in Friends' building	486,003	486,003
Deferred rent	205,153	58,347
Changes in operating assets and liabilities		
Grants and contracts receivable	(1,820,887)	1,911,180
Due from related parties	(79,671)	112,261
Prepaid expenses and other current assets	(17,995)	(668,624)
Accounts payable and accrued expenses	(174,709)	(104,955)
Accrued payroll and payroll taxes	(636,482)	631,278
Refundable advances	(130,430)	236,461
Net Cash from Operating Activities	<u>11,671,331</u>	<u>6,694,286</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(492,464)	(487,442)
Proceeds from maturity of investments	1,299,391	-
Cash acquired from merger of DPE	1,568,576	
Purchase of investments	-	(38,051)
Net Cash from Investing Activities	<u>2,375,503</u>	<u>(525,493)</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Principal payments on capital lease obligation	<u>(349,629)</u>	<u>(338,024)</u>
Net Change in Cash and Restricted Cash	13,697,205	5,830,769
CASH AND RESTRICTED CASH		
Beginning of year	<u>8,761,917</u>	<u>2,931,148</u>
End of Year	<u>\$ 22,459,122</u>	<u>\$ 8,761,917</u>
The following table provides a reconciliation of cash, and restricted cash within the statements of financial position:		
Cash	\$ 22,234,065	\$ 8,761,917
Restricted cash	<u>225,057</u>	<u>-</u>
	<u>\$ 22,459,122</u>	<u>\$ 8,761,917</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 84,346	\$ 157,944
Computer and equipment acquired under a capital lease	3,043,406	-

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

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 4,200 students in grades kindergarten through twelfth during the **2019**-2020 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 now expiring on June 30, 2025.

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 now expiring on June 30, 2025.

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 now 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 now expiring on July 31, 2021.

Democracy Prep Endurance Charter School ("DPE") – DPE was granted a provisional charter on July 16, 2012, 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 now expiring on June 30, 2022.

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, 2020 and 2019

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.

Adoption of New Accounting Policies

Recognition of Contributions

Effective July 1, 2019, the School adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether contributions and grants should be accounted for as exchange transactions or as nonexchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the School recognizes contributions and grants, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2020 and 2019

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

Restricted Cash

In November 2016, the Financial Accounting Standards Board issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires significant changes regarding how restricted cash is classified and presented on the statement of cash flows. On July 1, 2019, the School adopted the new guidance regarding the presentation and classification of restricted cash. The guidance requires the School to 1) include restricted cash and restricted cash equivalents in the cash and cash equivalent balances on the statements of cash flows, 2) provide a reconciliation between the statements of financial position and the statements of cash flows when more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents is presented on the statements of financial position, 3) eliminate the presentation of transfers between restricted cash and cash, and 4) include disclosures about the nature of the restrictions for material balances. Adoption of the ASU resulted in a change in the accounting for restricted cash on the statements of cash flows.

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. Board designated net assets were established to provide a reserve for unforeseen facility, personnel and other issues

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.

Restricted Cash

Under the provisions of its charter, the School established dissolution reserve accounts to pay for, among other things, legal and audit expenses should a dissolution occur.

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.

Democracy Prep New York Charter Schools

Notes to Financial Statements

June 30, 2020 and 2019

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

Fair Value Measurements (continued)

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.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$5,000 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

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, 2020 and 2019.

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.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

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

Deferred Rent (continued)

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 are based on the number of students enrolled and 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.

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, 2020 and 2019, marketing and recruiting costs totaled \$217,138 and \$138,575.

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, 2017.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

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

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 2, 2020.

3. Investments

The School's investments at June 30, 2020 and 2019 consist of money market funds held by two financial institutions totaling \$810,098 and \$2,109,489, at cost.

4. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, 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:

	2020	2019
Computers and equipment	\$ 16,733,403	\$ 14,406,977
Furniture and fixtures	2,405,028	1,857,760
Leasehold improvements	2,277,922	2,195,322
Interest in Friends' Building (a)	13,608,077	13,608,077
	35,024,430	32,068,136
Accumulated depreciation and amortization	(18,161,776)	(16,549,381)
	<u>\$ 16,862,654</u>	<u>\$ 15,518,755</u>

Assets purchased under a capital lease obligation with a cost basis of \$1,907,788 accumulated depreciation of \$1,436,887, and obligation of \$518,989 were disposed of during the year ended June 30, 2020. Gain on disposal of property and equipment was \$48,088 and \$0 for the years ended June 30, 2020 and 2019.

- (a) On July 1, 2014, the lease agreement between Friends' 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.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2020 and 2019

5. Property and Equipment (continued)

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 \$69,500 and \$48,000 for the years ended June 30, 2020 and 2019.

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, 2020 and 2019 was \$486,003. Interest in the School's building, net of accumulated amortization at June 30, 2020 and 2019 is \$10,719,105 and \$11,205,108 and is included in property and equipment in the accompanying statements of financial position.

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:

	2020	2019
Cash	\$ 22,234,065	\$ 8,761,917
Investments	810,098	2,109,489
Grants and contracts receivable	4,644,060	2,082,011
Due from related parties	850,052	1,336,142
Total Financial Assets	28,538,275	14,289,559
Less amounts unavailable for general expenditure:		
Net assets with donor restrictions (net of \$10,719,105)		
Interest in Friends' Building - see Note 5)	(53,071)	(42,005)
Board designated net assets	(987,367)	(897,030)
	<u>\$ 27,497,837</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.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

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 Texas, a Texas not-for-profit organization, Freedom Prep Charter School, a New Jersey 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, HPCS, DPE) 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, 2020, DPPS charged an annual management fee ranging from 12% to 13% to the School.

For the years ended June 30, 2020 and 2019, the School incurred \$9,480,277 and \$7,773,302 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 assets.

On September 20, 2016, DPE entered into a non-cancelable operating lease with DPPS for additional instructional space expiring August 30, 2047. During the year end June 30, 2019, DPE prepaid \$1,000,000 of base rent. The School will be entitled to a credit of \$8,333 per month starting in July 2019. The prepaid rent is included in the statements of financial position under current and long term prepaid expenses and other assets.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2020 and 2019

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

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

	2020	2019
DPE	\$ -	\$ 362,723
DPPS	890,926	962,513
DPBR	(282)	6,703
Friends'	(42,999)	-
DPAC	2,407	4,203
	<u>\$ 850,052</u>	<u>\$ 1,336,142</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, 2020 and 2019, approximately \$21,432,000 and \$7,746,000 of cash was maintained with five institutions in excess of FDIC limits.

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, 2020 and 2019, the School received approximately 95% and 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:

	2020	2019
Korean dual language program	\$ 51,866	\$ 40,639
Field trips and classroom incentives	1,205	1,366
Interest in Friends' building (Note 5)	10,719,105	11,205,108
	<u>\$ 10,772,176</u>	<u>\$ 11,247,113</u>

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2020 and 2019

10. Net Assets With Donor Restrictions (*continued*)

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

	2020	2019
Korean dual language program	\$ 23,727	\$ 49,375
Field trips and classroom incentives	-	9,468
Interest in Friends' building (Note 5)	486,003	486,003
	<u>\$ 509,730</u>	<u>\$ 544,846</u>

11. Commitments

On October 1, 2007, as amended in December 2015, 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.

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 \$563,543 and \$660,086 for the years ended June 30, 2020 and 2019. 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).

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2020 and 2019

11. Commitments (*continued*)

On September 20, 2016, DPE entered into a sub-lease agreement with DPPS for use of classroom facilities at the 2nd floor of the building located at 230 East 123rd Street, New York, NY. The lease term is 30 years, expiring on June 30, 2047.

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

2021	\$	3,958,805
2022		3,547,676
2023		3,619,299
2024		3,666,481
2025		3,747,441
Thereafter		70,646,684
	\$	<u>89,186,386</u>

Occupancy expense was \$5,047,099 and \$3,006,275 for the years ended June 30, 2020 and 2019.

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.

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

	<u>2020</u>	<u>2019</u>
Computers and equipment	\$ 3,043,406	\$ 1,796,732
Accumulated depreciation	<u>(152,806)</u>	<u>(1,101,750)</u>
	<u>\$ 2,890,600</u>	<u>\$ 694,982</u>

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2020 and 2019

12. Capital Lease Obligation (*continued*)

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

2021	\$	824,472
2022		897,024
2023		875,024
2024		870,624
2025		<u>72,541</u>
Total minimum lease payments		3,539,685
Amounts representing interest		<u>(412,256)</u>
Present value of minimum lease payments		3,127,429
Current portion		<u>(652,572)</u>
Capital lease obligation, less current portion	\$	<u><u>2,474,857</u></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 15% of the participant's annual compensation. Employer match for the years ended June 30, 2020 and 2019 amounted to \$1,422,749 and \$964,089.

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. Merger Information

As stated in Note 1, the New York State Board of Regents approved the merger of Democracy Preparatory Endurance Charter School ("DPE") effective July 1, 2019. 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, 2020 and 2019

15. Merger Information (*continued*)

Below is a summary of opening balances as of July 1, 2019 for DPE:

ASSETS

Cash	\$ 1,493,136
Grants and contracts receivable	741,162
Prepaid expenses and other assets	1,006,543
Property and equipment, net	546,382
Restricted cash	75,440
Security deposit	108,010
	<u>\$ 3,970,673</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 277,174
Accrued payroll and payroll taxes	686,468
Due to related parties	565,761
Capital lease obligation	156,317
Refundable advances	47,742
Deferred rent	468,096
Total Liabilities	<u>2,201,558</u>

Net Assets

Without Donor Restrictions

Undesignated	1,622,249
Board designated	135,800

Total Net Assets Without Donor Restrictions 1,758,049

With Donor Restrictions

Total Net Assets	<u>11,066</u>
	<u>\$ 3,970,673</u>

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2020 and 2019

16. Risks and Uncertainties

The School's operations and financial performance may be affected by the recent COVID-19 outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the School may experience a disruption in operations as well as a decline in revenue activities. Economic uncertainty is related to the potential reduction and/or delays in state and local per pupil operating revenue, shortfalls and variations in enrollment, and operational and other changes that could increase expenses. The outbreak may adversely affect the School's activities, financial condition, results of operations, and cash flows. Management is closely monitoring the impact of COVID-19 and believes the School is taking appropriate actions to mitigate the negative impact. However, management is unable to estimate the financial impact, if any, related to this matter.

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Democracy Prep New York Charter Schools

Supplementary Information

June 30, 2020

Democracy Prep New York Charter Schools

Schedule of Activities by School Bronx Preparatory Charter School Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 12,330,171	\$ -	\$ 12,330,171
Students with disabilities	1,014,198	-	1,014,198
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	679,458	-	679,458
State and city	87,120	-	87,120
Total Operating Revenue	<u>14,110,947</u>	<u>-</u>	<u>14,110,947</u>
EXPENSES			
Program Services			
Regular education	10,294,238	-	10,294,238
Special education	1,872,665	-	1,872,665
Total Program Services	<u>12,166,903</u>	<u>-</u>	<u>12,166,903</u>
Supporting Services			
Management and general	1,144,048	-	1,144,048
Fundraising	91,155	-	91,155
Total Expenses	<u>13,402,106</u>	<u>-</u>	<u>13,402,106</u>
Surplus from Operations	<u>708,841</u>	<u>-</u>	<u>708,841</u>
SUPPORT AND OTHER REVENUE			
Contributions	-	4,534	4,534
Other income	20,683	-	20,683
Net assets released from restrictions	4,534	(4,534)	-
Total Support and Other Revenue	<u>25,217</u>	<u>-</u>	<u>25,217</u>
Result of Operations	734,058	-	734,058
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	1,220,061	(486,003)	734,058
NET ASSETS			
Beginning of year	<u>224,862</u>	<u>11,202,566</u>	<u>11,427,428</u>
End of year	<u>\$ 1,444,923</u>	<u>\$ 10,716,563</u>	<u>\$ 12,161,486</u>

Democracy Prep New York Charter Schools

Schedule of Activities by School Democracy Preparatory Charter School Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 11,204,889	\$ -	\$ 11,204,889
Students with disabilities	920,810	-	920,810
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	525,963	-	525,963
State and city	57,955	-	57,955
Total Operating Revenue	<u>12,709,617</u>	<u>-</u>	<u>12,709,617</u>
EXPENSES			
Program Services			
Regular education	8,186,232	-	8,186,232
Special education	1,784,080	-	1,784,080
Total Program Services	<u>9,970,312</u>	<u>-</u>	<u>9,970,312</u>
Supporting Services			
Management and general	1,103,813	-	1,103,813
Fundraising	75,626	-	75,626
Total Expenses	<u>11,149,751</u>	<u>-</u>	<u>11,149,751</u>
Surplus from Operations	<u>1,559,866</u>	<u>-</u>	<u>1,559,866</u>
SUPPORT AND OTHER REVENUE			
Contributions	5,953	5,560	11,513
Rental income	563,543	-	563,543
Other income (loss)	(10,966)	-	(10,966)
Net assets released from restrictions	<u>5,560</u>	<u>(5,560)</u>	<u>-</u>
Total Support and Other Revenue	<u>564,090</u>	<u>-</u>	<u>564,090</u>
 Change in Net Assets	 2,123,956	 -	 2,123,956
NET ASSETS			
Beginning of year	<u>2,494,853</u>	<u>21,857</u>	<u>2,516,710</u>
End of year	<u>\$ 4,618,809</u>	<u>\$ 21,857</u>	<u>\$ 4,640,666</u>

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Activities by School Democracy Preparatory Harlem Charter School Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 17,150,429	\$ -	\$ 17,150,429
Students with disabilities	1,676,154	-	1,676,154
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	871,319	-	871,319
State and city	89,793	-	89,793
Total Operating Revenue	<u>19,787,695</u>	<u>-</u>	<u>19,787,695</u>
EXPENSES			
Program Services			
Regular education	11,433,694	-	11,433,694
Special education	3,021,486	-	3,021,486
Total Program Services	<u>14,455,180</u>	<u>-</u>	<u>14,455,180</u>
Supporting Services			
Management and general	1,673,511	-	1,673,511
Fundraising	117,762	-	117,762
Total Expenses	<u>16,246,453</u>	<u>-</u>	<u>16,246,453</u>
Surplus from Operations	<u>3,541,242</u>	<u>-</u>	<u>3,541,242</u>
SUPPORT AND OTHER REVENUE			
Contributions	1,103	5,477	6,580
Other income	44,000	-	44,000
Net assets released from restrictions	5,477	(5,477)	-
Total Support and Other Revenue	<u>50,580</u>	<u>-</u>	<u>50,580</u>
 Change in Net Assets	 3,591,822	 -	 3,591,822
NET ASSETS			
Beginning of year	<u>4,402,219</u>	<u>15,190</u>	<u>4,417,409</u>
End of year	<u>\$ 7,994,041</u>	<u>\$ 15,190</u>	<u>\$ 8,009,231</u>

Democracy Prep New York Charter Schools

Schedule of Activities by School Harlem Preparatory Charter School Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 16,963,108	\$ -	\$ 16,963,108
Students with disabilities	1,225,904	-	1,225,904
Facilities funding	818,160	-	818,160
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	778,797	-	778,797
State and city	87,120	-	87,120
Total Operating Revenue	<u>19,873,089</u>	<u>-</u>	<u>19,873,089</u>
EXPENSES			
Program Services			
Regular education	12,105,280	-	12,105,280
Special education	3,120,949	-	3,120,949
Total Program Services	15,226,229	-	15,226,229
Supporting Services			
Management and general	1,903,210	-	1,903,210
Fundraising	113,412	-	113,412
Total Expenses	17,242,851	-	17,242,851
Surplus from Operations	<u>2,630,238</u>	<u>-</u>	<u>2,630,238</u>
SUPPORT AND OTHER REVENUE			
Contributions	-	3,653	3,653
Other income	94,443	-	94,443
Net assets released from restrictions	3,653	(3,653)	-
Total Support and Other Revenue	<u>98,096</u>	<u>-</u>	<u>98,096</u>
Change in Net Assets	2,728,334	-	2,728,334
NET ASSETS			
Beginning of year	<u>6,471,708</u>	<u>7,500</u>	<u>6,479,208</u>
End of year	<u>\$ 9,200,042</u>	<u>\$ 7,500</u>	<u>\$ 9,207,542</u>

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Activities by School Democracy Preparatory Endurance Charter School Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 10,976,272	\$ -	\$ 10,976,272
Students with disabilities	1,265,735	-	1,265,735
Facilities funding	850,516	-	850,516
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	479,161	-	479,161
State and city	54,607	-	54,607
Total Operating Revenue	<u>13,626,291</u>	<u>-</u>	<u>13,626,291</u>
EXPENSES			
Program Services			
Regular education	7,649,178	-	7,649,178
Special education	1,875,349	-	1,875,349
Total Program Services	<u>9,524,527</u>	<u>-</u>	<u>9,524,527</u>
Supporting Services			
Management and general	1,209,641	-	1,209,641
Fundraising	76,059	-	76,059
Total Expenses	<u>10,810,227</u>	<u>-</u>	<u>10,810,227</u>
Surplus from Operations	<u>2,816,064</u>	<u>-</u>	<u>2,816,064</u>
SUPPORT AND OTHER REVENUE			
Contributions	-	4,503	4,503
Other income	91,308	-	91,308
Net assets released from restrictions	4,503	(4,503)	-
Total Support and Other Revenue	<u>95,811</u>	<u>-</u>	<u>95,811</u>
Change in Net Assets	2,911,875	-	2,911,875
NET ASSETS			
Beginning of year	<u>1,769,111</u>	<u>-</u>	<u>1,769,111</u>
End of year	<u>\$ 4,680,986</u>	<u>\$ -</u>	<u>\$ 4,680,986</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School Bronx Preparatory Charter School Year Ended June 30, 2020

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	22	\$ 367,093	\$ 104,884	\$ 471,977	\$ 407,866	\$ -	\$ 879,843
Instructional personnel	77	4,436,700	730,850	5,167,550	-	-	5,167,550
Non-instructional personnel	19	521,330	85,878	607,208	-	-	607,208
Total Salaries and Staff	118	5,325,123	921,612	6,246,735	407,866	-	6,654,601
Fringe benefits and payroll taxes		1,354,983	234,505	1,589,488	103,782	-	1,693,270
Retirement		229,859	39,781	269,640	17,606	-	287,246
Management company fees		1,185,013	273,465	1,458,478	273,465	91,155	1,823,098
Accounting/audit services		-	-	-	33,500	-	33,500
Other purchased/professional/consulting services		37,545	16,087	53,632	73,769	-	127,401
Occupancy		55,615	9,625	65,240	4,260	-	69,500
Repair and maintenance		368,353	63,750	432,103	28,213	-	460,316
Insurance		59,250	10,254	69,504	4,538	-	74,042
Utilities		211,021	36,521	247,542	16,163	-	263,705
Supplies/materials		249,752	41,141	290,893	-	-	290,893
Equipment/furnishings		54,096	9,362	63,458	4,143	-	67,601
Staff development		57,913	10,023	67,936	4,436	-	72,372
Marketing/recruitment		18,052	2,974	21,026	-	-	21,026
Technology		76,960	13,319	90,279	5,895	-	96,174
Student services		256,185	42,201	298,386	-	-	298,386
Office expense		98,227	17,000	115,227	7,523	-	122,750
Depreciation and amortization		214,651	66,702	281,353	50,102	-	331,455
Travel		7,032	1,217	8,249	538	-	8,787
Other		96,009	16,616	112,625	7,354	-	119,979
Total Expenses Before Amortization of Interest in Friends' Building		9,955,639	1,826,155	11,781,794	1,043,153	91,155	12,916,103
Amortization of interest in Friends' building		338,598	46,510	385,109	100,894	-	486,003
Total Expenses		\$ 10,294,238	\$ 1,872,665	\$ 12,166,903	\$ 1,144,048	\$ 91,155	\$ 13,402,106

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School Democracy Preparatory Charter School Year Ended June 30, 2020

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	21	\$ 650,906	\$ 185,973	\$ 836,879	\$ 534,407	\$ -	\$ 1,371,286
Instructional personnel	60	3,563,939	727,840	4,291,779	-	-	4,291,779
Non-instructional personnel	3	199,492	40,741	240,233	-	-	240,233
Total Salaries and Staff	<u>84</u>	<u>4,414,337</u>	<u>954,554</u>	<u>5,368,891</u>	<u>534,407</u>	<u>-</u>	<u>5,903,298</u>
Fringe benefits and payroll taxes		751,810	162,571	914,381	91,015	-	1,005,396
Retirement		240,361	51,976	292,337	29,099	-	321,436
Management company fees		983,139	226,878	1,210,017	226,878	75,626	1,512,521
Accounting/audit services		10,819	2,340	13,159	1,310	-	14,469
Other purchased/professional/consulting services		9,290	1,897	11,187	8,859	-	20,046
Occupancy		495,431	107,132	602,563	59,978	-	662,541
Repair and maintenance		86,164	18,632	104,796	10,431	-	115,227
Insurance		93,208	20,155	113,363	11,284	-	124,647
Utilities		153,517	33,196	186,713	18,585	-	205,298
Supplies/materials		139,107	30,080	169,187	16,841	-	186,028
Equipment/furnishings		34,511	7,463	41,974	4,178	-	46,152
Staff development		42,139	9,112	51,251	5,101	-	56,352
Marketing/recruitment		36,447	7,602	44,049	1,594	-	45,643
Technology		79,918	17,281	97,199	9,675	-	106,874
Student services		297,999	64,439	362,438	36,076	-	398,514
Office expense		69,455	15,019	84,474	8,408	-	92,882
Depreciation and amortization		138,575	29,966	168,541	16,776	-	185,317
Travel		14,345	3,102	17,447	1,737	-	19,184
Other		<u>95,660</u>	<u>20,685</u>	<u>116,345</u>	<u>11,581</u>	<u>-</u>	<u>127,926</u>
Total Expenses		<u>\$ 8,186,232</u>	<u>\$ 1,784,080</u>	<u>\$ 9,970,312</u>	<u>\$ 1,103,813</u>	<u>\$ 75,626</u>	<u>\$ 11,149,751</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School Democracy Preparatory Harlem Charter School Year Ended June 30, 2020

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	21	\$ 682,917	\$ 195,119	\$ 878,036	\$ 853,859	\$ -	\$ 1,731,895
Instructional personnel	60	5,552,616	1,485,807	7,038,423	-	-	7,038,423
Non-instructional personnel	3	94,301	25,234	119,535	-	-	119,535
Total Salaries and Staff	<u>84</u>	<u>6,329,834</u>	<u>1,706,160</u>	<u>8,035,994</u>	<u>853,859</u>	<u>-</u>	<u>8,889,853</u>
Fringe benefits and payroll taxes		1,154,621	311,219	1,465,840	155,752	-	1,621,592
Retirement		221,524	59,710	281,234	29,882	-	311,116
Management company fees		1,530,900	353,285	1,884,185	353,285	117,762	2,355,232
Accounting/audit services		-	-	-	31,750	-	31,750
Other purchased/professional/consulting services		4,070	1,089	5,159	23,111	-	28,270
Occupancy		401,259	108,156	509,415	54,128	-	563,543
Repair and maintenance		140,732	37,933	178,665	18,984	-	197,649
Insurance		79,297	21,374	100,671	10,697	-	111,368
Utilities		31,127	8,390	39,517	4,199	-	43,716
Supplies/materials		180,652	48,340	228,992	-	-	228,992
Equipment/furnishings		60,166	16,218	76,384	8,116	-	84,500
Staff development		44,052	11,874	55,926	5,942	-	61,868
Marketing/recruitment		42,800	11,480	54,280	1,866	-	56,146
Technology		135,264	36,459	171,723	18,246	-	189,969
Student services		308,694	82,602	391,296	-	-	391,296
Office expense		460,923	124,238	585,161	62,176	-	647,337
Depreciation and amortization		246,220	66,367	312,587	33,214	-	345,801
Travel		5,622	1,515	7,137	758	-	7,895
Other		55,937	15,077	71,014	7,546	-	78,560
Total Expenses		<u>\$ 11,433,694</u>	<u>\$ 3,021,486</u>	<u>\$ 14,455,180</u>	<u>\$ 1,673,511</u>	<u>\$ 117,762</u>	<u>\$ 16,246,453</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School Harlem Preparatory Charter School Year Ended June 30, 2020

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	18	\$ 616,596	\$ 176,170	\$ 792,766	\$ 898,656	\$ -	\$ 1,691,422
Instructional personnel	96	5,241,418	1,357,429	6,598,847	-	-	6,598,847
Non-instructional personnel	4	236,707	61,303	298,010	-	-	298,010
Total Salaries and Staff	<u>118</u>	<u>6,094,721</u>	<u>1,594,902</u>	<u>7,689,623</u>	<u>898,656</u>	<u>-</u>	<u>8,588,279</u>
Fringe benefits and payroll taxes		1,044,394	273,303	1,317,697	153,994	-	1,471,691
Retirement		201,645	52,768	254,413	29,732	-	284,145
Management company fees		1,474,362	340,237	1,814,599	340,237	113,412	2,268,248
Accounting/audit services		-	-	-	51,750	-	51,750
Other purchased/professional/consulting services		9,486	2,482	11,968	13,150	-	25,118
Occupancy		1,650,536	431,921	2,082,457	243,369	-	2,325,826
Repair and maintenance		130,288	34,095	164,383	19,211	-	183,594
Insurance		65,181	17,057	82,238	9,611	-	91,849
Utilities		53,977	14,125	68,102	7,959	-	76,061
Supplies/materials		178,329	46,184	224,513	-	-	224,513
Equipment/furnishings		8,994	2,354	11,348	1,326	-	12,674
Staff development		46,528	12,176	58,704	6,861	-	65,565
Marketing/recruitment		49,755	12,931	62,686	2,468	-	65,154
Technology		172,771	45,212	217,983	25,475	-	243,458
Food services		477	123	600	-	-	600
Student services		249,623	64,648	314,271	-	-	314,271
Office expense		147,801	38,677	186,478	21,793	-	208,271
Depreciation and amortization		503,317	131,711	635,028	74,213	-	709,241
Travel		1,323	346	1,669	195	-	1,864
Other		<u>21,772</u>	<u>5,697</u>	<u>27,469</u>	<u>3,210</u>	<u>-</u>	<u>30,679</u>
Total Expenses		<u>\$ 12,105,280</u>	<u>\$ 3,120,949</u>	<u>\$ 15,226,229</u>	<u>\$ 1,903,210</u>	<u>\$ 113,412</u>	<u>\$ 17,242,851</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School Democracy Preparatory Endurance Charter School Year Ended June 30, 2020

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	19	\$ 561,298	\$ 160,371	\$ 721,669	\$ 569,807	\$ -	\$ 1,291,476
Instructional personnel	49	3,200,376	771,597	3,971,973	-	-	3,971,973
Non-instructional personnel	1	12,623	3,043	15,666	-	-	15,666
Total Salaries and Staff	<u>69</u>	<u>3,774,297</u>	<u>935,011</u>	<u>4,709,308</u>	<u>569,807</u>	<u>-</u>	<u>5,279,115</u>
Fringe benefits and payroll taxes		735,217	182,136	917,353	110,996	-	1,028,349
Retirement		162,171	40,175	202,346	24,483	-	226,829
Management company fees		988,765	228,177	1,216,942	228,177	76,059	1,521,178
Legal services		-	-	-	4,470	-	4,470
Accounting/audit services		-	-	-	26,750	-	26,750
Other purchased/professional/consulting services		1,225	295	1,520	8,859	-	10,379
Occupancy		1,019,295	252,511	1,271,806	153,883	-	1,425,689
Repair and maintenance		5,561	1,378	6,939	839	-	7,778
Insurance		42,066	10,421	52,487	6,351	-	58,838
Utilities		21,603	5,352	26,955	3,262	-	30,217
Supplies/materials		194,605	46,918	241,523	-	-	241,523
Equipment/furnishings		58,124	14,399	72,523	8,775	-	81,298
Staff development		64,021	15,860	79,881	9,665	-	89,546
Marketing/recruitment		22,461	5,470	27,931	1,238	-	29,169
Technology		90,596	22,443	113,039	13,677	-	126,716
Student services		214,758	51,777	266,535	-	-	266,535
Office expense		3,719	921	4,640	561	-	5,201
Depreciation and amortization		161,992	40,130	202,122	24,456	-	226,578
Travel		3,490	865	4,355	527	-	4,882
Other		<u>85,212</u>	<u>21,110</u>	<u>106,322</u>	<u>12,865</u>	<u>-</u>	<u>119,187</u>
Total Expenses		<u>\$ 7,649,178</u>	<u>\$ 1,875,349</u>	<u>\$ 9,524,527</u>	<u>\$ 1,209,641</u>	<u>\$ 76,059</u>	<u>\$ 10,810,227</u>

Democracy Prep New York Charter Schools

Uniform Guidance
Schedules and Reports

June 30, 2020

Democracy Prep New York Charter Schools

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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	0021-20-4685	\$ -	\$ 550,445
Title I Grants to Local Educational Agencies	84.010	0021-20-4125	-	541,776
Title I Grants to Local Educational Agencies	84.010	0021-20-4220	-	497,398
Title I Grants to Local Educational Agencies	84.010	0021-20-4349	-	335,452
Title I Grants to Local Educational Agencies	84.010	0021-20-4002	-	281,612
			<u>-</u>	<u>2,206,683</u>
Higher Education Institutional Aid	84.031	0293-20-4125	-	5,000
Higher Education Institutional Aid	84.031	0293-20-4349	-	5,000
Higher Education Institutional Aid	84.031	0293-20-4685	-	5,000
Higher Education Institutional Aid	84.031	0293-20-4220	-	5,000
Higher Education Institutional Aid	84.031	0293-20-4002	-	2,500
			<u>-</u>	<u>22,500</u>
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-20-4685	-	36,524
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-20-4220	-	33,274
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-20-4349	-	32,515
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-20-4125	-	30,296
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-20-4002	-	10,184
			<u>-</u>	<u>142,793</u>
Student Support and Academic Enrichment Grant	84.424	0204-20-4220	-	33,545
Student Support and Academic Enrichment Grant	84.424	0204-20-4125	-	29,940
Student Support and Academic Enrichment Grant	84.424	0204-20-4685	-	37,003
Student Support and Academic Enrichment Grant	84.424	0204-20-4002	-	38,563
			<u>-</u>	<u>139,051</u>
Total U.S. Department of Education			<u>-</u>	<u>2,511,027</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 2,511,027</u>

Democracy Prep New York Charter Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Democracy Prep New York Charter Schools under programs of the federal government for the year ended June 30, 2020. 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, 2020, 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 2, 2020.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider 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 are 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

November 2, 2020

**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, 2020. 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, 2020.

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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

November 2, 2020

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2020

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?

_____ yes X no

Significant deficiency(ies) identified?

 X yes _____ none reported

Noncompliance material to 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?

_____ yes X 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)?

_____ yes X no

Identification of major federal programs:

CFDA Numbers

84.010

Name of Federal Programs or Clusters

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
Year Ended June 30, 2020

Section II – Financial Statement Findings

2020-001- General Ledger Maintenance and Account Analysis (*Repeat Finding*)

Criteria

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

Condition

Although we noted improvements during the 2020 audit, account analysis schedules were not fully reconciled and supported by all the backup documentation. We also noted that improvements are still 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 Year Ended June 30, 2020

Section II – Financial Statement Findings (continued)

2020-002- Competitive Bidding (*Repeat Finding*)

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.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs tested which were reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2020

Section IV - Prior Period's 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.

Status

The condition was partially corrected in fiscal 2020, see 2020-001.

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.

Status

The condition was corrected in fiscal 2020.

2019-003- Competitive Bidding (Repeat Finding)

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.

Status

This condition was not corrected in fiscal 2020, see 2020-002.

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs *(continued)*
Year Ended June 30, 2020

Section IV - Prior Period's 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.

Status

The condition was corrected in fiscal 2020.

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

CFDA

84.010, Title 1 Grants to Local Educational Agencies
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.

Status

The condition was corrected in fiscal 2020.

* * * * *



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 2020-001 General Ledger Maintenance and Account Analysis (Significant Deficiency)

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 on a timely basis throughout the year. In addition, CSBM will provide training to the Finance team on general ledger account maintenance, reconciliation and analysis. Management has also increased the resources provided to the finance function with the addition of a CFO and Senior Accountant to the team.

Contact name: Valerie Martinez

Date of completion: Spring 2021

Response to 2020-002 Competitive Bidding (Significant Deficiency)

Democracy Prep New York Charter Schools will amend its Financial Policies and Procedures Manual ("FPP") to decrease the bidding threshold to \$5,000 or greater for purchases and/or contracts, with at least three quotes submitted for the aforementioned purchase and/or contract.

Contact name: Valerie Martinez

Date of completion: Spring 2021

Respectfully,

DocuSigned by:

Valerie Martinez

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Valerie Martinez

Chief Financial Officer