

Capital Prep Charter Schools NY

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

June 30, 2023 and 2022

Capital Prep Charter Schools NY
Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2023 and 2022

TABLE OF CONTENTS	Page
Independent Auditors' Report	
 FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9
 SUPPLEMENTARY INFORMATION	
Schedule of Activities by School	19
Schedule of Functional Expenses – CP Harlem	20
Schedule of Functional Expenses – CP Bronx	21
 UNIFORM GUIDANCE SCHEDULE AND REPORTS	
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	
Schedule of Findings and Questioned Costs	29

Independent Auditors' Report

Board of Trustees
Capital Prep Charter Schools NY

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Capital Prep Charter Schools NY (the "School") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 the School as of June 30, 2023 and 2022, 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 the School 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.

Change in Accounting Policy

As discussed in Note 2 to the financial statements, the School adopted Financial Accounting Standards Board ("FASB") Topic 842, *Leases*, which resulted in the recognition of right of use assets and related lease liabilities effective July 1, 2022. Our opinion is not modified with respect to that matter.

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 the School's 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 the School's 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 the School's 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, 2023 on pages 19 through 21 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 22, 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 24, 2023, 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

Harrison, New York
October 24, 2023

Capital Prep Charter Schools NY

Statements of Financial Position

	June 30,	
	2023	2022
ASSETS		
Current Assets		
Cash	\$ 5,193,061	\$ 2,922,936
Grants and contracts receivable	1,302,077	2,544,687
Prepaid expenses and other current assets	51,987	43,974
Total Current Assets	6,547,125	5,511,597
Right of use assets - operating leases, net	74,593,451	-
Property and equipment, net	2,251,664	1,546,804
Security deposits	1,142,000	742,000
Restricted cash	150,000	125,000
	\$ 84,684,240	\$ 7,925,401
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 380,862	\$ 377,219
Refundable advances	59,211	115,264
Due to related party	699,425	888,054
Promissory note, related party, current portion	200,000	200,000
Deferred rent, current portion	-	316,665
Capital lease obligation, current portion	-	17,648
Lease liability - finance lease, current portion	5,645	-
Lease liabilities - operating leases, current portion	2,217,809	-
Total Current Liabilities	3,562,952	1,914,850
Promissory note, related party	-	100,000
Capital lease obligation	-	5,645
Lease liabilities - operating leases	73,590,070	-
Total Liabilities	77,153,022	2,020,495
Net assets, without donor restrictions	7,531,218	5,904,906
	\$ 84,684,240	\$ 7,925,401

See notes to financial statements

Capital Prep Charter Schools NY

Statements of Activities

	Year Ended June 30,	
	2023	2022
OPERATING REVENUE		
State and Local Per Pupil Operating Revenue		
General education	\$ 12,373,033	\$ 10,978,772
Special education	1,831,063	2,013,369
Lease assistance	3,363,248	2,754,511
Federal grants	3,588,481	1,546,388
Federal IDEA and E-Rate	313,630	261,458
State grants	47,996	38,653
Total Operating Revenue	21,517,451	17,593,151
EXPENSES		
Program Services		
Regular education	13,924,479	10,876,302
Special education	4,750,653	3,830,365
Total Program Services	18,675,132	14,706,667
Supporting Services		
Management and general	1,402,558	1,089,807
Fundraising	3,944	4,054
Total Expenses	20,081,634	15,800,528
Surplus from Operations	1,435,817	1,792,623
SUPPORT AND OTHER REVENUE		
Grants and contributions	172,000	2,620
Other revenue	18,495	30,242
Total Support and Other Revenue	190,495	32,862
Change in Net Assets	1,626,312	1,825,485
NET ASSETS, WITHOUT DONOR RESTRICTIONS		
Beginning of year	5,904,906	4,079,421
End of year	\$ 7,531,218	\$ 5,904,906

See notes to financial statements

Capital Prep Charter Schools NY

Statement of Functional Expenses
Year Ended June 30, 2023

	No. of Positions	Program Services			Supporting Services		
		Regular Education	Special Education	Total	Management and General	Fundraising	Total
Personnel Services Costs							
Administrative staff personnel	12	\$ 824,111	\$ 180,793	\$ 1,004,904	\$ 354,905	\$ 1,927	\$ 1,361,736
Instructional personnel	56	2,736,852	1,338,179	4,075,031	-	-	4,075,031
Non-instructional personnel	6	510,862	141,098	651,960	-	-	651,960
Total Personnel Services Costs	<u>74</u>	<u>4,071,825</u>	<u>1,660,070</u>	<u>5,731,895</u>	354,905	1,927	6,088,727
Fringe benefits and payroll taxes		795,289	328,959	1,124,248	68,125	158	1,192,531
Retirement		24,909	11,713	36,622	1,431	7	38,060
Management company fees		1,661,158	381,698	2,042,856	110,740	-	2,153,596
Legal services		-	-	-	130,621	-	130,621
Accounting/audit services		-	-	-	66,553	-	66,553
Other purchased/professional/consulting services		1,044,388	213,197	1,257,585	1,851	4	1,259,440
Building and land rent/lease		3,572,252	1,316,174	4,888,426	417,252	1,388	5,307,066
Repairs and maintenance		659,187	232,243	891,430	86,128	272	977,830
Insurance		51,829	18,815	70,644	6,294	21	76,959
Utilities		191,761	65,801	257,562	28,926	77	286,565
Supplies/materials		215,955	56,514	272,469	-	-	272,469
Equipment/furnishings		52,224	17,831	70,055	7,316	-	77,371
Staff development		67,989	19,825	87,814	4,357	-	92,171
Marketing/recruitment		63,657	19,899	83,556	3,382	6	86,944
Technology		239,105	100,564	339,669	20,077	50	359,796
Food services		528,824	124,348	653,172	-	-	653,172
Student services		223,326	47,981	271,307	-	-	271,307
Office expense		30,899	12,188	43,087	53,281	5	96,373
Depreciation and amortization		411,741	116,634	528,375	7,036	29	535,440
Other expenses		18,161	6,199	24,360	34,283	-	58,643
 Total Expenses		<u>\$ 13,924,479</u>	<u>\$ 4,750,653</u>	<u>\$ 18,675,132</u>	<u>\$ 1,402,558</u>	<u>\$ 3,944</u>	<u>\$ 20,081,634</u>

Capital Prep Charter Schools NY

Statement of Functional Expenses
Year Ended June 30, 2022

	No. of Positions	Program Services			Supporting Services		
		Regular Education	Special Education	Total	Management and General	Fundraising	Total
Personnel Services Costs							
Administrative staff personnel	11	\$ 777,463	\$ 167,673	\$ 945,136	\$ 356,360	\$ 2,322	\$ 1,303,818
Instructional personnel	56	2,889,926	1,410,727	4,300,653	-	-	4,300,653
Non-instructional personnel	<u>7</u>	<u>320,237</u>	<u>106,401</u>	<u>426,638</u>	<u>-</u>	<u>-</u>	<u>426,638</u>
Total Personnel Services Costs	<u>74</u>	3,987,626	1,684,801	5,672,427	356,360	2,322	6,031,109
Fringe benefits and payroll taxes		820,192	345,858	1,166,050	73,354	479	1,239,883
Retirement		35,505	16,005	51,510	3,089	19	54,618
Management company fees		1,299,685	339,588	1,639,273	122,565	-	1,761,838
Legal services		-	-	-	92,414	-	92,414
Accounting/audit services		-	-	-	49,658	-	49,658
Other purchased/professional/consulting services		763,823	146,148	909,971	526	5	910,502
Building and land rent/lease		1,920,499	674,974	2,595,473	166,795	830	2,763,098
Repairs and maintenance		401,365	145,329	546,694	68,578	168	615,440
Insurance		44,364	16,704	61,068	3,802	18	64,888
Utilities		103,994	25,844	129,838	12,394	56	142,288
Supplies/materials		365,229	99,353	464,582	-	-	464,582
Equipment/furnishings		55,004	18,923	73,927	985	-	74,912
Staff development		58,834	16,399	75,233	6,150	15	81,398
Marketing/recruitment		48,156	17,260	65,416	1,916	11	67,343
Technology		121,242	44,535	165,777	11,393	82	177,252
Food services		282,755	64,848	347,603	-	-	347,603
Student services		215,277	68,053	283,330	-	-	283,330
Office expense		27,986	11,471	39,457	82,773	17	122,247
Depreciation and amortization		299,730	85,726	385,456	7,404	32	392,892
Other expenses		<u>25,036</u>	<u>8,546</u>	<u>33,582</u>	<u>29,651</u>	<u>-</u>	<u>63,233</u>
Total Expenses		<u>\$ 10,876,302</u>	<u>\$ 3,830,365</u>	<u>\$ 14,706,667</u>	<u>\$ 1,089,807</u>	<u>\$ 4,054</u>	<u>\$ 15,800,528</u>

Capital Prep Charter Schools NY

Statements of Cash Flows

	Year Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,626,312	\$ 1,825,485
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	535,440	392,892
Deferred rent	-	(16,668)
Amortization of right of use assets - operating leases	3,003,186	-
Changes in operating assets and liabilities		
Grants and contracts receivable	1,242,610	(1,350,309)
Prepaid expenses and other current assets	(8,013)	(36,961)
Security deposits	(400,000)	-
Accounts payable and accrued expenses	3,643	238,003
Refundable advances	(56,053)	110,290
Due to related party	(188,629)	241,380
Operating lease liabilities	<u>(2,105,423)</u>	<u>-</u>
Net Cash from Operating Activities	<u>3,653,073</u>	<u>1,404,112</u>
 CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	<u>(1,240,300)</u>	<u>(829,602)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of promissory note, related party	(100,000)	(200,000)
Principal payments on finance lease liability	(17,648)	-
Principal payments on capital lease obligation	<u>-</u>	<u>(16,416)</u>
Net Cash from Financing Activities	<u>(117,648)</u>	<u>(216,416)</u>
 Net Change in Cash and Restricted Cash	2,295,125	358,094
 CASH AND RESTRICTED CASH		
Beginning of year	<u>3,047,936</u>	<u>2,689,842</u>
 End of year	<u>\$ 5,343,061</u>	<u>\$ 3,047,936</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 4,409,300	\$ -
Operating right of use assets obtained in exchange for operating lease liabilities	76,185,457	-

Capital Prep Charter Schools NY

Notes to Financial Statements
June 30, 2023 and 2022

1. Organization and Tax Status

Capital Prep Charter Schools NY is a New York State, not-for-profit educational corporation operating in New York City pursuant to Article 56 of the Education Law of the State of New York. The accompanying financial statements include the following charter schools, collectively referred to as the "School":

Capital Preparatory Bronx Charter School ("CP Bronx") is a New York State, not-for-profit educational corporation that was incorporated on October 4, 2018 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. CP Bronx was granted a provisional charter on October 4, 2018 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 (the "Board of Regents"). CP Bronx's charter will expire July 31, 2025. CP Bronx opened in the fall of 2020.

Capital Preparatory Harlem Charter School ("CP Harlem") is a New York State, not-for-profit educational corporation that was incorporated on November 18, 2014 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. CP Harlem was granted a provisional charter on November 18, 2014 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 (the "Board of Regents"). Effective July 1, 2019, CP Harlem's charter approval was amended and restated to merge CP Harlem and CP Bronx into a single not-for-profit legal entity. The Board of Regents approved and issued a renewal to the School's charter now expiring on June 30, 2026.

CP Bronx and CP Harlem merged into a single not-for-profit legal entity under CP Bronx, which serves as the sole surviving educational corporation. The plan of merger was approved by the State University of New York Charter School Committee on June 14, 2019, and became effective for financial purposes on July 1, 2019. Each school is authorized by the Charter Schools Institute of the State University of New York under CP Bronx's provisional charter, as amended to effect the merger, and the surviving entity's name was changed to Capital Prep Charter Schools NY.

The School's mission is to provide historically disadvantaged students with the college and career readiness skills needed to become responsible and engaged citizens for social justice. The School provided education to approximately 693 students in grades sixth through twelfth during the 2022-2023 academic year.

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.

Capital Prep Charter Schools NY

Notes to Financial Statements
June 30, 2023 and 2022

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

Leases

The School adopted Financial Accounting Standards Board (“FASB”) *Topic 842, Leases* (“Topic 842”), using the effective date method with July 1, 2022, as the date of initial adoption, with certain practical expedients available.

The School elected the available practical expedients to account for its existing operating leases as operating leases, under the new guidance, without reassessing whether the contracts contain leases under the new standard, whether classification of capital (now finance) leases or operating leases would be different in accordance with the new guidance, or whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance on July 1, 2022, CP Bronx recognized an operating lease liability of \$1,727,845 that represents the present value of the remaining operating lease payments of \$1,750,000, discounted with a risk free interest rate using the treasury bond rate of 2.79%, and an operating right of use (“ROU”) asset of \$1,411,180, that represents the discounted operating lease liability of \$1,727,845, with the operating ROU asset adjusted for deferred rent of \$316,665. In addition, as a result of the adoption of the new lease accounting guidance on July 1, 2022, CP Bronx recognized a finance ROU asset of \$38,366 and finance lease liability of \$23,293 at the carrying amount of the lease asset and the capital lease obligation under the previous lease accounting guidance (see Note 10).

Furthermore, CP Harlem’s new facility lease was effective on July 1, 2022, and CP Harlem recognized an operating lease liability of \$71,284,480 that represents the present value of the remaining operating lease payments of \$116,494,141, discounted with risk free interest rates using the treasury bond rate of 3.11%, and an operating ROU asset of \$71,284,480 that represents the discounted operating lease liability of \$71,284,480 (see Note 10).

The adoption of Topic 842 had a material impact on the School’s statement of financial position but did not have a material impact on its statements of activities and cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Capital Prep Charter Schools NY

Notes to Financial Statements
June 30, 2023 and 2022

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

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 – Net assets available for use in general support of the School’s operations and not subject to donor or grantor restrictions. Net assets without donor restrictions may be used at the discretion of the School’s management and Board of Trustees.

Net Assets With Donor Restrictions – Net assets subject to donor or grantor imposed restrictions for specific activities of the School or to be used at some future date. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The School had no donor restricted net assets at June 30, 2023 and 2022.

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:

	2023	2022
Cash	\$ 5,193,061	\$ 2,922,936
Restricted cash	150,000	125,000
	<u>\$ 5,343,061</u>	<u>\$ 3,047,936</u>

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 it is expensed as incurred.

Capital Prep Charter Schools NY

Notes to Financial Statements
June 30, 2023 and 2022

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

Property and Equipment (continued)

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

Furniture and fixtures	7 years
Computers and equipment	5 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, 2023 and 2022.

Leases

The School accounts for leases under Topic 842. The School determines if an arrangement is a lease at inception. Operating and finance leases are included in operating and finance right-of-use (“ROU”) assets and lease liabilities in the statements of financial position. All leases are recorded on the statements of financial position except for leases with an initial term less than 12 months for which the School made the short-term lease election.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. When leases do not provide an implicit borrowing rate, the School uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the School will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The School’s lease agreements do not contain any material residual value guarantees or material restrictive covenants. The School has lease agreements with lease and non-lease components, which are generally accounted for separately. The School’s lease agreements do not contain any variable lease components. The School applies the short-term lease exemption to all of its classes of underlying assets. For the year ended June 30, 2022, U.S. GAAP guidance stated rent shall be charged to expense over the lease term as it became payable. If rental payments are not made on a straight-line basis, rental expense shall be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property, in which case that basis shall be used. The difference between the straight-line rent expense and rent paid is reflected as a deferred rent liability in the statement of financial position at June 30, 2022.

Capital Prep Charter Schools NY

Notes to Financial Statements
June 30, 2023 and 2022

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

Revenue and Support

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

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 restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current period activities are recorded as revenue without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Marketing and recruitment expense for the years ended June 30, 2023 and 2022 was \$86,944 and \$67,343.

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, such as personnel services costs, fringe benefits and payroll taxes, other purchased, professional and consulting services, and building and land rent/lease 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 the years ended June 30, 2020.

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 24, 2023.

3. Grants and Contracts Receivable

Grants and contracts receivable consists 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 and has determined that such an allowance is not necessary.

Capital Prep Charter Schools NY

Notes to Financial Statements
June 30, 2023 and 2022

4. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Furniture and fixtures	\$ 1,282,793	\$ 794,662
Computers and equipment	2,063,791	1,352,855
Leasehold improvements	1,019,690	567,693
Construction in progress	<u>-</u>	<u>410,764</u>
	4,366,274	3,125,974
Accumulated depreciation and amortization	<u>(2,114,610)</u>	<u>(1,579,170)</u>
	<u>\$ 2,251,664</u>	<u>\$ 1,546,804</u>

Construction in progress at June 30, 2022 consisted of costs of construction to prepare the new CP Harlem facility for occupancy. The new CP Harlem facility was placed into service on July 1, 2022 (see Note 10).

5. 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:

	<u>2023</u>	<u>2022</u>
Cash	\$ 5,193,061	\$ 2,922,936
Grants and contracts receivable	<u>1,302,077</u>	<u>2,544,687</u>
	<u>\$ 6,495,138</u>	<u>\$ 5,467,623</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 invested in highly liquid instruments. The School will continue to rely on funding received from the New York City Department of Education to cover its future operating costs (see Note 9).

Capital Prep Charter Schools NY

Notes to Financial Statements
June 30, 2023 and 2022

6. Related Party Transactions (not disclosed elsewhere)

The School is related to Capital Preparatory Schools, Inc. ("CPS"), a Connecticut non-stock corporation, by common management.

During fiscal 2017, the School entered into a full service agreement with CPS to undertake, on its behalf, functions in regards to business, administrative, and academic services of the School. Effective March 10, 2020, this agreement was amended and expired on June 30, 2021 for CP Harlem and will expire on July 31, 2025 for CP Bronx, and shall continue thereafter for five year terms to run concurrent with each of the schools' respective charters. As compensation to CPS for these services rendered, during the years ended June 30, 2023 and 2022, the School paid to CPS an amount equal to 10% of the School's gross revenues, which is defined under the full service agreement as funding provided by state, federal, and local government (if applicable) but shall exclude any competitive public grants and private grant funding awarded to the School.

For the years ended June 30, 2023 and 2022, the School incurred \$2,153,596 and \$1,761,838 in management fees to CPS, along with \$482,297 and \$358,562 of operating expenses paid by CPS on behalf of the School. Net balance due to CPS from the School was \$699,425 and \$888,054 at June 30, 2023 and 2022.

On March 25, 2019, the School entered into a promissory note payable with CPS in the amount of \$500,000 to fund the security deposit under a lease agreement for space located at 1660 Boone Avenue, Bronx, New York. The note matures on June 1, 2024 and does not bear interest. The note is payable in five annual equal installments of \$100,000 by June 1st of each year, starting with June 1, 2020. On October 7, 2020, the School amended and restated its promissory note payable with CPS to fund a portion of the security deposit under the lease agreement for the space at 41 East 129th Street, New York, New York (see Note 10). Future minimum lease payments are \$200,000 for the year ending June 30, 2024.

The School is related to Friends of Capital Preparatory Harlem Charter School, Inc. ("FOCPHCS"), a New York not-for-profit organization, by one common Board member. There were no transactions with FOCPHCS for the years ended June 30, 2023 and 2022, except for payments made under a sublease agreement signed March 26, 2021 (see Note 10).

7. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 4% of the participant's annual compensation. Employee match for the years ended June 30, 2023 and 2022 amounted to \$38,523 and \$54,619.

Capital Prep Charter Schools NY

Notes to Financial Statements
June 30, 2023 and 2022

8. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and restricted cash 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. At June 30, 2023 and 2022, approximately \$5,093,000 and \$2,798,000 of cash was maintained with an institution 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 ("NYCDOE"). For the years ended June 30, 2023 and 2022, the School received approximately 80% and 90% of its total revenue and support from the NYCDOE. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

10. Commitments

Operating Leases

On March 17, 2016, the School entered into an operating sub-lease agreement with Boys and Girls Harbor, Inc. to sublease a portion of a building located at 1 East 104th Street, New York, New York for CP Harlem. The lease was amended several times to reflect changes in the rent rates and leased premises size. On March 16, 2022, the School renegotiated the sublease and the sublease expired on June 30, 2022. The School moved into new space upon expiration of the sublease.

On February 10, 2020, the School entered into an operating lease agreement with 755 Coop City LLC, to lease a building located at 755 Co-op City Boulevard, Bronx, NY 10475 for CP Bronx. The lease term commenced on July 1, 2020 and expired on December 31, 2022 with an option to extend the lease until June 30, 2023. On January 18, 2023, the agreement was amended to expire on June 30, 2026. Under the terms of the agreement, the School paid a security deposit in the amount of \$142,000.

On March 26, 2021, the School entered into an operating sublease agreement with FOCPHCS to lease a building located at 41 East 129th Street, New York, NY for CP Harlem. The lease term commenced on July 1, 2022 and expires on June 30, 2053, with two options to extend the lease for five years each. The School is a guarantor for the original lease agreement between FOCPHCS and the landlord. Effective July 1, 2022, CP Harlem moved into this new facility. Moving costs associated with this move amounted to \$201,099 for the year ended June 30, 2022. Under the terms of the agreement, the School paid a security deposit in the amount of \$1,000,000.

Capital Prep Charter Schools NY

Notes to Financial Statements June 30, 2023 and 2022

10. Commitments *(continued)*

Operating right of use assets are as follows for the year ended June 30, 2023:

	CP Harlem	CP Bronx	Total
Right of use assets - operating leases	\$ 71,284,480	\$ 6,312,157	\$ 77,596,637
Less: accumulated amortization	(1,553,069)	(1,450,117)	(3,003,186)
	\$ 69,731,411	\$ 4,862,040	\$ 74,593,451

Weighted average remaining lease term (years)	28.25
Weighted average discount rate	3.14%

Future minimum operating lease payments are as follows for years ending June 30:

	CP Harlem	CP Bronx	Total
2024	\$ 2,806,020	\$ 1,750,000	\$ 4,556,020
2025	2,862,140	1,750,000	4,612,140
2026	2,919,383	1,750,000	4,669,383
2027	2,977,771	-	2,977,771
2028	3,037,326	-	3,037,326
Thereafter	99,232,201	-	99,232,201
Total minimum lease payments	113,834,841	5,250,000	119,084,841
Present value discount	(43,004,854)	(272,108)	(43,276,962)
Present value of lease liabilities	70,829,987	4,977,892	75,807,879
Current portion	(619,257)	(1,598,552)	(2,217,809)
Lease liabilities, less current portion	\$ 70,210,730	\$ 3,379,340	\$ 73,590,070

Building and land rent/lease expense for the years ended June 30, 2023 and 2022 was \$5,307,066 and \$2,763,098. There were no variable or short-term lease costs for the year ended June 30, 2023.

Finance Lease

The School leases kitchen equipment under a finance lease that expired on August 31, 2023. The assets and liabilities under the finance lease are recorded at the present value of the minimum lease payments. The asset is being depreciated over its estimated useful life.

Following is a summary of finance lease right of use asset held under a finance lease, included in property and equipment within the accompanying statements of financial position at June 30:

	2023	2022
Furniture and fixtures	\$ 52,265	\$ 52,265
Accumulated depreciation	(21,154)	(13,688)
	\$ 31,111	\$ 38,577

Capital Prep Charter Schools NY

Notes to Financial Statements
June 30, 2023 and 2022

10. Commitments (*continued*)

The future minimum lease payments are \$5,645 for the year ending June 30, 2024. Finance lease expense for each of the years ended June 30, 2023 and 2022 was \$7,646 and is included in depreciation and amortization expense within the accompanying statements of functional expenses.

11. 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.

* * * * *

Capital Prep Charter Schools NY

Supplementary Information

June 30, 2023

Capital Prep Charter Schools NY

Schedule of Activities by School
Year Ended June 30, 2023

	CP Harlem	CP Bronx	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
General education	\$ 5,450,466	\$ 6,922,567	\$ 12,373,033
Special education	1,236,447	594,616	1,831,063
Lease assistance	1,614,931	1,748,317	3,363,248
Federal grants	1,946,492	1,641,989	3,588,481
Federal IDEA and E-Rate	250,788	62,842	313,630
State grants	36,947	11,049	47,996
Total Operating Revenue	<u>10,536,071</u>	<u>10,981,380</u>	<u>21,517,451</u>
EXPENSES			
Program Services			
Regular education	8,002,302	5,922,177	13,924,479
Special education	3,401,414	1,349,239	4,750,653
Total Program Services	<u>11,403,716</u>	<u>7,271,416</u>	<u>18,675,132</u>
Supporting Services			
Management and general	761,035	641,523	1,402,558
Fundraising	2,041	1,903	3,944
Total Expenses	<u>12,166,792</u>	<u>7,914,842</u>	<u>20,081,634</u>
 (Deficit) Surplus from Operations	 <u>(1,630,721)</u>	 <u>3,066,538</u>	 <u>1,435,817</u>
SUPPORT AND OTHER REVENUE			
Grants and contributions	172,000	-	172,000
Other revenue	10,579	7,916	18,495
Total Support and Other Revenue	<u>182,579</u>	<u>7,916</u>	<u>190,495</u>
 Change in Net Assets	 <u>(1,448,142)</u>	 <u>3,074,454</u>	 <u>1,626,312</u>
NET ASSETS, WITHOUT DONOR RESTRICTIONS			
Beginning of year	<u>4,431,050</u>	<u>1,473,856</u>	<u>5,904,906</u>
End of year	<u>\$ 2,982,908</u>	<u>\$ 4,548,310</u>	<u>\$ 7,531,218</u>

Capital Prep Charter Schools NY

Schedule of Functional Expenses - CP Harlem
Year Ended June 30, 2023

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	6	\$ 488,513	\$ 122,402	\$ 610,915	\$ 161,432	\$ 762	\$ 773,109
Instructional personnel	33	1,495,348	955,542	2,450,890	-	-	2,450,890
Non-instructional personnel	5	349,575	119,328	468,903	-	-	468,903
Total Personnel Services Costs	44	2,333,436	1,197,272	3,530,708	161,432	762	3,692,902
Fringe benefits and payroll taxes		482,420	247,527	729,947	33,375	158	763,480
Retirement		20,687	10,614	31,301	1,431	7	32,739
Management company fees		692,916	251,011	943,927	110,740	-	1,054,667
Legal services		-	-	-	90,193	-	90,193
Accounting/audit services		-	-	-	41,586	-	41,586
Other purchased/professional/consulting services		398,146	84,226	482,372	877	4	483,253
Building and land rent/lease		2,521,925	1,009,624	3,531,549	225,473	854	3,757,876
Repairs and maintenance		367,370	147,073	514,443	32,845	124	547,412
Insurance		34,007	13,614	47,621	3,040	12	50,673
Utilities		96,481	38,077	134,558	8,620	30	143,208
Supplies/materials		132,603	45,264	177,867	-	-	177,867
Equipment/furnishings		52,224	17,831	70,055	7,316	-	77,371
Staff development		51,599	17,613	69,212	4,357	-	73,569
Marketing/recruitment		27,836	12,648	40,484	1,268	6	41,758
Technology		151,615	77,793	229,408	10,489	50	239,947
Food services		256,668	87,614	344,282	-	-	344,282
Student services		86,429	29,503	115,932	-	-	115,932
Office expense		16,397	8,413	24,810	13,651	5	38,466
Depreciation and amortization		261,382	99,498	360,880	7,036	29	367,945
Other expenses		18,161	6,199	24,360	7,306	-	31,666
Total Expenses		\$ 8,002,302	\$ 3,401,414	\$ 11,403,716	\$ 761,035	\$ 2,041	\$ 12,166,792

See independent auditors' report

Capital Prep Charter Schools NY

Schedule of Functional Expenses - CP Bronx
Year Ended June 30, 2023

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	6	\$ 335,598	\$ 58,391	\$ 393,989	\$ 193,473	\$ 1,165	\$ 588,627
Instructional personnel	23	1,241,504	382,637	1,624,141	-	-	1,624,141
Non-instructional personnel	1	161,287	21,770	183,057	-	-	183,057
Total Personnel Services Costs	<u>30</u>	<u>1,738,389</u>	<u>462,798</u>	<u>2,201,187</u>	<u>193,473</u>	<u>1,165</u>	<u>2,395,825</u>
Fringe benefits and payroll taxes		312,869	81,432	394,301	34,750	-	429,051
Retirement		4,222	1,099	5,321	-	-	5,321
Management company fees		968,242	130,687	1,098,929	-	-	1,098,929
Legal services		-	-	-	40,428	-	40,428
Accounting/audit services		-	-	-	24,967	-	24,967
Other purchased/professional/consulting services		646,242	128,971	775,213	974	-	776,187
Building and land rent/lease		1,050,327	306,550	1,356,877	191,779	534	1,549,190
Repairs and maintenance		291,817	85,170	376,987	53,283	148	430,418
Insurance		17,822	5,201	23,023	3,254	9	26,286
Utilities		95,280	27,724	123,004	20,306	47	143,357
Supplies/materials		83,352	11,250	94,602	-	-	94,602
Staff development		16,390	2,212	18,602	-	-	18,602
Marketing/recruitment		35,821	7,251	43,072	2,114	-	45,186
Technology		87,490	22,771	110,261	9,588	-	119,849
Food services		272,156	36,734	308,890	-	-	308,890
Student services		136,897	18,478	155,375	-	-	155,375
Office expense		14,502	3,775	18,277	39,630	-	57,907
Depreciation and amortization		150,359	17,136	167,495	-	-	167,495
Other expenses		-	-	-	26,977	-	26,977
Total Expenses		<u>\$ 5,922,177</u>	<u>\$ 1,349,239</u>	<u>\$ 7,271,416</u>	<u>\$ 641,523</u>	<u>\$ 1,903</u>	<u>\$ 7,914,842</u>

Capital Prep Charter Schools NY

Uniform Guidance
Schedules and Reports

June 30, 2023

Capital Prep Charter Schools NY

Schedule of Expenditures of Federal Awards Year Ended June 30, 2023

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>U.S. Department of Agriculture</u>				
Pass-Through New York State Education Department:				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program	10.553	Not available	\$ -	\$ 174,810
National School Lunch Program	10.555	Not available	-	586,911
COVID-19 - Supply Chain Assistance Funds	10.555	Not Available	-	30,433
Total Child Nutrition Cluster			-	792,154
Total U.S. Department of Agriculture			-	792,154
<u>U.S. Department of Education</u>				
Pass-Through New York State Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021-22-5295	-	17,536
Title I Grants to Local Educational Agencies	84.010	0021-23-5295	-	205,090
Title I Grants to Local Educational Agencies	84.010	0021-22-5640	-	164,449
			-	387,075
Charter Schools	84.282	0089-22-1026	-	14,689
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-23-5295	-	16,519
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-23-5640	-	20,107
			-	36,626
Student Support and Academic Enrichment Program	84.424	0204-23-5295	-	18,016
Student Support and Academic Enrichment Program	84.424	0204-23-5640	-	10,000
			-	28,016
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund	84.425D	5890-21-5640	-	19,328
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-5295	-	411,620
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-5640	-	365,950
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP	84.425U	5880-21-5295	-	731,434
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP	84.425U	5880-21-5640	-	647,714
			-	2,176,046
Total U.S. Department of Education			-	2,642,452
<u>Federal Communications Commission</u>				
Pass-Through Universal Service Administrative Company:				
COVID-19 Emergency Connectivity Fund Program	32.009	not available	-	153,875
Total Expenditures of Federal Awards			\$ -	\$ 3,588,481

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

Capital Prep Charter Schools NY

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

1. **Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Capital Prep Charter Schools NY (the "School"), under programs of the federal government for the year ended June 30, 2023. 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
Capital Prep Charter Schools NY**

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 Capital Prep Charter Schools NY (the "School") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, 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 24, 2023.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 24, 2023

**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
Capital Prep Charter Schools NY**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Capital Prep Charter Schools NY's (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, 2023. 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, 2023.

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 24, 2023

Capital Prep Charter Schools NY

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

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

10.553
10.555
10.555
84.425D

84.425D

84.425U

Child Nutrition Cluster:
School Breakfast Program
National School Lunch Program
COVID-19 - Supply Chain Assistance Funds
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP

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, 2023.

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
Capital Prep Charter Schools NY

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of Capital Prep Charter Schools NY (the "School") as of and for the year ended June 30, 2023, 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 audit committee, the Board of Trustees, the Charter Schools 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 24, 2023

* * * * *