

# **Capital Prep Charter Schools NY**

Financial Statements

June 30, 2020

## **Independent Auditors' Report**

### **Board of Trustees Capital Prep Charter Schools NY Report on the Financial Statements**

We have audited the accompanying financial statements of Capital Prep Charter Schools NY (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the period from October 4, 2018 (inception) to June 30, 2020, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2020, and the changes in its net assets and its cash flows for the period from October 4, 2018 (inception) to June 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of activities and functional expenses by school on pages 16 through 18 are 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 19, 2020, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 19, 2020

## Capital Prep Charter Schools NY

### Statement of Financial Position

June 30, 2020

#### ASSETS

##### Current Assets

Cash	\$ 1,781,188
Grants and contracts receivable	662,830
Prepaid expenses and other current assets	69,344
Security deposit, current portion	<u>500,000</u>
Total Current Assets	3,013,362

Property and equipment, net	887,306
Security deposit	142,000
Restricted cash	<u>75,000</u>

\$ 4,117,668

#### LIABILITIES AND NET ASSETS

##### Current Liabilities

Accounts payable and accrued expenses	\$ 57,530
Due to related party	216,980
Promissory note, related party, current portion	100,000
Deferred rent, current portion	<u>240,208</u>
Total Current Liabilities	614,718

Paycheck Protection Program loan payable	702,830
Promissory note, related party	<u>300,000</u>
Total Liabilities	<u>1,617,548</u>

##### Net Assets

Without donor restrictions	2,083,120
With donor restrictions	<u>417,000</u>
Total Net Assets	<u>2,500,120</u>

\$ 4,117,668

## Capital Prep Charter Schools NY

Statement of Activities  
Period from October 4, 2018 (inception) to June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
General education	\$ 6,076,745	\$ -	\$ 6,076,745
Special education	909,129	-	909,129
Lease assistance	1,473,350	-	1,473,350
Federal grants	665,510	-	665,510
Federal IDEA and E-Rate	108,053	-	108,053
State and city grants	39,208	-	39,208
Total Operating Revenue	9,271,995	-	9,271,995
<b>EXPENSES</b>			
Program Services			
Regular education	5,581,564	-	5,581,564
Special education	2,399,962	-	2,399,962
Total Program Services	7,981,526	-	7,981,526
Supporting Services			
Management and general	699,801	-	699,801
Fundraising	2,631	-	2,631
Total Expenses	8,683,958	-	8,683,958
Surplus from Operations	588,037	-	588,037
<b>SUPPORT AND OTHER REVENUE</b>			
Grants and contributions	531,456	417,000	948,456
Change in Net Assets	1,119,493	417,000	1,536,493
<b>NET ASSETS</b>			
Beginning of period	-	-	-
Transfer of net assets pursuant to merger of CP Harlem	963,627	-	963,627
End of Period	\$ 2,083,120	\$ 417,000	\$ 2,500,120

See notes to financial statements

**Capital Prep Charter Schools NY**

Statement of Functional Expenses  
Period from October 29, 2018 (Inception) to June 30, 2020

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	7	\$ 376,198	\$ 87,332	\$ 463,530	\$ 205,227	\$ 1,045	\$ 669,802
Instructional personnel	43	1,832,041	991,963	2,824,004	16,450	-	2,840,454
Non-instructional personnel	<u>7</u>	<u>275,166</u>	<u>63,522</u>	<u>338,688</u>	<u>41,721</u>	<u>851</u>	<u>381,260</u>
Total Salaries and Staff	<u>57</u>	2,483,405	1,142,817	3,626,222	263,398	1,896	3,891,516
Fringe benefits and payroll taxes		701,882	328,312	1,030,194	64,847	374	1,095,415
Retirement		16,845	7,965	24,810	1,455	8	26,273
Management company fees		577,067	209,044	786,111	92,225	-	878,336
Legal services		-	-	-	116,166	-	116,166
Accounting/audit services		-	-	-	30,198	-	30,198
Other purchased/professional/consulting services		251,100	56,489	307,589	10,347	4	317,940
Building and land rent/lease		827,960	401,679	1,229,639	63,594	239	1,293,472
Repairs and maintenance		58,700	28,478	87,178	4,508	17	91,703
Insurance		36,051	16,516	52,567	2,931	10	55,508
Utilities		6,465	2,353	8,818	599	1	9,418
Supplies/materials		72,444	19,724	92,168	-	-	92,168
Equipment/furnishings		29,486	8,518	38,004	3,041	1	41,046
Staff development		23,062	6,276	29,338	-	-	29,338
Marketing/recruitment		47,838	13,906	61,744	3,712	6	65,462
Technology		103,939	45,881	149,820	9,443	41	159,304
Food services		69,356	18,874	88,230	-	-	88,230
Student services		54,533	14,840	69,373	-	-	69,373
Office expense		18,552	8,902	27,454	21,159	8	48,621
Depreciation and amortization		196,064	67,803	263,867	10,684	26	274,577
Other expenses		6,815	1,585	8,400	1,494	-	9,894
<b>Total Expenses</b>		<u>\$ 5,581,564</u>	<u>\$ 2,399,962</u>	<u>\$ 7,981,526</u>	<u>\$ 699,801</u>	<u>\$ 2,631</u>	<u>\$ 8,683,958</u>

## Capital Prep Charter Schools NY

### Statement of Cash Flows Period from October 4, 2018 (Inception) to June 30, 2020

#### **CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 1,536,493
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	274,577
Deferred rent	240,208
Transfer of net assets pursuant to merger of CP Harlem	963,627
Changes in operating assets and liabilities	
Grants and contracts receivable	(662,830)
Prepaid expenses and other current assets	(69,344)
Security deposits	(642,000)
Accounts payable and accrued expenses	57,530
Due to related party	<u>216,980</u>
Net Cash from Operating Activities	<u>1,915,241</u>

#### **CASH FLOWS FROM INVESTING ACTIVITY**

Purchases of property and equipment	<u>(1,161,883)</u>
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#### **CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from Paycheck Protection Program loan payable	702,830
Proceeds from promissory note, related party	500,000
Repayment of promissory note, related party	<u>(100,000)</u>
Net Cash from Financing Activities	<u>1,102,830</u>

Net Change in Cash and Restricted Cash 1,856,188

#### **CASH AND RESTRICTED CASH**

Beginning of period	<u>-</u>
End of Period	<u>\$ 1,856,188</u>

The following table provides a reconciliation of cash and restricted cash within the statements of financial position:

Cash	\$ 1,781,188
Restricted cash	<u>75,000</u>
	<u>\$ 1,856,188</u>

## Capital Prep Charter Schools NY

Notes to Financial Statements  
June 30, 2020

### 1. Organization and Tax Status

Capital Prep Charter Schools NY (the "School") 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. CP Bronx had no financial activity from October 4, 2018 (inception) to June 30, 2019.

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. CP Harlem's charter will expire June 30, 2021.

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 371 students in grades sixth through tenth during the 2019-2020 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, 2020

### 2. Summary of Significant Accounting Policies

#### ***Basis of Presentation and Use of Estimates***

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

#### ***Adoption of New Accounting Policies***

##### *Recognition of Contributions*

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

##### *Restricted Cash*

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

#### ***Net Assets Presentation***

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

*Net Assets Without Donor Restrictions* – Net assets available for use in general supports 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.

## Capital Prep Charter Schools NY

Notes to Financial Statements  
June 30, 2020

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

#### ***Net Assets Presentation (continued)***

*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.

#### ***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.

#### ***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.

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 period from October 4, 2018 (inception) to June 30, 2020.

#### ***Deferred Rent***

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

## Capital Prep Charter Schools NY

Notes to Financial Statements  
June 30, 2020

### 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 temporarily 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 unrestricted revenue. 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 period from October 4, 2018 (inception) to June 30, 2020 was \$65,462.

#### ***Functional Expense Allocation***

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

#### ***Accounting for Uncertainty in Income Taxes***

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. All returns filed by the School are subject to examinations by the applicable taxing jurisdictions.

#### ***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 19, 2020.

### 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, 2020

### 4. Property and Equipment

Property and equipment consisted of the following at June 30, 2020:

Furniture and fixtures	\$ 393,070
Computers and equipment	658,411
Leasehold improvements	466,580
Construction in progress	<u>136,954</u>
	1,655,015
Accumulated depreciation and amortization	<u>(767,709)</u>
	<u>\$ 887,306</u>

Construction in progress at June 30, 2020 consists of costs of construction to prepare the Bronx facility for occupancy. The Bronx facility was placed into service during the year ending June 30, 2021.

### 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, 2020:

Cash	\$ 1,781,188
Grants and contracts receivable	662,830
Security deposit, current portion	<u>500,000</u>
	<u>\$ 2,944,018</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).

### 6. Related Party Transactions (not disclosed elsewhere)

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

## Capital Prep Charter Schools NY

Notes to Financial Statements  
June 30, 2020

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

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 to expire on June 30, 2021 for CP Harlem and July 31, 2025 for BP 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 period from October 4, 2018 (inception) to June 30, 2020, 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 period from October 4, 2018 (inception) to June 30, 2020, the School incurred \$878,336 in management fees to CPS, along with \$147,673 of net operating expenses paid by CPS on behalf of the School. Net balance due to CPS from the School was \$216,980 at June 30, 2020.

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 the lease agreement for space located at 1660 Boone Avenue, Bronx, New York (see Note 10). The note matures on June 1, 2024 and does not bear interest. The loan is payable in five annual equal installments of \$100,000 by June 1<sup>st</sup> of each year, starting with June 1, 2020.

Minimum future principal payments under this note are to be paid as follows for the years ending June 30:

2021	\$ 100,000
2022	100,000
2023	100,000
2024	<u>100,000</u>
	400,000
Less current portion	<u>100,000</u>
Promissory note, related party	<u><u>\$ 300,000</u></u>

### 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 period from October 4, 2018 (inception) to June 30, 2020 amounted to \$26,273.

## Capital Prep Charter Schools NY

Notes to Financial Statements  
June 30, 2020

### 8. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. At June 30, 2020, approximately \$1,606,000 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 period from October 4, 2018 (inception) to June 30, 2020, the School received approximately 83% 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

On March 17, 2016, the School entered into an operating sub-sublease agreement with Boys and Girls Harbor, Inc. to sublease a portion of a building located at 1 East 104<sup>th</sup> Street, New York, New York. The lease term commenced on July 1, 2016 and expires on June 30, 2021, with four successive options to extend the term of the sublease by up to five years per option. The lease was amended several times to reflect changes in the rent rates and leased premises size.

On June 26, 2019, the School entered into a lease agreement with JJS Boone LLC, to lease a building located at 1660 Boone Avenue, Bronx, New York. The term of the lease is for thirty-two years commencing on July 1, 2020. Under the terms of this lease, the school paid a security deposit in the amount of \$500,000 during the period from October 4, 2018 to June 30, 2020. On July 6, 2020, the School terminated the lease due to Landlord being unable to close on the acquisition of the property by July 1, 2020. The School anticipates the security deposit to be refunded.

On February 10, 2020, the School entered into a lease agreement with 755 Coop City LLC, to lease a building located at 755 Co-op City Boulevard, Bronx, NY 10475. The lease term commenced on July 1, 2020 and expires on December 31, 2022 with an option to extend the lease until June 30, 2023. Under the terms of this lease, the school paid a security deposit in the amount of \$142,000 during the period from October 4, 2018 (inception) to June 30, 2020.

Future minimum lease payments under both facility leases are as follows for the years ending June 30:

2021	\$ 2,383,683
2022	1,200,000
2023	1,500,000
	<u>\$ 5,083,683</u>

## Capital Prep Charter Schools NY

Notes to Financial Statements  
June 30, 2020

### 10. Commitments (*continued*)

Rent expense for the period from October 4, 2018 (inception) to June 30, 2020 was \$1,293,472.

### 11. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30, 2020:

CP Harlem	
Staff development	\$ 90,000
Student college partnership	40,000
Student recruitment and retention	<u>70,000</u>
	200,000
CP Bronx	
School start-up	<u>217,000</u>
	<u>\$ 417,000</u>

### 12. Paycheck Protection Program Loan Payable

On May 4, 2020, the School qualified for and received a loan pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified PPP lender, for an aggregate principal amount of \$702,830 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon the School's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the School. The School intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. The School believes that most, if not all, of the PPP Loan will meet the requirements for debt forgiveness. To the extent that all or part of the PPP Loan is not forgiven, the School will be required to pay interest on the PPP Loan through the date principal is repaid in full or maturity date.

### 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.

## Capital Prep Charter Schools NY

Notes to Financial Statements  
June 30, 2020

### 14. Risks and Uncertainties

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

### 15. Merger Information

As stated in Note 1, the State University of New York Charter School Committee approved a merger of CP Bronx and CP Harlem effective July 1, 2019, into a single legal entity under CP Bronx, which serves as the sole surviving entity. Below is a summary of opening balances as of July 1, 2019 for CP Harlem:

#### ASSETS

Cash	\$ 1,125,432
Grants and contracts receivable	33,071
Prepaid expenses and other current assets	13,052
Property and equipment, net	682,085
Restricted cash	75,000
	<u>\$ 1,928,640</u>

#### LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 141,847
Refundable advances	252,695
Due to related party	134,613
Deferred rent	435,858
Total Liabilities	965,013
	<u>963,627</u>
Net assets, without donor restrictions	<u>\$ 1,928,640</u>

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# **Capital Prep Charter Schools NY**

Supplementary Information

June 30, 2020

**Capital Prep Charter Schools NY**

Schedule of Activities by School  
Year Ended June 30, 2020

	CP Harlem			CP Bronx			Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	
<b>OPERATING REVENUE</b>							
State and local per pupil operating revenue							
General education	\$ 6,076,745	\$ -	\$ 6,076,745	\$ -	\$ -	\$ -	\$ 6,076,745
Special education	909,129	-	909,129	-	-	-	909,129
Lease assistance	1,473,350	-	1,473,350	-	-	-	1,473,350
Federal grants	151,746	-	151,746	513,764	-	513,764	665,510
Federal IDEA and E-Rate	108,053	-	108,053	-	-	-	108,053
State grants	39,208	-	39,208	-	-	-	39,208
Total Operating Revenue	<u>8,758,231</u>	<u>-</u>	<u>8,758,231</u>	<u>513,764</u>	<u>-</u>	<u>513,764</u>	<u>9,271,995</u>
<b>EXPENSES</b>							
Program Services							
Regular education	5,281,880	-	5,281,880	299,684	-	299,684	5,581,564
Special education	2,347,966	-	2,347,966	51,996	-	51,996	2,399,962
Total Program Services	7,629,846	-	7,629,846	351,680	-	351,680	7,981,526
Supporting Services							
Management and general	546,488	-	546,488	153,313	-	153,313	699,801
Fundraising	1,709	-	1,709	922	-	922	2,631
Total Expenses	<u>8,178,043</u>	<u>-</u>	<u>8,178,043</u>	<u>505,915</u>	<u>-</u>	<u>505,915</u>	<u>8,683,958</u>
Surplus from Operations	580,188	-	580,188	7,849	-	7,849	588,037
<b>SUPPORT AND OTHER REVENUE</b>							
Grants and contributions	<u>248,456</u>	<u>200,000</u>	<u>448,456</u>	<u>283,000</u>	<u>217,000</u>	<u>500,000</u>	<u>948,456</u>
Change in Net Assets	828,644	200,000	1,028,644	290,849	217,000	507,849	1,536,493
<b>NET ASSETS</b>							
Beginning of year	-	-	-	-	-	-	-
Transfer of net assets pursuant to merger of CP Harlem	<u>963,627</u>	<u>-</u>	<u>963,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>963,627</u>
End of Year	<u>\$ 1,792,271</u>	<u>\$ 200,000</u>	<u>\$ 1,992,271</u>	<u>\$ 290,849</u>	<u>\$ 217,000</u>	<u>\$ 507,849</u>	<u>\$ 2,500,120</u>

**Capital Prep Charter Schools NY**

Schedule of Functional Expenses - CP Harlem  
Year Ended June 30, 2020

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
<b>Personnel Services Costs</b>							
Administrative staff personnel	6	\$ 376,198	\$ 87,332	\$ 463,530	\$ 198,310	\$ 1,045	\$ 662,885
Instructional personnel	42	1,705,162	970,792	2,675,954	-	-	2,675,954
Non-instructional personnel	6	240,257	55,859	296,116	-	-	296,116
<b>Total Salaries and Staff</b>	<b>54</b>	<b>2,321,617</b>	<b>1,113,983</b>	<b>3,435,600</b>	<b>198,310</b>	<b>1,045</b>	<b>3,634,955</b>
Fringe benefits and payroll taxes		674,324	323,560	997,884	57,601	303	1,055,788
Retirement		16,467	7,902	24,369	1,406	8	25,783
Management company fees		577,067	209,044	786,111	92,225	-	878,336
Legal services		-	-	-	53,307	-	53,307
Accounting/audit services		-	-	-	26,435	-	26,435
Other purchased/professional/consulting services		176,305	44,009	220,314	650	4	220,968
Building and land rent/lease		827,960	401,679	1,229,639	63,594	239	1,293,472
Repairs and maintenance		58,700	28,478	87,178	4,508	17	91,703
Insurance		32,992	16,006	48,998	2,534	10	51,542
Utilities		6,465	2,353	8,818	599	1	9,418
Supplies/materials		72,444	19,724	92,168	-	-	92,168
Equipment/furnishings		29,486	8,518	38,004	3,041	1	41,046
Staff development		23,062	6,276	29,338	-	-	29,338
Marketing/recruitment		28,487	10,677	39,164	1,203	6	40,373
Technology		91,184	43,753	134,937	7,789	41	142,767
Food services		69,356	18,874	88,230	-	-	88,230
Student services		54,533	14,840	69,373	-	-	69,373
Office expense		18,552	8,902	27,454	21,108	8	48,570
Depreciation and amortization		196,064	67,803	263,867	10,684	26	274,577
Other expenses		6,815	1,585	8,400	1,494	-	9,894
<b>Total Expenses</b>		<b>\$ 5,281,880</b>	<b>\$ 2,347,966</b>	<b>\$ 7,629,846</b>	<b>\$ 546,488</b>	<b>\$ 1,709</b>	<b>\$ 8,178,043</b>

See independent auditors' report

**Capital Prep Charter Schools NY**

Schedule of Functional Expenses - CP Bronx  
Year Ended June 30, 2020

	No. of Positions	Program Services			Supporting Services		
		Regular Education	Special Education	Total	Management and General	Fundraising	Total
Personnel Services Costs							
Administrative staff personnel	1	\$ -	\$ -	\$ -	\$ 6,917	\$ -	\$ 6,917
Instructional personnel	1	126,879	21,171	148,050	16,450	-	164,500
Non-instructional personnel	<u>1</u>	<u>34,909</u>	<u>7,663</u>	<u>42,572</u>	<u>41,721</u>	<u>851</u>	<u>85,144</u>
Total Salaries and Staff	<u>3</u>	<u>161,788</u>	<u>28,834</u>	<u>190,622</u>	<u>65,088</u>	<u>851</u>	<u>256,561</u>
Fringe benefits and payroll taxes		27,558	4,752	32,310	7,246	71	39,627
Retirement		378	63	441	49	-	490
Legal services		-	-	-	62,859	-	62,859
Accounting/audit services		-	-	-	3,763	-	3,763
Other purchased/professional/consulting services		74,795	12,480	87,275	9,697	-	96,972
Insurance		3,059	510	3,569	397	-	3,966
Marketing/recruitment		19,351	3,229	22,580	2,509	-	25,089
Technology		12,755	2,128	14,883	1,654	-	16,537
Office expense		<u>-</u>	<u>-</u>	<u>-</u>	<u>51</u>	<u>-</u>	<u>51</u>
Total Expenses		<u>\$ 299,684</u>	<u>\$ 51,996</u>	<u>\$ 351,680</u>	<u>\$ 153,313</u>	<u>\$ 922</u>	<u>\$ 505,915</u>

**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"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the period from October 4, 2018 (inception) to June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School'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 may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 19, 2020