

Democracy Prep New York Charter Schools

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

June 30, 2023 and 2022

Democracy Prep New York Charter Schools

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TABLE OF CONTENTS	Page
Independent Auditors' Report	
FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Financial Statements	10
SUPPLEMENTARY INFORMATION	
Schedule of Activities – Bronx Preparatory Charter School	22
Schedule of Activities – Democracy Preparatory Charter School	23
Schedule of Activities – Democracy Preparatory Harlem Charter School	24
Schedule of Activities – Harlem Preparatory Charter School	25
Schedule of Activities – Democracy Preparatory Endurance Charter School	26
Schedule of Functional Expenses – Bronx Preparatory Charter School	27
Schedule of Functional Expenses – Democracy Preparatory Charter School	28
Schedule of Functional Expenses – Democracy Preparatory Harlem Charter School	29
Schedule of Functional Expenses – Harlem Preparatory Charter School	30
Schedule of Functional Expenses – Democracy Preparatory Endurance Charter School	31
UNIFORM GUIDANCE SCHEDULES AND REPORTS	
Schedule of Expenditures of Federal Awards	32
Notes to Schedule of Expenditures of Federal Awards	34
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	40

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, 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 Democracy Prep New York Charter Schools 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 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.

Change in Accounting Policy

As discussed in Note 2 to the financial statements, Democracy Prep New York Charter Schools 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 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, 2023 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, 2023, 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, 2023

Democracy Prep New York Charter Schools

Statements of Financial Position

	June 30,	
	2023	2022
ASSETS		
Current Assets		
Cash	\$ 24,501,682	\$ 28,497,090
Investments	15,395,399	15,828,461
Grants and contracts receivable	7,877,240	6,446,000
Due from related parties, net	923,189	1,358,444
Prepaid expenses and other current assets	434,898	535,984
Total Current Assets	49,132,408	52,665,979
Prepaid expenses and other assets, less current portion	1,500,000	1,800,000
Property and equipment, net	19,861,670	17,749,632
Right of use assets - operating leases, net	129,853,543	-
Right of use assets - finance leases, net	909,994	-
Security deposits	3,025,816	3,204,076
Restricted cash	225,842	225,295
	<u>\$ 204,509,273</u>	<u>\$ 75,644,982</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,774,544	\$ 3,112,573
Accrued payroll and payroll taxes	4,608,788	6,334,453
Operating lease liabilities	3,031,062	-
Finance lease liabilities	905,652	-
Capital lease obligation	-	838,591
Refundable advances	2,835,316	4,402,954
Deferred rent	-	259,895
Total Current Liabilities	13,155,362	14,948,466
Deferred rent, less current portion	-	1,654,823
Operating lease liabilities, less current portion	132,468,072	-
Finance lease liabilities, less current portion	210,286	-
Capital lease obligation, less current portion	-	985,157
Total Liabilities	<u>145,833,720</u>	<u>17,588,446</u>
Net Assets		
Without Donor Restrictions		
Undesignated	48,372,263	47,267,243
Board designated	989,123	989,123
Total Without Donor Restrictions	49,361,386	48,256,366
With donor restrictions	9,314,167	9,800,170
Total Net Assets	<u>58,675,553</u>	<u>58,056,536</u>
	<u>\$ 204,509,273</u>	<u>\$ 75,644,982</u>

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Activities Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 66,401,821	\$ -	\$ 66,401,821
Students with disabilities	9,103,089	-	9,103,089
Facilities funding	4,541,887	-	4,541,887
Universal pre-kindergarten	413,894	-	413,894
Grants and Contracts			
Federal grants	21,929,169	-	21,929,169
Federal IDEA and E-Rate	983,492	-	983,492
State	240,262	-	240,262
Total Operating Revenue	<u>103,613,614</u>	<u>-</u>	<u>103,613,614</u>
EXPENSES			
Program Services			
Regular education	74,195,541	-	74,195,541
Special education	18,778,510	-	18,778,510
Total Program Services	<u>92,974,051</u>	<u>-</u>	<u>92,974,051</u>
Supporting Services			
Management and general	11,391,391	-	11,391,391
Fundraising	665,367	-	665,367
Total Expenses	<u>105,030,809</u>	<u>-</u>	<u>105,030,809</u>
(Deficit) from Operations	<u>(1,417,195)</u>	<u>-</u>	<u>(1,417,195)</u>
SUPPORT AND OTHER REVENUE			
Contributions	785,460	50,769	836,229
Rental income	602,372	-	602,372
Other income	597,611	-	597,611
Net assets released from restrictions	50,769	(50,769)	-
Total Support and Other Revenue	<u>2,036,212</u>	<u>-</u>	<u>2,036,212</u>
Result of Operations	<u>619,017</u>	<u>-</u>	<u>619,017</u>
Net assets released from restriction - amortization of interest in Friends' Building	<u>486,003</u>	<u>(486,003)</u>	<u>-</u>
Change in Net Assets	<u>1,105,020</u>	<u>(486,003)</u>	<u>619,017</u>
NET ASSETS			
Beginning of year	<u>48,256,366</u>	<u>9,800,170</u>	<u>58,056,536</u>
End of year	<u>\$ 49,361,386</u>	<u>\$ 9,314,167</u>	<u>\$ 58,675,553</u>

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
OPERATING REVENUE			
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	<u>87,129,512</u>	<u>-</u>	<u>87,129,512</u>
EXPENSES			
Program Services			
Regular education	57,955,408	-	57,955,408
Special education	14,764,208	-	14,764,208
Total Program Services	<u>72,719,616</u>	<u>-</u>	<u>72,719,616</u>
Supporting Services			
Management and general	11,424,969	-	11,424,969
Fundraising	495,572	-	495,572
Total Expenses	<u>84,640,157</u>	<u>-</u>	<u>84,640,157</u>
Surplus from Operations	<u>2,489,355</u>	<u>-</u>	<u>2,489,355</u>
SUPPORT AND OTHER REVENUE			
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	<u>946,484</u>	<u>-</u>	<u>946,484</u>
Result of Operations	3,435,839	-	3,435,839
Net assets released from restriction - amortization of interest in Friends' Building	<u>486,003</u>	<u>(486,003)</u>	<u>-</u>
Change in Net Assets	3,921,842	(486,003)	3,435,839
NET ASSETS			
Beginning of year	<u>44,334,524</u>	<u>10,286,173</u>	<u>54,620,697</u>
End of year	<u>\$ 48,256,366</u>	<u>\$ 9,800,170</u>	<u>\$ 58,056,536</u>

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Functional Expenses
Year Ended June 30, 2023

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	164	\$ 3,388,724	\$ 778,987	\$ 4,167,711	\$ 5,356,676	\$ -	\$ 9,524,387
Instructional personnel	401	30,011,687	6,656,653	36,668,340	-	-	36,668,340
Non-instructional personnel	31	1,989,744	852,748	2,842,492	-	-	2,842,492
Total Personnel Services Costs	<u>596</u>	<u>35,390,155</u>	<u>8,288,388</u>	<u>43,678,543</u>	<u>5,356,676</u>	<u>-</u>	<u>49,035,219</u>
Fringe benefits and payroll taxes		5,711,329	1,336,812	7,048,141	830,635	-	7,878,776
Retirement		759,294	178,245	937,539	115,645	-	1,053,184
Management company fees		7,441,702	2,923,526	10,365,228	2,259,088	664,439	13,288,755
Legal services		-	-	-	64,836	-	64,836
Accounting/audit services		-	-	-	162,476	-	162,476
Other purchased/professional/consulting services		462,093	115,648	577,741	199,008	-	776,749
Occupancy		8,890,030	2,128,353	11,018,383	614,530	-	11,632,913
Repair and maintenance		3,598,047	863,859	4,461,906	524,386	-	4,986,292
Insurance		506,894	130,374	637,268	-	-	637,268
Utilities		749,048	171,623	920,671	112,285	-	1,032,956
Supplies/materials		1,869,220	493,039	2,362,259	-	-	2,362,259
Equipment/furnishings		47,151	12,295	59,446	-	-	59,446
Staff development		176,765	40,210	216,975	24,693	-	241,668
Marketing/recruitment		62,564	16,913	79,477	1,191	-	80,668
Technology		1,685,725	399,123	2,084,848	209,282	-	2,294,130
Food services		-	-	-	-	-	-
Student services		3,007,744	759,997	3,767,741	-	-	3,767,741
Office expense		795,190	185,819	981,009	225,774	-	1,206,783
Depreciation and amortization		2,388,362	575,513	2,963,875	348,316	-	3,312,191
Travel		-	-	-	-	-	-
Other		304,306	76,152	380,458	289,110	928	670,496
Total Expenses Before Amortization of Interest in Friends' Building		73,845,619	18,695,889	92,541,508	11,337,931	665,367	104,544,806
Amortization of interest in Friends' building		<u>349,922</u>	<u>82,621</u>	<u>432,543</u>	<u>53,460</u>	<u>-</u>	<u>486,003</u>
Total Expenses		<u>\$ 74,195,541</u>	<u>\$ 18,778,510</u>	<u>\$ 92,974,051</u>	<u>\$ 11,391,391</u>	<u>\$ 665,367</u>	<u>\$ 105,030,809</u>

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Functional Expenses Year Ended June 30, 2022

		Program Services			Management and General	Fundraising	Total
	No. of Positions	Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	140	\$ 3,466,096	\$ 990,314	\$ 4,456,410	\$ 6,096,427	\$ -	\$ 10,552,837
Instructional personnel	324	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>	<u>6,096,427</u>	<u>-</u>	<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		<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>\$ 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

Statements of Cash Flows

	Year Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 619,017	\$ 3,435,839
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,588,170	2,268,389
Amortization of right of use asset - operating leases	6,364,843	-
Amortization of right of use asset - finance leases	724,021	-
Amortization of interest in Friends' building	486,003	486,003
Deferred rent	-	(12,918)
Changes in operating assets and liabilities		
Grants and contracts receivable	(1,431,240)	(2,288,578)
Due from related parties, net	435,255	(1,113,290)
Prepaid expenses and other current assets	401,086	1,427,908
Security deposits	178,260	(1,122,720)
Accounts payable and accrued expenses	(1,338,029)	553,560
Accrued payroll and payroll taxes	(1,725,665)	619,888
Operating lease liabilities	(2,633,969)	-
Finance lease liabilities	(841,586)	-
Refundable advances	(1,567,638)	4,143,006
Net Cash from Operating Activities	<u>2,258,528</u>	<u>8,397,087</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(6,686,451)	(3,449,865)
Dividend and interest reinvested	(376,288)	(10,898)
Proceeds from sale of investments	809,350	-
Net Cash from Investing Activities	<u>(6,253,389)</u>	<u>(3,460,763)</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Principal payments on capital lease obligation	-	(621,436)
Net Change in Cash and Restricted Cash	(3,994,861)	4,314,888
CASH AND RESTRICTED CASH		
Beginning of year	<u>28,722,385</u>	<u>24,407,497</u>
End of Year	<u>\$ 24,727,524</u>	<u>\$ 28,722,385</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 86,718	\$ 133,530
Computer and equipment acquired under a capital lease	-	140,466
Cash paid for amounts included in the measurement of lease liabilities	7,791,858	-

See notes to financial statements

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2023 and 2022

1. Organization and Tax Status

Democracy Prep New York Charter Schools (the “School”) is a New York State, not-for-profit educational corporation that was incorporated to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School is dedicated to providing a high quality college preparatory education to primarily disadvantaged students. The School provided education to approximately 3,750 students in grades kindergarten through twelfth during the 2022-2023 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, 2023 and 2022

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. At 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 ("NYCDOE") provides transportation directly to some of the School's students based on eligibility. In addition, the NYCDOE provides free lunch to all students. Such costs are not included in these financial statements.

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Adoption of New Accounting Policies

Leases (Topic 842)

In February 2016, the Financial Accounting Standard Board issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), which requires schools that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2023 and 2022

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

Adoption of New Accounting Policies (continued)

Leases (Topic 842) (continued)

The School adopted the requirements of the new standard effective July 1, 2022, using the modified retrospective transition method, which applies the provisions of the standard at the effective date without any adjustment to the comparative periods presented. The School adopted the following practical expedients and elected the following accounting policies related to this standard: Carry forward of historical lease classifications and accounting treatment.

Accordingly, the School will recognize lease payments on a straight-line basis over the lease term and variable payments in the period when the corresponding obligation is incurred. As a result of the adoption of the new lease accounting guidance on July 1, 2022, the School recognized operating and finance lease liabilities of \$140,090,621 that represents the present value of the operating and finance lease payments of \$211,909,744, discounted with a risk-free interest rate using the treasury bond rate ranging from 2.79% to 6% depending on the lease term and a right of use ("ROU") asset of \$137,852,401. The standard did not materially impact operating results or liquidity.

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 of \$989,123 were established to provide a reserve for unforeseen facility, personnel and other issues.

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

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2023 and 2022

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

Restricted Cash (continued)

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	\$ 24,501,682	\$ 28,497,090
Restricted cash	225,842	225,295
	<u>\$ 24,727,524</u>	<u>\$ 28,722,385</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.

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

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2023 and 2022

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

Property and Equipment (continued)

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 ASU No. 2016-02, Leases. The School determines if an arrangement is a lease at inception. Leases are included in ROU assets and lease liabilities in the statements of financial position. All leases are recorded on the statements of financial position.

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. The School has made an accounting policy election to use a risk-free rate, determined using a period comparable with that of the lease term, to discount future lease payments. ROU assets also include adjustments related to lease payments made and lease incentives received at or before the commencement date. At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the School's risk-free rate. Operating and finance lease cost is recognized on a straight-line basis over the lease term within occupancy expense in the accompanying statements of functional expenses. Lease and non-lease components lease agreements are accounted for separately. Lease terms may include options to extend or terminate the lease. When it is reasonably certain that the School will exercise that option, such amounts are included in the ROU assets and lease liabilities.

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, 2023 and 2022, the refundable advances balance includes a \$2,735,927 deposit from the Internal Revenue Service that the School is investigating.

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, 2023 and 2022

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

Marketing and Recruiting Costs

The School uses marketing and recruitment specifically aimed at hiring staff and enrolling 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, 2023 and 2022, marketing and recruiting costs totaled \$80,667 and \$257,816.

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 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 such as personnel services costs, fringe benefits and payroll taxes, occupancy and repair and maintenance 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, 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 31, 2023.

3. Investments

The School's investments at June 30, 2023 and 2022 consist of money market funds of \$1,571 and \$810,921, categorized as level 1 in fair value hierarchy and certificates of deposit totaling \$15,393,828 and \$15,017,540 held by a bank.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2023 and 2022

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:

	2023	2022
Computers and equipment	\$ 10,910,324	\$13,132,532
Furniture and fixtures	3,742,615	3,023,714
Leasehold improvements	16,135,827	11,155,938
Interest in Friends' Building (a)	13,608,077	13,608,077
	<u>44,396,843</u>	<u>40,920,261</u>
Accumulated depreciation and amortization	<u>(24,535,173)</u>	<u>(23,170,629)</u>
	<u>\$ 19,861,670</u>	<u>\$17,749,632</u>

Due to the adoption of FASB Topic 842, Leases, the School reclassified leased equipment with a cost basis of \$3,209,869 and accumulated depreciation of \$1,709,626.

- (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 \$190,296 and \$69,500 for the years ended June 30, 2023 and 2022.

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, 2023 and 2022 was \$486,003. Interest in the School's building, net of accumulated amortization at June 30, 2023 and 2022 is \$9,261,096 and \$9,747,099 and is included in property and equipment in the accompanying statements of financial position.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2023 and 2022

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:

	2023	2022
Cash	\$ 24,501,682	\$28,497,090
Investments	15,395,399	15,828,461
Grants and contracts receivable	7,877,240	6,446,000
Due from related parties	923,189	1,358,444
Total Financial Assets	48,697,510	52,129,995
Less amounts unavailable for general expenditure:		
Net assets with donor restrictions (net of \$9,261,096 and \$9,747,099 Interest in Friends' Building - see Note 5)	(53,071)	(45,358)
Board designated net assets	(989,123)	(989,123)
	<u>\$ 47,655,316</u>	<u>\$ 51,095,514</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 ("DPT"), a Texas not-for-profit organization, Democracy Prep Baton Rouge ("DPBR"), a Louisiana not-for-profit organization, and Democracy Prep Agassi Campus ("DPAC"), a Nevada not-for-profit organization.

The predecessors of the School (BPCS, DPCS, DPH, HPCS, DPE) entered into management agreements with DPPS to assume responsibility for their educational process, management and operations. As compensation to DPPS for these services rendered, the School pays DPPS an annual fee, originally equal to 12% to 15% of each predecessor's non-competitive public revenue, which percentage decreases by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of non-competitive public revenue, which rate will remain in effect for all subsequent renewal terms. Following the initial term, the agreements (now consolidated into a single agreement with the School) automatically extended for successive one-year periods unless terminated by either party. For the year ended June 30, 2023, DPPS charged an annual management fee of 13% to the School. For the year ended June 30, 2022, DPPS charged an annual management fee of 12%.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2023 and 2022

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

For the years ended June 30, 2023 and 2022, the School incurred \$13,288,755 and \$9,911,473 in management fees.

On September 20, 2016, HPCS and DPE entered into two operating leases 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 and DPE prepaid \$1,000,000 of base rent. The School is entitled to a monthly credit of \$25,000 starting July 1, 2019. This prepayment is included in the statements of financial position under current and long term prepaid expenses and other assets. On July 1, 2022, the School and DPPS signed a revised and amended sublease under new terms and conditions expiring on June 30, 2047 (see Note 11).

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:

	2023	2022
DPAC	\$ 347,142	\$ 179,344
DPPS	278,918	1,129,293
DPBR	212,517	98,237
DPT	89,793	24,213
Friends'	(5,181)	(72,643)
	<u>\$ 923,189</u>	<u>\$ 1,358,444</u>

8. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents 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 Corporation Insurance ("SIPCI"). 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 \$24,434,000 and \$43,230,000 of cash was maintained with two institutions in excess of FDIC and SIPCI 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, 2023 and 2022, the School received approximately 77% and 88% 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.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2023 and 2022

10. Net Assets With Donor Restrictions

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

	2023	2022
Korean dual language program	\$ 51,866	\$ 51,866
Field trips and classroom incentives	1,205	1,205
Interest in Friends' building (Note 5)	9,261,096	9,747,099
	<u>\$ 9,314,167</u>	<u>\$ 9,800,170</u>

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

	2023	2022
Korean dual language program	\$ 50,769	\$ 52,201
Interest in Friends' building (Note 5)	486,003	486,003
	<u>\$ 536,772</u>	<u>\$ 538,204</u>

11. Commitments

Facility leases

On October 1, 2007, as amended in December 2015, DPCS entered into a triple-net sublease agreement with Civic Builders Property Holding Corp. ("Sub-landlord") for new facilities at St. Philips Church (207 West 133rd Street). DPCS also entered into license agreements for the use of the undercroft, the elevator and additional classroom space. On August 25, 2008, DPCS occupied the space. The sublease provides that DPCS pay a monthly base rent plus triple-net charges for DPCS' share of expenses related to the 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 \$602,372 and \$595,466 for the years ended June 30, 2023 and 2022. 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.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2023 and 2022

11. Commitments (*continued*)

Facility leases (continued)

On July 1, 2022, the School and DPPS signed a revised and amended sublease agreement under new terms and conditions expiring on June 30, 2047 (see Note 7). This sublease is for HPCS and DPE for additional classroom facilities at 230 East 123rd Street, New York, NY.

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 July 1, 2024 and will expire on June 30, 2058. Total future minimum lease payments under this lease agreement is \$224,839,606.

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

Equipment leases

The School leases computers and equipment under non-cancelable lease agreements expiring at various dates through in November 2027.

ROU assets consist of the following at June 30, 2023:

ROU assets - operating leases	\$136,218,386
ROU assets - finance leases	1,634,015
Accumulated amortization - operating leases	(6,364,843)
Accumulated amortization - finance leases	(724,021)
	<u>\$130,763,537</u>

Weighted average remaining lease term for finance leases	1.52 years
Weighted average remaining lease term for operating leases	23.10 years
Weighted average discount rate for finance leases	5.78%
Weighted average discount rate for operating leases	3.11%

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2023 and 2022

11. Commitments (*continued*)

The future minimum lease payments under the facility and equipment leases are as follows for the years ending June 30:

2024	\$ 8,118,689
2025	6,449,493
2026	5,522,622
2027	5,687,657
2028	5,935,285
Thereafter	<u>172,404,139</u>
Total minimum lease payments	204,117,885
Present value discount	<u>(67,502,813)</u>
Present value of lease liabilities	136,615,072
Current portion	<u>(3,936,714)</u>
Lease liabilities, less current portion	<u>\$132,678,358</u>

ASC 842 Cost Components

Operating lease cost	\$ 10,594,434
Finance lease cost	221,509
Interest cost- finance lease	<u>86,718</u>
	<u>\$ 10,902,661</u>

Occupancy expense for the years ended June 30, 2023 and 2022 was \$11,632,913 and \$5,608,042.

For the years ended June 30, 2023 and 2022, interest expense was \$86,718 and \$133,530, and included in the other expenses in the accompanying statements of functional expenses.

12. 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, 2023 and 2022 amounted to \$1,053,204 and \$1,387,901.

13. 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.

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Democracy Prep New York Charter Schools

Supplementary Information

June 30, 2023

Democracy Prep New York Charter Schools

Schedule of Activities Bronx Preparatory Charter School Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 15,183,318	\$ -	\$ 15,183,318
Students with disabilities	1,650,312	-	1,650,312
Facilities funding	331,212	-	331,212
Grants and Contracts			
Federal grants	5,438,553	-	5,438,553
Federal IDEA	178,054	-	178,054
State	40,471	-	40,471
Total Operating Revenue	<u>22,821,920</u>	<u>-</u>	<u>22,821,920</u>
EXPENSES			
Program Services			
Regular education	16,729,170	-	16,729,170
Special education	4,359,548	-	4,359,548
Total Program Services	<u>21,088,718</u>	<u>-</u>	<u>21,088,718</u>
Supporting Services			
Management and general	2,254,102	-	2,254,102
Fundraising	156,106	-	156,106
Total Expenses	<u>23,498,926</u>	<u>-</u>	<u>23,498,926</u>
Deficit from Operations	<u>(677,006)</u>	<u>-</u>	<u>(677,006)</u>
SUPPORT AND OTHER REVENUE			
Contributions	168,326	10,000	178,326
Other income	597,611	-	597,611
Net assets released from restrictions	10,000	(10,000)	-
Total Support and Other Revenue	<u>775,937</u>	<u>-</u>	<u>775,937</u>
Result of Operations	98,931	-	98,931
Net assets released from restriction - amortization of interest in Friends' Building	<u>486,003</u>	<u>(486,003)</u>	<u>-</u>
Change in Net Assets	584,934	(486,003)	98,931
NET ASSETS			
Beginning of year	<u>2,396,971</u>	<u>9,744,557</u>	<u>12,141,528</u>
End of year	<u>\$ 2,981,905</u>	<u>\$ 9,258,554</u>	<u>\$ 12,240,459</u>

Democracy Prep New York Charter Schools

Schedule of Activities Democracy Preparatory Charter School Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 9,854,687	\$ -	\$ 9,854,687
Students with disabilities	1,037,114	-	1,037,114
Grants and Contracts			
Federal grants	3,424,167	-	3,424,167
Federal IDEA	144,625	-	144,625
State	37,924	-	37,924
Total Operating Revenue	<u>14,498,517</u>	<u>-</u>	<u>14,498,517</u>
EXPENSES			
Program Services			
Regular education	9,873,283	-	9,873,283
Special education	1,976,395	-	1,976,395
Total Program Services	<u>11,849,678</u>	<u>-</u>	<u>11,849,678</u>
Supporting Services			
Management and general	2,139,427	-	2,139,427
Fundraising	98,351	-	98,351
Total Expenses	<u>14,087,456</u>	<u>-</u>	<u>14,087,456</u>
Surplus from Operations	<u>411,061</u>	<u>-</u>	<u>411,061</u>
SUPPORT AND OTHER REVENUE			
Contributions	175,921	14,769	190,690
Rental income	602,372	-	602,372
Net assets released from restrictions	14,769	(14,769)	-
Total Support and Other Revenue	<u>793,062</u>	<u>-</u>	<u>793,062</u>
Change in Net Assets	1,204,123	-	1,204,123
NET ASSETS			
Beginning of year	<u>9,293,630</u>	<u>21,857</u>	<u>9,315,487</u>
End of year	<u>\$ 10,497,753</u>	<u>\$ 21,857</u>	<u>\$ 10,519,610</u>

Democracy Prep New York Charter Schools

Schedule of Activities Democracy Preparatory Harlem Charter School Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 17,374,447	\$ -	\$ 17,374,447
Students with disabilities	3,422,523	-	3,422,523
Grants and Contracts			
Federal grants	5,310,307	-	5,310,307
Federal IDEA	298,212	-	298,212
State	66,911	-	66,911
Total Operating Revenue	<u>26,472,400</u>	<u>-</u>	<u>26,472,400</u>
EXPENSES			
Program Services			
Regular education	15,031,135	-	15,031,135
Special education	4,578,778	-	4,578,778
Total Program Services	<u>19,609,913</u>	<u>-</u>	<u>19,609,913</u>
Supporting Services			
Management and general	2,203,932	-	2,203,932
Fundraising	175,208	-	175,208
Total Expenses	<u>21,989,053</u>	<u>-</u>	<u>21,989,053</u>
Surplus from Operations	<u>4,483,347</u>	<u>-</u>	<u>4,483,347</u>
SUPPORT AND OTHER REVENUE			
Contributions	164,825	10,000	174,825
Net assets released from restrictions	<u>10,000</u>	<u>(10,000)</u>	<u>-</u>
Total Support and Other Revenue	<u>174,825</u>	<u>-</u>	<u>174,825</u>
Change in Net Assets	4,658,172	-	4,658,172
NET ASSETS			
Beginning of year	<u>17,352,138</u>	<u>15,190</u>	<u>17,367,328</u>
End of year	<u>\$ 22,010,310</u>	<u>\$ 15,190</u>	<u>\$ 22,025,500</u>

Democracy Prep New York Charter Schools

Schedule of Activities Harlem Preparatory Charter School Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 13,180,815	\$ -	\$ 13,180,815
Students with disabilities	1,662,413	-	1,662,413
Facilities funding	1,900,964	-	1,900,964
Grants and Contracts			
Federal grants	4,521,563	-	4,521,563
Federal IDEA and E-Rate	194,806	-	194,806
State	57,099	-	57,099
Total Operating Revenue	<u>21,517,660</u>	<u>-</u>	<u>21,517,660</u>
EXPENSES			
Program Services			
Regular education	17,947,684	-	17,947,684
Special education	4,518,144	-	4,518,144
Total Program Services	<u>22,465,828</u>	<u>-</u>	<u>22,465,828</u>
Supporting Services			
Management and general	2,850,431	-	2,850,431
Fundraising	131,256	-	131,256
Total Expenses	<u>25,447,515</u>	<u>-</u>	<u>25,447,515</u>
Deficit from Operations	<u>(3,929,855)</u>	<u>-</u>	<u>(3,929,855)</u>
SUPPORT AND OTHER REVENUE			
Contributions	134,513	10,000	144,513
Net assets released from restrictions	<u>10,000</u>	<u>(10,000)</u>	<u>-</u>
Total Support and Other Revenue	<u>144,513</u>	<u>-</u>	<u>144,513</u>
Change in Net Assets	(3,785,342)	-	(3,785,342)
NET ASSETS			
Beginning of year	<u>11,554,937</u>	<u>7,500</u>	<u>11,562,437</u>
End of year	<u>\$ 7,769,595</u>	<u>\$ 7,500</u>	<u>\$ 7,777,095</u>

Democracy Prep New York Charter Schools

Schedule of Activities Democracy Preparatory Endurance Charter School Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 10,808,554	\$ -	\$ 10,808,554
Students with disabilities	1,330,727	-	1,330,727
Facilities funding	2,309,711	-	2,309,711
Universal pre-kindergarten	413,894	-	413,894
Grants and Contracts			
Federal grants	3,234,579	-	3,234,579
Federal IDEA	167,795	-	167,795
State	37,857	-	37,857
Total Operating Revenue	<u>18,303,117</u>	<u>-</u>	<u>18,303,117</u>
EXPENSES			
Program Services			
Regular education	14,614,269	-	14,614,269
Special education	3,345,645	-	3,345,645
Total Program Services	<u>17,959,914</u>	<u>-</u>	<u>17,959,914</u>
Supporting Services			
Management and general	1,943,499	-	1,943,499
Fundraising	104,446	-	104,446
Total Expenses	<u>20,007,859</u>	<u>-</u>	<u>20,007,859</u>
Deficit from Operations	<u>(1,704,742)</u>	<u>-</u>	<u>(1,704,742)</u>
SUPPORT AND OTHER REVENUE			
Contributions	141,875	6,000	147,875
Net assets released from restrictions	<u>6,000</u>	<u>(6,000)</u>	<u>-</u>
Total Support and Other Revenue	<u>147,875</u>	<u>-</u>	<u>147,875</u>
Change in Net Assets	(1,556,867)	-	(1,556,867)
NET ASSETS			
Beginning of year	<u>7,669,756</u>	<u>-</u>	<u>7,669,756</u>
End of year	<u>\$ 6,112,889</u>	<u>\$ -</u>	<u>\$ 6,112,889</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses
Bronx Preparatory Charter School
Year Ended June 30, 2023

		Program Services			Management and General	Fundraising	Total
	No. of Positions	Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	45	\$ 1,354,211	\$ 261,332	\$ 1,615,543	\$ 865,234	\$ -	\$ 2,480,777
Instructional personnel	86	6,493,663	1,657,057	8,150,720	-	-	8,150,720
Non-instructional personnel	8	446,331	191,285	637,616	-	-	637,616
Total Personnel Services Costs	139	8,294,205	2,109,674	10,403,879	865,234	-	11,269,113
Fringe benefits and payroll taxes		1,461,124	363,829	1,824,953	139,607	-	1,964,560
Retirement		181,974	46,553	228,527	19,422	-	247,949
Management company fees		1,737,992	682,783	2,420,775	527,605	155,178	3,103,558
Legal services		-	-	-	15,098	-	15,098
Accounting/audit services		-	-	-	31,084	-	31,084
Other purchased/professional/consulting services		112,623	21,481	134,104	38,998	-	173,102
Occupancy		576,683	109,993	686,676	-	-	686,676
Repair and maintenance		1,089,281	278,665	1,367,946	116,257	-	1,484,203
Insurance		110,754	21,125	131,879	-	-	131,879
Utilities		430,648	110,171	540,819	45,962	-	586,781
Supplies/materials		348,582	66,487	415,069	-	-	415,069
Equipment/furnishings		4,161	794	4,955	-	-	4,955
Staff development		48,611	12,152	60,763	4,723	-	65,486
Marketing/recruitment		6,955	1,327	8,282	-	-	8,282
Technology		416,782	101,305	518,087	35,762	-	553,849
Student services		792,566	151,170	943,736	-	-	943,736
Office expense		147,446	37,720	185,166	32,836	-	218,002
Depreciation and amortization		558,331	149,732	708,063	43,476	-	751,539
Other		60,530	11,966	72,496	284,578	928	358,002
Total Expenses Before Amortization of Interest in Friends' Building		16,379,248	4,276,927	20,656,175	2,200,642	156,106	23,012,923
Amortization of interest in Friends' building		349,922	82,621	432,543	53,460	-	486,003
Total Expenses		<u>\$ 16,729,170</u>	<u>\$ 4,359,548</u>	<u>\$ 21,088,718</u>	<u>\$ 2,254,102</u>	<u>\$ 156,106</u>	<u>\$ 23,498,926</u>

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Functional Expenses Democracy Preparatory Charter School Year Ended June 30, 2023

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	23	\$ 446,548	\$ 101,581	\$ 548,129	\$ 1,217,501	\$ -	\$ 1,765,630
Instructional personnel	59	4,353,441	597,638	4,951,079	-	-	4,951,079
Non-instructional personnel	5	347,036	148,730	495,766	-	-	495,766
Total Personnel Services Costs	<u>87</u>	<u>5,147,025</u>	<u>847,949</u>	<u>5,994,974</u>	<u>1,217,501</u>	<u>-</u>	<u>7,212,475</u>
Fringe benefits and payroll taxes		815,519	136,329	951,848	185,818	-	1,137,666
Retirement		97,696	15,926	113,622	23,714	-	137,336
Management company fees		1,101,528	432,743	1,534,271	334,392	98,351	1,967,014
Legal services		-	-	-	921	-	921
Accounting/audit services		-	-	-	27,218	-	27,218
Other purchased/professional/consulting services		67,490	15,570	83,060	27,780	-	110,840
Occupancy		621,852	141,500	763,352	7,033	-	770,385
Repair and maintenance		366,300	59,712	426,012	88,912	-	514,924
Insurance		79,401	18,318	97,719	-	-	97,719
Utilities		170,194	27,745	197,939	41,312	-	239,251
Supplies/materials		243,515	56,178	299,693	-	-	299,693
Equipment/furnishings		5,613	1,295	6,908	-	-	6,908
Staff development		53,856	9,151	63,007	11,741	-	74,748
Marketing/recruitment		9,000	1,933	10,933	514	-	11,447
Technology		260,968	46,268	307,236	49,985	-	357,221
Student services		342,416	78,994	421,410	-	-	421,410
Office expense		130,648	21,300	151,948	58,482	-	210,430
Depreciation and amortization		260,140	42,408	302,548	63,146	-	365,694
Other		100,122	23,076	123,198	958	-	124,156
Total Expenses		<u>\$ 9,873,283</u>	<u>\$ 1,976,395</u>	<u>\$ 11,849,678</u>	<u>\$ 2,139,427</u>	<u>\$ 98,351</u>	<u>\$ 14,087,456</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses Democracy Preparatory Harlem Charter School Year Ended June 30, 2023

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	34	\$ 363,693	\$ 113,841	\$ 477,534	\$ 1,039,602	\$ -	\$ 1,517,136
Instructional personnel	94	7,098,495	1,956,913	9,055,408	-	-	9,055,408
Non-instructional personnel	3	309,895	132,812	442,707	-	-	442,707
Total Personnel Services Costs	<u>131</u>	<u>7,772,083</u>	<u>2,203,566</u>	<u>9,975,649</u>	<u>1,039,602</u>	<u>-</u>	<u>11,015,251</u>
Fringe benefits and payroll taxes		1,242,756	351,505	1,594,261	168,347	-	1,762,608
Retirement		170,225	48,099	218,324	23,180	-	241,504
Management company fees		1,962,326	770,914	2,733,240	595,706	175,208	3,504,154
Legal services		-	-	-	16,518	-	16,518
Accounting/audit services		-	-	-	42,028	-	42,028
Other purchased/professional/consulting services		77,956	26,268	104,224	34,280	-	138,504
Occupancy		470,500	158,539	629,039	-	-	629,039
Repair and maintenance		839,458	238,421	1,077,879	111,247	-	1,189,126
Insurance		118,989	40,094	159,083	-	-	159,083
Supplies/materials		525,754	177,157	702,911	-	-	702,911
Equipment/furnishings		8,300	2,797	11,097	-	-	11,097
Staff development		21,887	6,584	28,471	1,979	-	30,450
Marketing/recruitment		24,446	7,973	32,419	663	-	33,082
Technology		348,835	101,478	450,313	40,215	-	490,528
Student services		614,139	206,939	821,078	-	-	821,078
Office expense		216,881	61,338	278,219	50,811	-	329,030
Depreciation and amortization		561,502	158,658	720,160	76,461	-	796,621
Other		55,098	18,448	73,546	2,895	-	76,441
Total Expenses		<u>\$ 15,031,135</u>	<u>\$ 4,578,778</u>	<u>\$ 19,609,913</u>	<u>\$ 2,203,932</u>	<u>\$ 175,208</u>	<u>\$ 21,989,053</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses
Harlem Preparatory Charter School
Year Ended June 30, 2023

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	39	\$ 691,302	\$ 170,190	\$ 861,492	\$ 1,327,504	\$ -	\$ 2,188,996
Instructional personnel	87	6,422,583	1,401,038	7,823,621	-	-	7,823,621
Non-instructional personnel	9	532,862	228,370	761,232	-	-	761,232
Total Personnel Services Costs	<u>135</u>	<u>7,646,747</u>	<u>1,799,598</u>	<u>9,446,345</u>	<u>1,327,504</u>	<u>-</u>	<u>10,773,849</u>
Fringe benefits and payroll taxes		1,161,470	273,669	1,435,139	198,535	-	1,633,674
Retirement		156,053	36,673	192,726	27,595	-	220,321
Management company fees		1,470,062	577,524	2,047,586	446,269	131,256	2,625,111
Legal services		-	-	-	15,898	-	15,898
Accounting/audit services		-	-	-	35,617	-	35,617
Other purchased/professional/consulting services		124,555	31,589	156,144	66,355	-	222,499
Occupancy		4,053,298	988,609	5,041,907	373,952	-	5,415,859
Repair and maintenance		714,889	168,192	883,081	124,615	-	1,007,696
Insurance		104,736	26,562	131,298	-	-	131,298
Utilities		114,112	26,816	140,928	20,179	-	161,107
Supplies/materials		390,373	99,004	489,377	-	-	489,377
Equipment/furnishings		24,302	6,163	30,465	-	-	30,465
Staff development		33,155	7,904	41,059	4,789	-	45,848
Marketing/recruitment		13,967	3,541	17,508	14	-	17,522
Technology		358,118	85,632	443,750	49,321	-	493,071
Student services		757,624	192,143	949,767	-	-	949,767
Office expense		142,277	33,427	175,704	46,912	-	222,616
Depreciation and amortization		635,647	149,378	785,025	112,404	-	897,429
Other		46,299	11,720	58,019	472	-	58,491
Total Expenses		<u>\$ 17,947,684</u>	<u>\$ 4,518,144</u>	<u>\$ 22,465,828</u>	<u>\$ 2,850,431</u>	<u>\$ 131,256</u>	<u>\$ 25,447,515</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses Democracy Preparatory Endurance Charter School Year Ended June 30, 2023

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	23	\$ 532,970	\$ 132,043	\$ 665,013	\$ 906,835	\$ -	\$ 1,571,848
Instructional personnel	75	5,643,505	1,044,007	6,687,512	-	-	6,687,512
Non-instructional personnel	6	353,620	151,551	505,171	-	-	505,171
Total Personnel Services Costs	<u>104</u>	<u>6,530,095</u>	<u>1,327,601</u>	<u>7,857,696</u>	<u>906,835</u>	<u>-</u>	<u>8,764,531</u>
Fringe benefits and payroll taxes		1,030,460	211,480	1,241,940	138,328	-	1,380,268
Retirement		153,346	30,994	184,340	21,734	-	206,074
Management company fees		1,169,794	459,562	1,629,356	355,116	104,446	2,088,918
Legal services		-	-	-	16,401	-	16,401
Accounting/audit services		-	-	-	26,529	-	26,529
Other purchased/professional/consulting services		79,469	20,740	100,209	31,595	-	131,804
Occupancy		3,167,697	729,712	3,897,409	233,545	-	4,130,954
Repair and maintenance		588,119	118,869	706,988	83,355	-	790,343
Insurance		93,014	24,275	117,289	-	-	117,289
Utilities		34,094	6,891	40,985	4,832	-	45,817
Supplies/materials		360,996	94,213	455,209	-	-	455,209
Equipment/furnishings		4,775	1,246	6,021	-	-	6,021
Staff development		19,256	4,419	23,675	1,461	-	25,136
Marketing/recruitment		8,196	2,139	10,335	-	-	10,335
Technology		301,022	64,440	365,462	33,999	-	399,461
Student services		500,999	130,751	631,750	-	-	631,750
Office expense		157,938	32,034	189,972	36,733	-	226,705
Depreciation and amortization		372,742	75,337	448,079	52,829	-	500,908
Other		42,257	10,942	53,199	207	-	53,406
Total Expenses		<u>\$ 14,614,269</u>	<u>\$ 3,345,645</u>	<u>\$ 17,959,914</u>	<u>\$ 1,943,499</u>	<u>\$ 104,446</u>	<u>\$ 20,007,859</u>

Democracy Prep New York Charter Schools

Uniform Guidance
Schedules and Reports

June 30, 2023

Democracy Prep New York Charter Schools

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.S. Department of Education				
Pass-Through New York State Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021-22-4002	\$ -	\$ 52,360
Title I Grants to Local Educational Agencies	84.010	0021-22-4125	-	101,663
Title I Grants to Local Educational Agencies	84.010	0021-22-4349	-	61,312
Title I Grants to Local Educational Agencies	84.010	0021-22-4685	-	74,669
Title I Grants to Local Educational Agencies	84.010	0021-22-4220	-	97,425
Title I Grants to Local Educational Agencies	84.010	0021-23-4002	-	277,895
Title I Grants to Local Educational Agencies	84.010	0021-23-4125	-	459,089
Title I Grants to Local Educational Agencies	84.010	0021-23-4349	-	268,523
Title I Grants to Local Educational Agencies	84.010	0021-23-4685	-	395,236
Title I Grants to Local Educational Agencies	84.010	0021-23-4220	-	359,525
			-	<u>2,147,697</u>
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4685	-	6,946
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4220	-	13,103
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4349	-	15,522
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4125	-	8,812
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-22-4002	-	10,762
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-23-4685	-	76,908
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-23-4220	-	118,755
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-23-4349	-	66,321
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-23-4125	-	105,889
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-23-4002	-	94,927
			-	<u>517,945</u>
Student Support and Academic Enrichment Program	84.424	0204-22-4685	-	3,765
Student Support and Academic Enrichment Program	84.424	0204-22-4220	-	6,900
Student Support and Academic Enrichment Program	84.424	0204-22-4349	-	5,691
Student Support and Academic Enrichment Program	84.424	0204-22-4125	-	6,259
Student Support and Academic Enrichment Program	84.424	0204-22-4002	-	2,579
Student Support and Academic Enrichment Program	84.424	0204-23-4685	-	21,260
Student Support and Academic Enrichment Program	84.424	0204-23-4220	-	35,679
Student Support and Academic Enrichment Program	84.424	0204-23-4349	-	22,049
Student Support and Academic Enrichment Program	84.424	0204-23-4125	-	36,985
Student Support and Academic Enrichment Program	84.424	0204-23-4002	-	34,327
			-	<u>175,494</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, 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.S. Department of Education <i>(continued)</i>				
English Language Acquisition State Grants	84.365	0293-23-4685	\$ -	\$ 13,377
English Language Acquisition State Grants	84.365	0293-23-4220	-	16,348
English Language Acquisition State Grants	84.365	0293-23-4349	-	11,912
English Language Acquisition State Grants	84.365	0293-23-4125	-	19,668
English Language Acquisition State Grants	84.365	0293-23-4002	-	15,489
			-	76,794
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4685	-	543,117
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4220	-	643,992
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4349	-	497,193
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4125	-	915,505
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4002	-	507,180
			-	3,106,987
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP	84.425U	5880-21-4685	-	2,257,185
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP	84.425U	5880-21-4220	-	4,053,755
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP	84.425U	5880-21-4349	-	2,489,838
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP	84.425U	5880-21-4125	-	3,752,944
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP	84.425U	5880-21-4002	-	3,409,918
			-	15,963,640
Total U.S. Department of Education			-	21,988,557
Total Expenditures of Federal Awards			\$ -	\$ 21,988,557

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, 2023

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, 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
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, 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 31, 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 31, 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
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, 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 31, 2023

Democracy Prep New York Charter Schools

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

84.010

Title I Grants to Local Educational Agencies

84.425D

COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II

84.425U

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
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, 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 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, 2023