

# **Democracy Prep New York Charter Schools**

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

June 30, 2022 and 2021

# Democracy Prep New York Charter Schools

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

June 30, 2022 and 2021

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## **Independent Auditors' Report**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Democracy Prep New York Charter Schools (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Democracy Prep New York Charter Schools as of June 30, 2022 and 2021, 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.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Democracy Prep New York Charter Schools and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

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

***Auditors' Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Democracy Prep New York Charter Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Democracy Prep New York Charter Schools' ability to continue as a going concern for a reasonable period of time.

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

***Report on 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, 2022 on pages 22 through 31 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 32, 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 October 31, 2022, on our consideration of Democracy Prep New York Charter Schools' 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 Democracy Prep New York Charter Schools' 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 Democracy Prep New York Charter Schools' internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 31, 2022

## Democracy Prep New York Charter Schools

### Statements of Financial Position

	June 30,	
	2022	2021
<b>ASSETS</b>		
Current Assets		
Cash	\$ 28,497,090	\$ 24,182,288
Investments	15,828,461	15,817,563
Grants and contracts receivable	6,446,000	4,157,422
Due from related parties, net	1,358,444	245,154
Prepaid expenses and other current assets	535,984	1,663,892
Total Current Assets	52,665,979	46,066,319
Prepaid expenses and other assets, less current portion	1,800,000	2,100,000
Property and equipment, net	17,749,632	17,054,159
Security deposits	3,204,076	2,081,356
Restricted cash	225,295	225,209
	\$ 75,644,982	\$ 67,527,043
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 3,112,573	\$ 2,559,013
Accrued payroll and payroll taxes	6,334,453	5,714,565
Capital lease obligation	838,591	744,157
Refundable advances	4,402,954	259,948
Deferred rent	259,895	282,694
Total Current Liabilities	14,948,466	9,560,377
Deferred rent, less current portion	1,654,823	1,644,942
Capital lease obligation, less current portion	985,157	1,701,027
Total Liabilities	17,588,446	12,906,346
Net Assets		
Without Donor Restrictions		
Undesignated	47,267,243	43,345,401
Board designated	989,123	989,123
Total Without Donor Restrictions	48,256,366	44,334,524
With donor restrictions	9,800,170	10,286,173
Total Net Assets	58,056,536	54,620,697
	\$ 75,644,982	\$ 67,527,043

See notes to financial statements

**Democracy Prep New York Charter Schools**

Statement of Activities  
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 67,604,690	\$ -	\$ 67,604,690
Students with disabilities	7,626,419	-	7,626,419
Facilities funding	2,531,252	-	2,531,252
Grants and Contracts			
Federal grants	7,780,809	-	7,780,809
Federal IDEA and E-Rate	1,305,542	-	1,305,542
State	280,800	-	280,800
Total Operating Revenue	87,129,512	-	87,129,512
<b>EXPENSES</b>			
Program Services			
Regular education	57,955,408	-	57,955,408
Special education	14,764,208	-	14,764,208
Total Program Services	72,719,616	-	72,719,616
Supporting Services			
Management and general	11,424,969	-	11,424,969
Fundraising	495,572	-	495,572
Total Expenses	84,640,157	-	84,640,157
Surplus from Operations	2,489,355	-	2,489,355
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	42,858	52,201	95,059
Rental income	595,466	-	595,466
Other income	255,959	-	255,959
Net assets released from restrictions	52,201	(52,201)	-
Total Support and Other Revenue	946,484	-	946,484
Result of Operations	3,435,839	-	3,435,839
Net assets released from restriction - amortization of interest in Friends' Building	486,003	(486,003)	-
Change in Net Assets	3,921,842	(486,003)	3,435,839
<b>NET ASSETS</b>			
Beginning of year	44,334,524	10,286,173	54,620,697
End of year	\$ 48,256,366	\$ 9,800,170	\$ 58,056,536

See notes to financial statements

## Democracy Prep New York Charter Schools

### Statement of Activities Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 70,236,676	\$ -	\$ 70,236,676
Students with disabilities	7,558,603	-	7,558,603
Facilities funding	1,640,760	-	1,640,760
Grants and Contracts			
Federal grants	4,396,342	-	4,396,342
Federal IDEA and E-Rate	1,327,008	-	1,327,008
State	297,988	-	297,988
Total Operating Revenue	85,457,377	-	85,457,377
<b>EXPENSES</b>			
Program Services			
Regular education	48,899,065	-	48,899,065
Special education	11,581,874	-	11,581,874
Total Program Services	60,480,939	-	60,480,939
Supporting Services			
Management and general	9,501,906	-	9,501,906
Fundraising	501,152	-	501,152
Total Expenses	70,483,997	-	70,483,997
Surplus from Operations	14,973,380	-	14,973,380
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	22,535	49,351	71,886
Rental income	423,132	-	423,132
Other income	452,384	-	452,384
Net assets released from restrictions	49,351	(49,351)	-
Total Support and Other Revenue	947,402	-	947,402
Result of Operations	15,920,782	-	15,920,782
Net assets released from restriction - amortization of interest in Friends' Building			
	486,003	(486,003)	-
Change in Net Assets	16,406,785	(486,003)	15,920,782
<b>NET ASSETS</b>			
Beginning of year	27,927,739	10,772,176	38,699,915
End of year	\$ 44,334,524	\$ 10,286,173	\$ 54,620,697

See notes to financial statements



**Democracy Prep New York Charter Schools**

Statement of Functional Expenses  
Year Ended June 30, 2022

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	89	\$ 3,466,096	\$ 990,314	\$ 4,456,410	\$ 6,096,427	\$ -	\$ 10,552,837
Instructional personnel	375	25,409,100	6,423,876	31,832,976	-	-	31,832,976
Non-instructional personnel	48	1,258,258	379,931	1,638,189	-	-	1,638,189
Total Personnel Services Costs	<u>512</u>	<u>30,133,454</u>	<u>7,794,121</u>	<u>37,927,575</u>	6,096,427	-	<u>44,024,002</u>
Fringe benefits and payroll taxes		4,253,486	1,101,915	5,355,401	852,606	-	6,208,007
Retirement		949,991	246,890	1,196,881	191,023	-	1,387,904
Management company fees		6,442,459	1,486,721	7,929,180	1,486,721	495,572	9,911,473
Legal services		-	-	-	11,044	-	11,044
Accounting/audit services		5,423	1,329	6,752	41,566	-	48,318
Other purchased/professional/consulting services		235,034	81,393	316,427	166,587	-	483,014
Occupancy		3,798,406	1,000,310	4,798,716	809,326	-	5,608,042
Repair and maintenance		2,156,895	533,214	2,690,109	446,652	-	3,136,761
Insurance		542,028	142,711	684,739	107,343	-	792,082
Utilities		571,276	127,426	698,702	123,571	-	822,273
Supplies/materials		1,982,057	512,982	2,495,039	53,628	-	2,548,667
Equipment/furnishings		149,442	37,992	187,434	29,029	-	216,463
Staff development		316,758	80,545	397,303	65,500	-	462,803
Marketing/recruitment		193,330	47,009	240,339	17,477	-	257,816
Technology		1,397,192	369,583	1,766,775	274,176	-	2,040,951
Food services		1,781	423	2,204	-	-	2,204
Student services		1,954,501	498,540	2,453,041	41,033	-	2,494,074
Office expense		526,332	136,403	662,735	101,051	-	763,786
Depreciation and amortization		1,516,621	380,062	1,896,683	371,706	-	2,268,389
Travel		1,567	381	1,948	330	-	2,278
Other		450,760	113,775	564,535	99,268	-	663,803
Total Expenses Before Amortization of Interest in Friends' Building		57,578,793	14,693,725	72,272,518	11,386,064	495,572	84,154,154
Amortization of interest in Friends' building		376,615	70,483	447,098	38,905	-	486,003
Total Expenses		<u>\$ 57,955,408</u>	<u>\$ 14,764,208</u>	<u>\$ 72,719,616</u>	<u>\$ 11,424,969</u>	<u>\$ 495,572</u>	<u>\$ 84,640,157</u>

See notes to financial statements

**Democracy Prep New York Charter Schools**

Statement of Functional Expenses  
Year Ended June 30, 2021

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	85	\$ 2,918,293	\$ 833,797	\$ 3,752,090	\$ 4,882,714	\$ -	\$ 8,634,804
Instructional personnel	429	22,509,144	5,259,563	27,768,707	-	-	27,768,707
Non-instructional personnel	26	912,014	191,328	1,103,342	-	-	1,103,342
Total Personnel Services Costs	<u>540</u>	<u>26,339,451</u>	<u>6,284,688</u>	<u>32,624,139</u>	<u>4,882,714</u>	<u>-</u>	<u>37,506,853</u>
Fringe benefits and payroll taxes		4,129,549	984,165	5,113,714	767,257	-	5,880,971
Retirement		932,420	220,977	1,153,397	170,235	-	1,323,632
Management company fees		6,514,983	1,503,456	8,018,439	1,503,456	501,152	10,023,047
Legal services		-	-	-	21,606	-	21,606
Accounting/audit services		15,741	3,212	18,953	189,747	-	208,700
Other purchased/professional/consulting services		204,368	61,776	266,144	259,486	-	525,630
Occupancy		3,324,009	812,200	4,136,209	681,744	-	4,817,953
Repair and maintenance		969,860	219,872	1,189,732	153,774	-	1,343,506
Insurance		299,062	69,936	368,998	55,066	-	424,064
Utilities		505,480	107,693	613,173	82,725	-	695,898
Supplies/materials		1,103,000	254,273	1,357,273	23,507	-	1,380,780
Equipment/furnishings		95,647	21,725	117,372	16,204	-	133,576
Staff development		112,916	25,310	138,226	19,291	-	157,517
Marketing/recruitment		180,584	43,388	223,972	11,486	-	235,458
Technology		1,113,870	271,292	1,385,162	214,332	-	1,599,494
Student services		496,210	115,180	611,390	20,547	-	631,937
Office expense		533,735	125,580	659,315	94,506	-	753,821
Depreciation and amortization		1,312,055	310,843	1,622,898	239,023	-	1,861,921
Travel		5,921	1,455	7,376	1,321	-	8,697
Other		333,589	74,370	407,959	54,974	-	462,933
Total Expenses Before Amortization of Interest in Friends' Building		48,522,450	11,511,391	60,033,841	9,463,001	501,152	69,997,994
Amortization of interest in Friends' building		376,615	70,483	447,098	38,905	-	486,003
Total Expenses		<u>\$ 48,899,065</u>	<u>\$ 11,581,874</u>	<u>\$ 60,480,939</u>	<u>\$ 9,501,906</u>	<u>\$ 501,152</u>	<u>\$ 70,483,997</u>

See notes to financial statements

**Democracy Prep New York Charter Schools**

Statements of Cash Flows

	Year Ended June 30,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,435,839	\$ 15,920,782
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,268,389	1,861,921
Gain on disposal of property and equipment	-	(33,180)
Amortization of interest in Friends' building	486,003	486,003
Deferred rent	(12,918)	308,889
Changes in operating assets and liabilities		
Grants and contracts receivable	(2,288,578)	486,638
Due from related parties, net	(1,113,290)	604,898
Prepaid expenses and other current assets	1,427,908	(212,460)
Security deposits	(1,122,720)	(2,081,356)
Accounts payable and accrued expenses	553,560	1,412,178
Accrued payroll and payroll taxes	619,888	1,327,162
Refundable advances	4,143,006	62,859
Net Cash from Operating Activities	8,397,087	20,144,334
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(3,449,865)	(2,559,762)
Purchase of investments	-	(15,007,384)
Dividend and interest reinvested	(10,898)	(81)
Net Cash from Investing Activities	(3,460,763)	(17,567,227)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Principal payments on capital lease obligation	(621,436)	(628,732)
Net Change in Cash and Restricted Cash	4,314,888	1,948,375
<b>CASH AND RESTRICTED CASH</b>		
Beginning of year	24,407,497	22,459,122
End of Year	\$ 28,722,385	\$ 24,407,497
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 133,530	\$ 169,339
<b>NON CASH INVESTING AND FINANCING ACTIVITIES</b>		
Computer and equipment acquired under a capital lease	140,466	-

During the years ended June 30, 2022 and 2021, property and equipment and the related capital lease obligations of \$0 and \$53,513 were removed from the accounts as a result of disposals and other transactions.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

### 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 4,014 students in grades kindergarten through twelfth during the 2021-2022 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 Preparatory 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, 2026.

Democracy Preparatory 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 July 31, 2024.

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, 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, 2022 and 2021

### 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.

#### ***Net Asset 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.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

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

#### ***Net Asset Presentation (continued)***

*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 an escrow account to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position to the amounts presented in the statements of cash flows at June 30:

	2022	2021
Cash	\$ 28,497,090	\$24,182,288
Restricted cash	225,295	225,209
	<u>\$ 28,722,385</u>	<u>\$ 24,407,497</u>

#### ***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***

Money market funds are stated at fair value. Certificates of deposit are valued at the amounts deposited plus accrued interest, which approximate 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, 2022 and 2021

### 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 \$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, 2022 and 2021.

#### ***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. At June 30, 2022, the refundable advances balance includes a \$2,735,927 deposit from the Internal Revenue Service that the School is investigating.

#### ***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 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. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

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

#### ***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, 2022 and 2021, marketing and recruiting costs totaled \$257,816 and \$235,458.

#### ***Measure of Operations***

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the School's ongoing services. Non-operating activities include revenue and support from non-governmental sources that include grants and contributions revenue, return on investments and other activities considered to be of a non-recurring nature.

#### ***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, 2018.

#### ***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 October 31, 2022.

### 3. Investments

The School's investments at June 30, 2022 and 2021 consist of money market funds of \$810,921 and \$810,179, categorized as level 1 in fair value hierarchy and certificates of deposit totaling \$15,017,540 and \$15,007,384 held by a bank.



## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

### 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. Management has assessed the need for an allowance for doubtful accounts and has determined that such an allowance is not necessary.

### 5. Property and Equipment

Property and equipment consists of the following at June 30:

	2022	2021
Computers and equipment	\$ 13,132,532	\$11,270,253
Furniture and fixtures	3,023,714	2,544,725
Leasehold improvements	11,155,938	10,047,341
Interest in Friends' Building (a)	<u>13,608,077</u>	<u>13,608,077</u>
	40,920,261	37,470,396
Accumulated depreciation and amortization	<u>(23,170,629)</u>	<u>(20,416,237)</u>
	<u>\$ 17,749,632</u>	<u>\$ 17,054,159</u>

There were no assets disposed during the year ended June 30, 2022. Assets purchased under a capital lease obligation with a cost basis of \$113,796, accumulated depreciation of \$93,463, and an obligation of \$53,513 were disposed of during the year ended June 30, 2021. Gain on disposal of property and equipment was \$33,180 for the years ended June 30 2021.

(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.

The annual base rent equals 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 for each of the years ended June 30, 2022 and 2021.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

### 5. Property and Equipment (*continued*)

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 each of the years ended June 30, 2022 and 2021 was \$486,003. Interest in the School's building, net of accumulated amortization at June 30, 2022 and 2021 is \$9,747,099 and \$10,233,102 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:

	2022	2021
Cash	\$ 28,497,090	\$24,182,288
Investments	15,828,461	15,817,563
Grants and contracts receivable	6,446,000	4,157,422
Due from related parties	1,358,444	245,154
Total Financial Assets	<u>52,129,995</u>	<u>44,402,427</u>
Less amounts unavailable for general expenditure:		
Net assets with donor restrictions (net of \$9,747,099 and \$10,233,102 Interest in Friends' Building - see Note 5)	(45,358)	(53,071)
Board designated net assets	<u>(989,123)</u>	<u>(989,123)</u>
	<u>\$ 51,095,514</u>	<u>\$ 43,360,233</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. The School will continue to rely on funding received from New York City Department of Education to cover future operating costs. (see Note 9)

### 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.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

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

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, 2022, DPPS charged an annual management fee of 12% to the School. For the year ended June 30, 2021, DPPS charged an annual management fee of 12% and 12.5%.

For the years ended June 30, 2022 and 2021, the School incurred \$9,911,473 and \$10,023,047 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 ended 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.

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:

	2022	2021
DPPS	\$ 1,129,293	\$ 216,450
DPAC	179,344	13,974
DPBR	98,237	7,218
Friends'	(72,643)	7,618
DPT	24,213	-
Others	-	(106)
	\$ 1,358,444	\$ 245,154

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

### 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 including certificates of deposits on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. Investment in money market funds are maintained at a broker, which insures up to \$500,000 with Securities Investor Protection Insurance. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. At June 30, 2022 and 2021, approximately \$43,230,000 and \$38,600,000 of cash was maintained with two 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, 2022 and 2021, the School received approximately 88% and 92% 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:

	2022	2021
Korean dual language program	\$ 51,866	\$ 51,866
Field trips and classroom incentives	1,205	1,205
Interest in Friends' building (Note 5)	9,747,099	10,233,102
	<u>\$ 9,800,170</u>	<u>\$ 10,286,173</u>

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

	2022	2021
Korean dual language program	\$ 52,201	\$ 49,351
Interest in Friends' building (Note 5)	486,003	486,003
	<u>\$ 538,204</u>	<u>\$ 535,354</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 133<sup>rd</sup> 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.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

### 11. Commitments (*continued*)

The sublease provides that DPCS pay a monthly base rent plus triple-net charges for DPCS' share of expenses related to the leased 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 \$595,466 and \$423,132 for the years ended June 30, 2022 and 2021. 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. For the year ending June 30, 2023, the School is on a month-to-month basis.

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. For the year ending June 30, 2023, the School is on a month-to-month basis.

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).

On September 20, 2016, DPE entered into a sub-lease agreement with DPPS for use of classroom facilities at the 2<sup>nd</sup> floor of the building located at 230 East 123<sup>rd</sup> Street, New York, NY. The lease term is 30 years, expiring on June 30, 2047 (see Note 7).

On December 17, 2020, the School entered into a sub-lease agreement with Friends for the space located at 1000 Westchester Avenue, Bronx, New York. The lease term is scheduled to start on June 1, 2023 and will expire on June 30, 2034.

On April 29, 2022, the School entered into a lease agreement with Neumont Management Corporation for the office space located at 101 & 115 West 116<sup>th</sup> Street, New York. The lease term started on May 1, 2022 and will expire on July 31, 2025.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

### 11. Commitments (*continued*)

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

2023	\$ 6,004,387
2024	7,658,229
2025	8,549,659
2026	8,664,648
2027	8,935,004
Thereafter	<u>271,115,210</u>
	<u>\$ 310,927,137</u>

Occupancy expense was \$6,062,360 and \$4,817,953 for the years ended June 30, 2022 and 2021.

### 12. Capital Lease Obligation

The School leases computers and equipment under capital leases that expire at various dates through in June 2025. 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>2022</u>	<u>2021</u>
Computers and equipment	\$ 3,183,873	\$ 3,043,407
Accumulated depreciation	<u>(1,683,629)</u>	<u>(887,660)</u>
	<u>\$ 1,500,244</u>	<u>\$ 2,155,747</u>

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

2023	\$ 924,724
2024	910,078
2025	<u>112,006</u>
Total minimum lease payments	1,946,808
Amounts representing interest	<u>(123,060)</u>
Present value of minimum lease payments	1,823,748
Current portion	<u>(838,591)</u>
Capital lease obligation, less current portion	<u>\$ 985,157</u>

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2022 and 2021

### 12. Capital Lease Obligation (*continued*)

For the years ended June 30, 2022 and 2021, interest expense was \$133,530 and \$169,339, and included in the other expenses in the accompanying statements of functional expenses.

### 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 10% of the participant's annual compensation. Employer match for the years ended June 30, 2022 and 2021 amounted to \$1,387,901 and \$1,323,632.

### 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. 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, 2022



## Democracy Prep New York Charter Schools

### Schedule of Activities Bronx Preparatory Charter School Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 13,003,167	\$ -	\$ 13,003,167
Students with disabilities	1,066,413	-	1,066,413
Facilities funding	192,906		192,906
Grants and Contracts			
Federal grants	2,042,080	-	2,042,080
Federal IDEA	152,629	-	152,629
State	47,383	-	47,383
Total Operating Revenue	16,504,578	-	16,504,578
<b>EXPENSES</b>			
Program Services			
Regular education	12,602,841	-	12,602,841
Special education	2,354,525	-	2,354,525
Total Program Services	14,957,366	-	14,957,366
Supporting Services			
Management and general	2,863,457	-	2,863,457
Fundraising	95,167	-	95,167
Total Expenses	17,915,990	-	17,915,990
Deficit from Operations	(1,411,412)	-	(1,411,412)
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	19,270	11,439	30,709
Other income	244,699	-	244,699
Net assets released from restrictions	11,439	(11,439)	-
Total Support and Other Revenue	275,408	-	275,408
Result of Operations	(1,136,004)	-	(1,136,004)
Net assets released from restriction - amortization of interest in Friends' Building	486,003	(486,003)	-
Change in Net Assets	(650,001)	(486,003)	(1,136,004)
<b>NET ASSETS</b>			
Beginning of year	1,444,927	10,716,563	12,161,490
End of year	\$ 794,926	\$ 10,230,560	\$ 11,025,486

## Democracy Prep New York Charter Schools

### Schedule of Activities Democracy Preparatory Charter School Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 10,952,945	\$ -	\$ 10,952,945
Students with disabilities	523,312	-	523,312
Grants and Contracts			
Federal grants	1,235,044	-	1,235,044
Federal IDEA	183,272	-	183,272
State	40,751	-	40,751
Total Operating Revenue	<u>12,935,324</u>	<u>-</u>	<u>12,935,324</u>
<b>EXPENSES</b>			
Program Services			
Regular education	8,292,810	-	8,292,810
Special education	2,018,826	-	2,018,826
Total Program Services	<u>10,311,636</u>	<u>-</u>	<u>10,311,636</u>
Supporting Services			
Management and general	1,616,226	-	1,616,226
Fundraising	75,917	-	75,917
Total Expenses	<u>12,003,779</u>	<u>-</u>	<u>12,003,779</u>
Surplus from Operations	<u>931,545</u>	<u>-</u>	<u>931,545</u>
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	21,938	7,720	29,658
Rental income	595,466	-	595,466
Other income	553	-	553
Net assets released from restrictions	7,720	(7,720)	-
Total Support and Other Revenue	<u>625,677</u>	<u>-</u>	<u>625,677</u>
Change in Net Assets	1,557,222	-	1,557,222
<b>NET ASSETS</b>			
Beginning of year	<u>4,618,809</u>	<u>21,857</u>	<u>4,640,666</u>
End of year	<u>\$ 6,176,031</u>	<u>\$ 21,857</u>	<u>\$ 6,197,888</u>

**Democracy Prep New York Charter Schools**

Schedule of Activities  
Democracy Preparatory Harlem Charter School  
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 17,264,427	\$ -	\$ 17,264,427
Students with disabilities	3,037,435	-	3,037,435
Grants and Contracts			
Federal grants	1,597,055	-	1,597,055
Federal IDEA	391,959	-	391,959
State	<u>71,646</u>	<u>-</u>	<u>71,646</u>
Total Operating Revenue	<u>22,362,522</u>	<u>-</u>	<u>22,362,522</u>
<b>EXPENSES</b>			
Program Services			
Regular education	12,990,575	-	12,990,575
Special education	<u>4,086,654</u>	<u>-</u>	<u>4,086,654</u>
Total Program Services	17,077,229	-	17,077,229
Supporting Services			
Management and general	1,760,267	-	1,760,267
Fundraising	<u>131,617</u>	<u>-</u>	<u>131,617</u>
Total Expenses	<u>18,969,113</u>	<u>-</u>	<u>18,969,113</u>
Surplus from Operations	<u>3,393,409</u>	<u>-</u>	<u>3,393,409</u>
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	-	10,125	10,125
Other income	5,117	-	5,117
Net assets released from restrictions	<u>10,125</u>	<u>(10,125)</u>	<u>-</u>
Total Support and Other Revenue	<u>15,242</u>	<u>-</u>	<u>15,242</u>
Change in Net Assets	3,408,651	-	3,408,651
<b>NET ASSETS</b>			
Beginning of year	<u>7,994,041</u>	<u>15,190</u>	<u>8,009,231</u>
End of year	<u>\$ 11,402,692</u>	<u>\$ 15,190</u>	<u>\$ 11,417,882</u>

**Democracy Prep New York Charter Schools**

Schedule of Activities  
Harlem Preparatory Charter School  
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 15,632,653	\$ -	\$ 15,632,653
Students with disabilities	1,373,927	-	1,373,927
Facilities funding	818,160	-	818,160
Grants and Contracts			
Federal grants	1,831,825	-	1,831,825
Federal IDEA and E-Rate	342,716	-	342,716
State	71,342	-	71,342
Total Operating Revenue	<u>20,070,623</u>	<u>-</u>	<u>20,070,623</u>
<b>EXPENSES</b>			
Program Services			
Regular education	13,673,301	-	13,673,301
Special education	3,337,762	-	3,337,762
Total Program Services	17,011,063	-	17,011,063
Supporting Services			
Management and general	3,619,750	-	3,619,750
Fundraising	112,479	-	112,479
Total Expenses	<u>20,743,292</u>	<u>-</u>	<u>20,743,292</u>
Deficit from Operations	<u>(672,669)</u>	<u>-</u>	<u>(672,669)</u>
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	-	12,489	12,489
Other income	5,590	-	5,590
Net assets released from restrictions	12,489	(12,489)	-
Total Support and Other Revenue	<u>18,079</u>	<u>-</u>	<u>18,079</u>
Change in Net Assets	(654,590)	-	(654,590)
<b>NET ASSETS</b>			
Beginning of year	<u>9,200,042</u>	<u>7,500</u>	<u>9,207,542</u>
End of year	<u>\$ 8,545,452</u>	<u>\$ 7,500</u>	<u>\$ 8,552,952</u>

**Democracy Prep New York Charter Schools**

Schedule of Activities  
Democracy Preparatory Endurance Charter School  
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 10,751,498	\$ -	\$ 10,751,498
Students with disabilities	1,625,332	-	1,625,332
Facilities funding	1,520,186	-	1,520,186
Grants and Contracts			
Federal grants	1,074,805	-	1,074,805
Federal IDEA	234,966	-	234,966
State	49,678	-	49,678
Total Operating Revenue	<u>15,256,465</u>	<u>-</u>	<u>15,256,465</u>
<b>EXPENSES</b>			
Program Services			
Regular education	10,395,881	-	10,395,881
Special education	2,966,441	-	2,966,441
Total Program Services	13,362,322	-	13,362,322
Supporting Services			
Management and general	1,565,269	-	1,565,269
Fundraising	80,392	-	80,392
Total Expenses	<u>15,007,983</u>	<u>-</u>	<u>15,007,983</u>
Surplus from Operations	<u>248,482</u>	<u>-</u>	<u>248,482</u>
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	1,650	10,428	12,078
Other income	-	-	-
Net assets released from restrictions	10,428	(10,428)	-
Total Support and Other Revenue	<u>12,078</u>	<u>-</u>	<u>12,078</u>
Change in Net Assets	260,560	-	260,560
<b>NET ASSETS</b>			
Beginning of year	<u>4,680,986</u>	<u>-</u>	<u>4,680,986</u>
End of year	<u>\$ 4,941,546</u>	<u>\$ -</u>	<u>\$ 4,941,546</u>

**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses  
Bronx Preparatory Charter School  
Year Ended June 30, 2022

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	21	\$ 603,934	\$ 172,553	\$ 776,487	\$ 1,575,431	\$ -	\$ 2,351,918
Instructional personnel	76	5,845,963	994,968	6,840,931	-	-	6,840,931
Non-instructional personnel	10	35,341	6,015	41,356	-	-	41,356
Total Personnel Services Costs	<u>107</u>	<u>6,485,238</u>	<u>1,173,536</u>	<u>7,658,774</u>	<u>1,575,431</u>	<u>-</u>	<u>9,234,205</u>
Fringe benefits and payroll taxes		929,086	168,123	1,097,209	225,699	-	1,322,908
Retirement		195,459	35,369	230,828	47,482	-	278,310
Management company fees		1,237,176	285,502	1,522,678	285,502	95,167	1,903,347
Legal services		-	-	-	1,222	-	1,222
Accounting/audit services		-	-	-	8,035	-	8,035
Other purchased/professional/consulting services		75,242	36,116	111,358	45,069	-	156,427
Occupancy		314,754	56,956	371,710	76,462	-	448,172
Repair and maintenance		792,203	143,353	935,556	192,447	-	1,128,003
Insurance		100,880	18,255	119,135	24,506	-	143,641
Utilities		277,859	50,280	328,139	67,499	-	395,638
Supplies/materials		375,739	63,950	439,689	-	-	439,689
Equipment/furnishings		38,656	6,995	45,651	9,391	-	55,042
Staff development		67,629	12,238	79,867	16,429	-	96,296
Marketing/recruitment		48,488	8,253	56,741	-	-	56,741
Technology		226,523	40,990	267,513	55,025	-	322,538
Student services		475,072	80,856	555,928	-	-	555,928
Office expense		128,472	22,772	151,244	30,570	-	181,814
Depreciation and amortization		376,596	65,814	442,410	144,070	-	586,480
Travel		620	112	732	151	-	883
Other		80,534	14,572	95,106	19,562	-	114,668
Total Expenses Before Amortization of Interest in Friends' Building		<u>12,226,226</u>	<u>2,284,042</u>	<u>14,510,268</u>	<u>2,824,552</u>	<u>95,167</u>	<u>17,429,987</u>
Amortization of interest in Friends' building		<u>376,615</u>	<u>70,483</u>	<u>447,098</u>	<u>38,905</u>	<u>-</u>	<u>486,003</u>
Total Expenses		<u>\$ 12,602,841</u>	<u>\$ 2,354,525</u>	<u>\$ 14,957,366</u>	<u>\$ 2,863,457</u>	<u>\$ 95,167</u>	<u>\$ 17,915,990</u>

See independent auditors' report

**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses  
Democracy Preparatory Charter School  
Year Ended June 30, 2022

	No. of Positions	Program Services			Management and	Fundraising	Total
		Regular Education	Special Education	Total	General		
<b>Personnel Services Costs</b>							
Administrative staff personnel	15	\$ 790,920	\$ 225,977	\$ 1,016,897	\$ 832,974	\$ -	\$ 1,849,871
Instructional personnel	49	3,599,490	850,901	4,450,391	-	-	4,450,391
Non-instructional personnel	7	46,397	10,968	57,365	-	-	57,365
<b>Total Personnel Services Costs</b>	<b>71</b>	<b>4,436,807</b>	<b>1,087,846</b>	<b>5,524,653</b>	<b>832,974</b>	<b>-</b>	<b>6,357,627</b>
Fringe benefits and payroll taxes		637,124	156,214	793,338	119,615	-	912,953
Retirement		153,997	37,758	191,755	28,912	-	220,667
Management company fees		986,926	227,752	1,214,678	227,752	75,917	1,518,347
Accounting/audit services		5,423	1,329	6,752	1,018	-	7,770
Other purchased/professional/consulting services		4,579	1,083	5,662	20,819	-	26,481
Occupancy		415,599	101,899	517,498	78,025	-	595,523
Repair and maintenance		179,370	43,979	223,349	33,675	-	257,024
Insurance		80,166	19,656	99,822	15,050	-	114,872
Utilities		166,439	40,809	207,248	31,248	-	238,496
Supplies/materials		285,648	70,037	355,685	53,628	-	409,313
Equipment/furnishings		32,027	7,853	39,880	6,013	-	45,893
Staff development		54,016	13,244	67,260	10,141	-	77,401
Marketing/recruitment		36,480	8,814	45,294	4,062	-	49,356
Technology		240,981	59,085	300,066	45,242	-	345,308
Food services		1,489	352	1,841	-	-	1,841
Student services		218,563	53,589	272,152	41,033	-	313,185
Office expense		67,968	16,665	84,633	12,760	-	97,393
Depreciation and amortization		216,384	53,055	269,439	40,624	-	310,063
Travel		65	16	81	12	-	93
Other		72,759	17,791	90,550	13,623	-	104,173
<b>Total Expenses</b>		<b>\$ 8,292,810</b>	<b>\$ 2,018,826</b>	<b>\$ 10,311,636</b>	<b>\$ 1,616,226</b>	<b>\$ 75,917</b>	<b>\$ 12,003,779</b>

**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses  
Democracy Preparatory Harlem Charter School  
Year Ended June 30, 2022

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	20	\$ 822,818	\$ 235,091	\$ 1,057,909	\$ 907,358	\$ -	\$ 1,965,267
Instructional personnel	87	5,636,803	1,872,976	7,509,779	-	-	7,509,779
Non-instructional personnel	10	588,915	195,682	784,597	-	-	784,597
Total Personnel Services Costs	<u>117</u>	<u>7,048,536</u>	<u>2,303,749</u>	<u>9,352,285</u>	<u>907,358</u>	<u>-</u>	<u>10,259,643</u>
Fringe benefits and payroll taxes		1,016,461	332,221	1,348,682	130,848	-	1,479,530
Retirement		241,036	78,780	319,816	31,029	-	350,845
Management company fees		1,711,024	394,852	2,105,876	394,852	131,617	2,632,345
Accounting/audit services		-	-	-	13,534	-	13,534
Other purchased/professional/consulting services		47,502	15,784	63,286	22,756	-	86,042
Occupancy		409,094	133,709	542,803	52,663	-	595,466
Repair and maintenance		512,309	167,443	679,752	65,949	-	745,701
Insurance		144,539	47,241	191,780	18,606	-	210,386
Utilities		43,613	14,254	57,867	5,614	-	63,481
Supplies/materials		437,763	145,458	583,221	-	-	583,221
Equipment/furnishings		28,202	9,217	37,419	3,630	-	41,049
Staff development		49,182	16,074	65,256	6,331	-	71,587
Marketing/recruitment		24,111	7,954	32,065	1,370	-	33,435
Technology		351,059	114,740	465,799	45,192	-	510,991
Student services		455,892	151,482	607,374	-	-	607,374
Office expense		126,064	41,203	167,267	16,228	-	183,495
Depreciation and amortization		281,396	91,971	373,367	36,224	-	409,591
Travel		185	60	245	24	-	269
Other		62,607	20,462	83,069	8,059	-	91,128
Total Expenses		<u>\$ 12,990,575</u>	<u>\$ 4,086,654</u>	<u>\$ 17,077,229</u>	<u>\$ 1,760,267</u>	<u>\$ 131,617</u>	<u>\$ 18,969,113</u>



**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses  
Harlem Preparatory Charter School  
Year Ended June 30, 2022

	No. of Positions	Program Services			Management and	Fundraising	Total
		Regular Education	Special Education	Total	General		
Personnel Services Costs							
Administrative staff personnel	20	\$ 686,928	\$ 196,265	\$ 883,193	\$ 2,006,471	\$ -	\$ 2,889,664
Instructional personnel	88	6,176,417	1,492,802	7,669,219	-	-	7,669,219
Non-instructional personnel	13	86,501	20,907	107,408	-	-	107,408
Total Personnel Services Costs	<u>121</u>	<u>6,949,846</u>	<u>1,709,974</u>	<u>8,659,820</u>	2,006,471	-	10,666,291
Fringe benefits and payroll taxes		915,211	225,183	1,140,394	264,228	-	1,404,622
Retirement		215,484	53,019	268,503	62,212	-	330,715
Management company fees		1,462,231	337,438	1,799,669	337,438	112,479	2,249,586
Accounting/audit services		-	-	-	8,704	-	8,704
Other purchased/professional/consulting services		66,264	16,304	82,568	42,453	-	125,021
Occupancy		1,478,573	363,795	1,842,368	426,875	-	2,269,243
Repair and maintenance		389,676	95,878	485,554	112,502	-	598,056
Insurance		121,523	29,900	151,423	35,084	-	186,507
Utilities		48,715	11,986	60,701	14,064	-	74,765
Supplies/materials		483,065	116,754	599,819	-	-	599,819
Equipment/furnishings		17,737	4,364	22,101	5,121	-	27,222
Staff development		77,936	19,176	97,112	22,501	-	119,613
Marketing/recruitment		54,424	13,290	67,714	9,054	-	76,768
Technology		305,170	75,085	380,255	88,105	-	468,360
Food services		292	71	363	-	-	363
Student services		446,582	107,936	554,518	-	-	554,518
Office expense		80,045	19,694	99,739	23,110	-	122,849
Depreciation and amortization		395,217	97,241	492,458	114,102	-	606,560
Travel		222	55	277	64	-	341
Other		165,088	40,619	205,707	47,662	-	253,369
Total Expenses		<u>\$ 13,673,301</u>	<u>\$ 3,337,762</u>	<u>\$ 17,011,063</u>	<u>\$ 3,619,750</u>	<u>\$ 112,479</u>	<u>\$ 20,743,292</u>

**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses  
Democracy Preparatory Endurance Charter School  
Year Ended June 30, 2022

	No. of Positions	Program Services			Management and	Fundraising	Total
		Regular Education	Special Education	Total	General		
Personnel Services Costs							
Administrative staff personnel	13	\$ 561,496	\$ 160,428	\$ 721,924	\$ 774,193	\$ -	\$ 1,496,117
Instructional personnel	75	4,150,427	1,212,229	5,362,656	-	-	5,362,656
Non-instructional personnel	8	501,104	146,359	647,463	-	-	647,463
Total Personnel Services Costs	<u>96</u>	<u>5,213,027</u>	<u>1,519,016</u>	<u>6,732,043</u>	<u>774,193</u>	<u>-</u>	<u>7,506,236</u>
Fringe benefits and payroll taxes		755,604	220,174	975,778	112,216	-	1,087,994
Retirement		144,015	41,964	185,979	21,388	-	207,367
Management company fees		1,045,102	241,177	1,286,279	241,177	80,392	1,607,848
Legal services		-	-	-	9,822	-	9,822
Accounting/audit services		-	-	-	10,275	-	10,275
Other purchased/professional/consulting services		41,447	12,106	53,553	35,490	-	89,043
Occupancy		1,180,386	343,951	1,524,337	175,301	-	1,699,638
Repair and maintenance		283,337	82,561	365,898	42,079	-	407,977
Insurance		94,920	27,659	122,579	14,097	-	136,676
Utilities		34,650	10,097	44,747	5,146	-	49,893
Supplies/materials		399,842	116,783	516,625	-	-	516,625
Equipment/furnishings		32,820	9,563	42,383	4,874	-	47,257
Staff development		67,995	19,813	87,808	10,098	-	97,906
Marketing/recruitment		29,827	8,698	38,525	2,991	-	41,516
Technology		273,459	79,683	353,142	40,612	-	393,754
Student services		358,392	104,677	463,069	-	-	463,069
Office expense		123,783	36,069	159,852	18,383	-	178,235
Depreciation and amortization		247,028	71,981	319,009	36,686	-	355,695
Travel		475	138	613	79	-	692
Other		69,772	20,331	90,103	10,362	-	100,465
<b>Total Expenses</b>		<u>\$ 10,395,881</u>	<u>\$ 2,966,441</u>	<u>\$ 13,362,322</u>	<u>\$ 1,565,269</u>	<u>\$ 80,392</u>	<u>\$ 15,007,983</u>

See independent auditors' report

# **Democracy Prep New York Charter Schools**

Uniform Guidance  
Schedules and Reports

June 30, 2022

## Democracy Prep New York Charter Schools

### Schedule of Expenditures of Federal Awards Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Education				
Pass-Through New York State Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021-21-4002	\$ -	\$ 64,011
Title I Grants to Local Educational Agencies	84.010	0021-21-4125	-	99,760
Title I Grants to Local Educational Agencies	84.010	0021-21-4349	-	61,500
Title I Grants to Local Educational Agencies	84.010	0021-21-4685	-	96,279
Title I Grants to Local Educational Agencies	84.010	0021-22-4002	-	266,964
Title I Grants to Local Educational Agencies	84.010	0021-22-4125	-	440,786
Title I Grants to Local Educational Agencies	84.010	0021-22-4349	-	272,471
Title I Grants to Local Educational Agencies	84.010	0021-22-4685	-	417,284
Title I Grants to Local Educational Agencies	84.010	0021-22-4220	-	408,691
			<u>-</u>	<u>2,127,746</u>
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4685	-	3,635
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4220	-	10,790
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4349	-	12,651
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4125	-	8,072
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4002	-	9,731
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4685	-	49,081
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4220	-	63,196
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4349	-	63,196
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4125	-	63,196
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4002	-	63,196
			<u>-</u>	<u>346,744</u>
Student Support and Academic Enrichment Program	84.424	0204-21-4685	-	4,017
Student Support and Academic Enrichment Program	84.424	0204-21-4220	-	4,619
Student Support and Academic Enrichment Program	84.424	0204-21-4349	-	8,817
Student Support and Academic Enrichment Program	84.424	0204-21-4125	-	7,084
Student Support and Academic Enrichment Program	84.424	0204-21-4002	-	6,063
Student Support and Academic Enrichment Program	84.424	0204-22-4685	-	18,823
Student Support and Academic Enrichment Program	84.424	0204-22-4220	-	34,504
Student Support and Academic Enrichment Program	84.424	0204-22-4349	-	19,223
Student Support and Academic Enrichment Program	84.424	0204-22-4125	-	31,296
Student Support and Academic Enrichment Program	84.424	0204-22-4002	-	31,542
			<u>-</u>	<u>165,988</u>

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

## Democracy Prep New York Charter Schools

### Schedule of Expenditures of Federal Awards *(continued)* Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Education <i>(continued)</i>				
English Language Acquisition State Grants	84.365	0293-22-4685	\$ -	\$ 11,000
English Language Acquisition State Grants	84.365	0293-22-4220	-	5,000
English Language Acquisition State Grants	84.365	0293-22-4349	-	2,500
English Language Acquisition State Grants	84.365	0293-22-4125	-	2,500
English Language Acquisition State Grants	84.365	0293-22-4002	-	7,500
			<u>-</u>	<u>28,500</u>
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4685	-	461,200
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4220	-	1,159,695
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4349	-	610,642
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4125	-	754,341
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4002	-	1,010,038
			<u>-</u>	<u>3,995,916</u>
Total U.S. Department of Education			<u>-</u>	<u>6,664,894</u>
Federal Communications Commission				
Pass-Through Universal Service Administrative Company:				
Emergency Connectivity Fund Program	32.009	not available	-	196,076
Emergency Connectivity Fund Program	32.009	not available	-	223,730
Emergency Connectivity Fund Program	32.009	not available	-	184,043
Emergency Connectivity Fund Program	32.009	not available	-	217,004
Emergency Connectivity Fund Program	32.009	not available	-	295,062
			<u>-</u>	<u>1,115,915</u>
Total Federal Communications Commission			<u>-</u>	<u>1,115,915</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 7,780,809</u>

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

## **Democracy Prep New York Charter Schools**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2022

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Democracy Prep New York Charter Schools (the "School"), under programs of the federal government for the year ended June 30, 2022. 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 the 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") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, 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 October 31, 2022.

**Report on 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) 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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

**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*

Harrison, New York  
October 31, 2022



**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**

***Opinion on Each Major Federal Program***

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

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, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

### ***Responsibilities of Management for Compliance***

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

### ***Auditors' Responsibilities for the Audit of Compliance***

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

## **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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  
October 31, 2022

**Democracy Prep New York Charter Schools**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2022

**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?

\_\_\_\_\_ yes X 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?

\_\_\_\_\_ 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:

**Federal Assistance Listing Number(s)**

**Name of Federal Program or Cluster**

84.425D

Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II

32.009

Emergency Connectivity Fund Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X yes \_\_\_\_\_ no

**Section II – Financial Statement Findings**

During our audit, we noted no material findings for the year ended June 30, 2022.

**Section III – Federal Award Findings and Questioned Costs**

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

**Section IV – Prior Year Findings**

There were no findings in the prior year.

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

Auditors' Communication on Internal Control

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, 2022, 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Trustees, The Charter School Institute of the State University of New York, 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*

Harrison, New York  
October 31, 2022