

# **Democracy Prep New York Charter Schools**

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

June 30, 2021 and 2020

# Democracy Prep New York Charter Schools

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

June 30, 2021 and 2020

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## **Independent Auditors' Report**

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

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Democracy Prep New York Charter Schools (the "School"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of activities and functional expenses by school for the year ended June 30, 2021 on pages 21 through 30 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 pages 31 and 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 November 1, 2021, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

November 1, 2021

## Democracy Prep New York Charter Schools

### Statements of Financial Position

	June 30,	
	2021	2020
<b>ASSETS</b>		
Current Assets		
Cash	\$ 24,182,288	\$ 22,234,065
Investments	15,817,563	810,098
Grants and contracts receivable	4,157,422	4,644,060
Due from related parties	245,154	850,052
Prepaid expenses and other current assets	1,663,892	1,151,432
Total Current Assets	46,066,319	29,689,707
Prepaid expenses and other assets, less current portion	2,100,000	2,400,000
Property and equipment, net	17,054,159	16,862,654
Security deposits	2,081,356	-
Restricted cash	225,209	225,057
	<b>\$ 67,527,043</b>	<b>\$ 49,177,418</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,559,013	\$ 1,146,835
Accrued payroll and payroll taxes	5,714,565	4,387,403
Capital lease obligation	744,157	652,572
Refundable advances	259,948	197,089
Deferred rent	282,694	87,823
Total Current Liabilities	9,560,377	6,471,722
Deferred rent, less current portion	1,644,942	1,530,924
Capital lease obligation, less current portion	1,701,027	2,474,857
Total Liabilities	12,906,346	10,477,503
Net Assets		
Without Donor Restrictions		
Undesignated	43,345,401	26,940,372
Board designated	989,123	987,367
Total Without Donor Restrictions	44,334,524	27,927,739
With donor restrictions	10,286,173	10,772,176
Total Net Assets	54,620,697	38,699,915
	<b>\$ 67,527,043</b>	<b>\$ 49,177,418</b>

See notes to financial statements

## Democracy Prep New York Charter Schools

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

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 70,236,676	\$ -	\$ 70,236,676
Students with disabilities	7,558,603	-	7,558,603
Facilities funding	1,640,760	-	1,640,760
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	5,723,350	-	5,723,350
State	<u>297,988</u>	-	<u>297,988</u>
Total Operating Revenue	<u>85,457,377</u>	<u>-</u>	<u>85,457,377</u>
<b>EXPENSES</b>			
Program Services			
Regular education	48,899,065	-	48,899,065
Special education	<u>11,581,874</u>	-	<u>11,581,874</u>
Total Program Services	60,480,939	-	60,480,939
Supporting Services			
Management and general	9,501,906	-	9,501,906
Fundraising	<u>501,152</u>	-	<u>501,152</u>
Total Expenses	<u>70,483,997</u>	<u>-</u>	<u>70,483,997</u>
Surplus from Operations	<u>14,973,380</u>	<u>-</u>	<u>14,973,380</u>
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	22,535	49,351	71,886
Rental income	423,132	-	423,132
Other income	452,384	-	452,384
Net assets released from restrictions	<u>49,351</u>	<u>(49,351)</u>	<u>-</u>
Total Support and Other Revenue	<u>947,402</u>	<u>-</u>	<u>947,402</u>
Result of Operations	15,920,782	-	15,920,782
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	16,406,785	(486,003)	15,920,782
<b>NET ASSETS</b>			
Beginning of year	<u>27,927,739</u>	<u>10,772,176</u>	<u>38,699,915</u>
End of year	<u>\$ 44,334,524</u>	<u>\$ 10,286,173</u>	<u>\$ 54,620,697</u>

See notes to financial statements

## Democracy Prep New York Charter Schools

### Statement of Activities Year Ended June 30, 2020

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

See notes to financial statements

**Democracy Prep New York Charter Schools**

Statement of Functional Expenses

Year Ended June 30, 2021

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	85	\$ 2,918,293	\$ 833,797	\$ 3,752,090	\$ 4,882,714	\$ -	\$ 8,634,804
Instructional personnel	429	22,509,144	5,259,563	27,768,707	-	-	27,768,707
Non-instructional personnel	26	912,014	191,328	1,103,342	-	-	1,103,342
Total Personnel Services Costs	<u>540</u>	26,339,451	6,284,688	32,624,139	4,882,714	-	37,506,853
Fringe benefits and payroll taxes		4,129,549	984,165	5,113,714	767,257	-	5,880,971
Retirement		932,420	220,977	1,153,397	170,235	-	1,323,632
Management company fees		6,514,983	1,503,456	8,018,439	1,503,456	501,152	10,023,047
Legal services		-	-	-	21,606	-	21,606
Accounting/audit services		15,741	3,212	18,953	189,747	-	208,700
Other purchased/professional/consulting services		204,368	61,776	266,144	259,486	-	525,630
Occupancy		3,324,009	812,200	4,136,209	681,744	-	4,817,953
Repair and maintenance		969,860	219,872	1,189,732	153,774	-	1,343,506
Insurance		299,062	69,936	368,998	55,066	-	424,064
Utilities		505,480	107,693	613,173	82,725	-	695,898
Supplies/materials		1,103,000	254,273	1,357,273	23,507	-	1,380,780
Equipment/furnishings		95,647	21,725	117,372	16,204	-	133,576
Staff development		112,916	25,310	138,226	19,291	-	157,517
Marketing/recruitment		180,584	43,388	223,972	11,486	-	235,458
Technology		1,113,870	271,292	1,385,162	214,332	-	1,599,494
Student services		496,210	115,180	611,390	20,547	-	631,937
Office expense		533,735	125,580	659,315	94,506	-	753,821
Depreciation and amortization		1,312,055	310,843	1,622,898	239,023	-	1,861,921
Travel		5,922	1,455	7,377	1,321	-	8,698
Other		333,589	74,370	407,959	54,974	-	462,933
Total Expenses Before Amortization of Interest in Friends' Building		48,522,450	11,511,391	60,033,841	9,463,001	501,152	69,997,994
Amortization of interest in Friends' building		376,615	70,483	447,098	38,905	-	486,003
Total Expenses		<u>\$ 48,899,065</u>	<u>\$ 11,581,874</u>	<u>\$ 60,480,939</u>	<u>\$ 9,501,906</u>	<u>\$ 501,152</u>	<u>\$ 70,483,997</u>

See notes to financial statements

**Democracy Prep New York Charter Schools**

Statement of Functional Expenses  
Year Ended June 30, 2020

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

See notes to financial statements

**Democracy Prep New York Charter Schools**

Statements of Cash Flows

	Year Ended June 30,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 15,920,782	\$ 12,090,045
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,861,921	1,798,392
Gain on disposal of property and equipment	(33,180)	(48,088)
Amortization of interest in Friends' building	486,003	486,003
Deferred rent	308,889	205,153
Changes in operating assets and liabilities		
Grants and contracts receivable	486,638	(1,820,887)
Due from related parties	604,898	(79,671)
Prepaid expenses and other current assets	(212,460)	(17,995)
Security deposits	(2,081,356)	
Accounts payable and accrued expenses	1,412,178	(174,709)
Accrued payroll and payroll taxes	1,327,162	(636,482)
Refundable advances	62,859	(130,430)
Net Cash from Operating Activities	20,144,334	11,671,331
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(2,559,762)	(492,464)
Purchase of investments	(15,007,384)	-
Proceeds from maturity of investments	-	1,299,391
Dividends reinvested	(81)	-
Cash acquired from merger of DPE	-	1,568,576
Net Cash from Investing Activities	(17,567,227)	2,375,503
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Principal payments on capital lease obligation	(628,732)	(349,629)
Net Change in Cash and Restricted Cash	1,948,375	13,697,205
<b>CASH AND RESTRICTED CASH</b>		
Beginning of year	22,459,122	8,761,917
End of Year	\$ 24,407,497	\$ 22,459,122
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 169,339	\$ 84,346
<b>NON CASH INVESTING AND FINANCING ACTIVITIES</b>		
Computer and equipment acquired under a capital lease	-	3,043,406

During the years ended June 30, 2021 and 2020, property and equipment and the related capital lease obligations of \$53,513 and \$518,989 were removed from the accounts as a result of disposals and other transactions.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

### 1. Organization and Tax Status

Democracy Prep New York Charter Schools (the “School”) is a New York State, not-for-profit educational corporation that was incorporated to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School is dedicated to providing a high quality college preparatory education to primarily disadvantaged students. The School provided education to approximately 4,350 students in grades kindergarten through twelfth during the 2020-2021 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 June 30, 2022.

Effective July 1, 2017, DPCS, DPH and HPCS merged into a single legal entity under BPCS. BPCS was renamed Democracy Prep New York Charter Schools also effective July 1, 2017. DPCS, DPH and HPCS were dissolved and ceased to exist as separate legal entities in conjunction with the merger. The plan of merger was approved by the New York State Board of Regents on April 4, 2017.

Effective July 1, 2019, 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, 2021 and 2020

### 1. Organization and Tax Status (continued)

Friends of Bronx Preparatory Charter School, Inc. (“Friends”) was organized under the laws of the State of New York on June 29, 1999 as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation Law. Friends was established to create a plan for a charter school in New York City, drafting an application for such a charter and making contributions to such a school and other tax-exempt organizations. The by-laws of Friends was amended, restated, and approved by the board of directors. Under the amended by-laws, Friends ceased to be controlled by the School effective July 1, 2014. Upon the School and Friends’ separation, a consolidation is no longer required and Friends’ net assets, except for the School’s interest in Friends’ building (see Note 5), were transferred out from the School’s financial statements. As of July 1, 2014, \$1,792,958 of net assets was transferred to Friends from the separation of Friends from the School.

The New York City Department of Education provides free lunches and transportation directly to some of the School’s students. Such costs are not included in these financial statements. The School covers a portion of the cost of lunches for children not entitled to the free lunches.

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

### 2. Summary of Significant Accounting Policies

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

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

#### ***Net Asset Presentation***

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

*Net assets without donor restrictions* - consist of resources available for the general support of the School’s operations. Net assets without donor restrictions may be used at the discretion of the School’s management and/or the Board of Trustees. Board designated net assets were established to provide a reserve for unforeseen facility, personnel and other issues.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

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

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

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

#### ***Restricted Cash***

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

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

	2021	2020
Cash	\$ 24,182,288	\$ 22,234,065
Restricted cash	225,209	225,057
	<u>\$ 24,407,497</u>	<u>\$ 22,459,122</u>

#### ***Fair Value Measurements***

The School follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

#### ***Investments Valuation and Income Recognition***

Money market funds are stated at fair value. Certificates of deposit are valued at the amounts deposited plus accrued interest, which approximate fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

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

#### ***Property and Equipment***

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$5,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case such assets are expensed as incurred.

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

Computers and equipment	3 and 5 years
Furniture and fixtures	7 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2021 and 2020.

#### ***Refundable Advances***

The School records certain government grants and contracts as refundable advances until the related services are performed, at which time it is recognized as revenue.

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

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

#### ***Revenue and Support***

Revenue from state and local governments resulting from the School's charter status are based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency. Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as net assets with donor restrictions if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

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

#### ***Marketing and Recruiting Costs***

The School uses marketing and recruitment specifically aimed at hiring staff and obtaining new students. Accordingly, all costs in marketing and recruiting were allocated to program and management and general expenditures and expensed as incurred. For the years ended June 30, 2021 and 2020, marketing and recruiting costs totaled \$235,458 and \$217,138.

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

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

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

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

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

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2018.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 1, 2021.

### 3. Investments

The School's investments at June 30, 2021 and 2020 consist of money market funds of \$810,179 and \$810,098, categorized as level 1 in fair value hierarchy and certificates of deposit totaling \$15,007,384 and \$0 held by a bank.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

### 4. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, city entitlements and grants. The School expects to collect these receivables within one year, and has not provided an allowance for doubtful accounts.

### 5. Property and Equipment

Property and equipment consists of the following at June 30:

	2021	2020
Computers and equipment	\$ 18,864,750	\$ 16,733,403
Furniture and fixtures	2,544,725	2,405,028
Leasehold improvements	2,452,844	2,277,922
Interest in Friends' Building (a)	13,608,077	13,608,077
	37,470,396	35,024,430
Accumulated depreciation and amortization	(20,416,237)	(18,161,776)
	\$ 17,054,159	\$ 16,862,654

Assets purchased under a capital lease obligation with a cost basis of \$113,796, accumulated depreciation of \$93,463, and obligation of \$53,513 were disposed of during the year ended June 30, 2021. Assets purchased under a capital lease obligation with a cost basis of \$1,907,788, accumulated depreciation of \$1,436,887, and an obligation of \$518,989 were disposed of during the year ended June 30, 2020. Gain on disposal of property and equipment was \$33,180 and \$48,088 for the years ended June 30, 2021 and 2020.

- (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 to an amount sufficient to pay Friends' reasonable and necessary actual, third party costs of owning the property (including, but not limited to, such costs arising from abatement or remediation of any hazardous or illegal condition not remedied by the School in accordance with and within the cure periods provided by this lease), plus Friends' reasonable and necessary operational and administrative expenses directly associated with the ownership of the property and compliance with this lease for such lease year. The base rent based on Friends' operating cost was \$69,500 for each of the years ended June 30, 2021 and 2020.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

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

Due to the estimated fair value rental over the estimated lease payment amount throughout the lease term being higher than the net book value of the building, the School recognizes its interest in Friends' building and amortizes its interest over the building's remaining useful life, which is approximately 28 years. The amortization expense for each of the years ended June 30, 2021 and 2020 was \$486,003. Interest in the School's building, net of accumulated amortization at June 30, 2021 and 2020 is \$10,233,102 and \$10,719,105 and is included in property and equipment in the accompanying statements of financial position.

### 6. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30:

	2021	2020
Cash	\$ 24,182,288	\$ 22,234,065
Investments	15,817,563	810,098
Grants and contracts receivable	4,157,422	4,644,060
Due from related parties	245,154	850,052
Total Financial Assets	44,402,427	28,538,275
Less amounts unavailable for general expenditure:		
Net assets with donor restrictions (net of \$10,233,102 and \$10,719,105 Interest in Friends' Building - see Note 5)	(53,071)	(53,071)
Board designated net assets	(989,123)	(987,367)
	<u>\$ 43,360,233</u>	<u>\$ 27,497,837</u>

As part of the School's liquidity management plan, the status of grants and contracts receivable is monitored regularly and any excess cash is held in money market accounts and other liquid instruments until it is required for operational use. The Board of Trustees has designated net assets without donor restrictions that could be drawn upon through board resolution and can be made available for current operations, unbudgeted expenses and unanticipated loss in funding. The School will continue to rely on funding received from New York City Department of Education to cover future operating costs. (see note 9)

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

The School is an affiliate of Democracy Prep Public Schools ("DPPS"), a New York State not-for-profit charter management organization, which provides management services to the School. DPPS provides similar management services to Democracy Prep Texas, a Texas not-for-profit organization, Freedom Prep Charter School, a New Jersey not-for-profit organization, Democracy Prep Baton Rouge ("DPBR"), a Louisiana not-for-profit organization, and Democracy Prep Agassi Campus ("DPAC"), a Nevada not-for-profit organization.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

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

The predecessors of the School (BPCS, DPCS, DPH, HPCS, DPE) entered into management agreements with DPPS to assume responsibility for their educational process, management and operations. As compensation to DPPS for these services rendered, the School pays DPPS an annual fee, originally equal to 12% to 15% of each predecessor's non-competitive public revenue, which percentage decreases by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of non-competitive public revenue, which rate will remain in effect for all subsequent renewal terms. Following the initial term, the agreements (now consolidated into a single agreement with the School) automatically extended for successive one-year periods unless terminated by either party. For the year ended June 30, 2021, DPPS charged an annual management fee of 12% and 12.5% to the School. For the year ended June 30, 2020 DPPS charged an annual management fee ranging from 12% to 13%.

For the years ended June 30, 2021 and 2020, the School incurred \$10,023,047 and \$9,480,277 in management fees.

On September 20, 2016, HPCS entered into a non-cancelable operating lease with DPPS for additional office and instructional space expiring on August 30, 2047. During the year ended June 30, 2019, HPCS prepaid \$2,000,000 of base rent. The School will be entitled to a monthly credit of \$16,667 starting July 1, 2019. The prepaid rent is included in the statements of financial position under current and long term prepaid expenses and other assets.

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

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

	2021	2020
DPPS	\$ 216,450	\$ 890,926
DPBR	7,218	(282)
Friends'	7,618	(42,999)
DPAC	13,974	2,407
FPCS	(89)	-
DPSC	(17)	-
	<u>\$ 245,154</u>	<u>\$ 850,052</u>

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 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 including certificates of deposits on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. Investment in money market funds are maintained at a broker, which insures up to \$500,000 with Securities Investor Protection Insurance. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2021 and 2020, approximately \$38,601,759 and \$21,432,000 of cash was maintained with five institutions in excess of FDIC limits.

### 9. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2021 and 2020, the School received approximately 92% and 94% of its total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School’s finances could be materially adversely affected.

### 10. Net Assets With Donor Restrictions

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

	2021	2020
Korean dual language program	\$ 51,866	\$ 51,866
Field trips and classroom incentives	1,205	1,205
Interest in Friends' building (Note 5)	10,233,102	10,719,105
	<u>\$ 10,286,173</u>	<u>\$ 10,772,176</u>

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

	2020	2019
Korean dual language program	\$ 49,351	\$ 23,727
Interest in Friends' building (Note 5)	486,003	486,003
	<u>\$ 535,354</u>	<u>\$ 509,730</u>

### 11. Commitments

On October 1, 2007, as amended in December 2015, DPCS entered into a triple-net sublease agreement with Civic Builders Property Holding Corp. (“Sub-landlord”) for new facilities at St. Philips Church (207 West 133<sup>rd</sup> Street). DPCS also entered into license agreements for the use of the undercroft, the elevator and additional classroom space. On August 25, 2008, DPCS occupied the space. The sublease provides that DPCS pay a monthly base rent plus triple-net charges for DPCS’ share of expenses related to the lease property. The term of the sublease is twenty two years from the commencement date.

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

### 11. Commitments (*continued*)

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 \$423,132 and \$563,543 for the years ended June 30, 2021 and 2020. The School does not disclose the minimum future rent to be received due to the undetermined number of future students served, and merger of the two entities.

On June 4, 2001, HPCS entered into a non-cancelable operating lease for office and instructional space that expired on June 30, 2011, with a renewal option for an additional five years. HPCS exercised its option until June 30, 2016. During fiscal year 2017, the lease was renewed for another five years expiring on June 30, 2021. For the year ending June 30, 2022, the School is on a month-to-month basis.

On June 1, 2005, HPCS entered into a non-cancelable operating lease for additional office and instructional space expiring on June 30, 2021, with a renewal option for an additional 10 years. For the year ending June 30, 2022, the School is on a month-to-month basis.

On September 20, 2016, HPCS entered into a non-cancelable operating lease with DPPS for additional office and instructional space expiring on August 30, 2047 (see note 7).

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

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

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

2022	\$	4,105,432
2023		4,489,514
2024		5,930,337
2025		6,777,088
2026		7,831,775
Thereafter		277,918,059
	\$	<u>307,052,205</u>

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

### 11. Commitments *(continued)*

Occupancy expense was \$4,817,953 and \$5,047,099 for the years ended June 30, 2021 and 2020.

### 12. Capital Lease Obligation

The School leases computers and equipment under capital leases that expire at various dates through in June 2023. The assets and liabilities under the capital leases are recorded at the present value of the minimum lease payments. The assets are being depreciated over their estimated useful life.

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

	2021	2020
Computers and equipment	\$ 3,043,407	\$ 3,157,203
Accumulated depreciation	(887,660)	(361,390)
	\$ 2,155,747	\$ 2,795,813

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

2022	\$ 870,624
2023	870,624
2024	870,624
2025	72,551
Total minimum lease payments	2,684,423
Amounts representing interest	(239,239)
Present value of minimum lease payments	2,445,184
Current portion	(744,157)
Capital lease obligation, less current portion	\$ 1,701,027

For the years ended June 30, 2021 and 2020, interest expense was \$169,339 and \$84,346.

### 13. Employee Benefit Plan

The School maintains a retirement plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 15% of the participant's annual compensation. Employer match for the years ended June 30, 2021 and 2020 amounted to \$1,323,632 and \$1,422,772

## Democracy Prep New York Charter Schools

Notes to Financial Statements  
June 30, 2021 and 2020

### 14. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

### 15. Merger Information

As stated in Note 1, the New York State Board of Regents approved the merger of Democracy Preparatory Endurance Charter School (“DPE”) effective July 1, 2019. DPE ceased to exist as a separate legal entity in conjunction with the merger. The plan of merger was approved by the New York State Board of Regents.

### 16. Risks and Uncertainties

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

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# **Democracy Prep New York Charter Schools**

Supplementary Information

June 30, 2021

## Democracy Prep New York Charter Schools

### Schedule of Activities by School Bronx Preparatory Charter School Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 13,097,887	\$ -	\$ 13,097,887
Students with disabilities	1,127,236	-	1,127,236
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	1,103,306	-	1,103,306
State	<u>56,115</u>	-	<u>56,115</u>
Total Operating Revenue	<u>15,384,544</u>	<u>-</u>	<u>15,384,544</u>
<b>EXPENSES</b>			
Program Services			
Regular education	10,706,567	-	10,706,567
Special education	<u>2,072,724</u>	-	<u>2,072,724</u>
Total Program Services	12,779,291	-	12,779,291
Supporting Services			
Management and general	1,423,355	-	1,423,355
Fundraising	<u>96,763</u>	-	<u>96,763</u>
Total Expenses	<u>14,299,409</u>	<u>-</u>	<u>14,299,409</u>
Surplus from Operations	<u>1,085,135</u>	<u>-</u>	<u>1,085,135</u>
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	1,250	9,928	11,178
Other income	19,729	-	19,729
Net assets released from restrictions	<u>9,928</u>	<u>(9,928)</u>	<u>-</u>
Total Support and Other Revenue	<u>30,907</u>	<u>-</u>	<u>30,907</u>
Result of Operations	1,116,042	-	1,116,042
Net assets released from restriction - amortization of interest in Friends' Building	<u>486,003</u>	<u>(486,003)</u>	<u>-</u>
Change in Net Assets	1,602,045	(486,003)	1,116,042
<b>NET ASSETS</b>			
Beginning of year	<u>1,444,927</u>	<u>10,716,563</u>	<u>12,161,490</u>
End of year	<u>\$ 3,046,972</u>	<u>\$ 10,230,560</u>	<u>\$ 13,277,532</u>

## Democracy Prep New York Charter Schools

### Schedule of Activities by School Democracy Preparatory Charter School Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 11,286,947	\$ -	\$ 11,286,947
Students with disabilities	1,038,122	-	1,038,122
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	940,461	-	940,461
State	<u>56,115</u>	-	<u>56,115</u>
Total Operating Revenue	<u>13,321,645</u>	<u>-</u>	<u>13,321,645</u>
<b>EXPENSES</b>			
Program Services			
Regular education	7,499,034	-	7,499,034
Special education	<u>1,557,511</u>	<u>-</u>	<u>1,557,511</u>
Total Program Services	9,056,545	-	9,056,545
Supporting Services			
Management and general	1,521,359	-	1,521,359
Fundraising	<u>78,814</u>	<u>-</u>	<u>78,814</u>
Total Expenses	<u>10,656,718</u>	<u>-</u>	<u>10,656,718</u>
Surplus from Operations	<u>2,664,927</u>	<u>-</u>	<u>2,664,927</u>
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	19,576	9,951	29,527
Rental income	423,132	-	423,132
Other income	13	-	13
Net assets released from restrictions	<u>9,951</u>	<u>(9,951)</u>	<u>-</u>
Total Support and Other Revenue	<u>452,672</u>	<u>-</u>	<u>452,672</u>
Change in Net Assets	3,117,599	-	3,117,599
<b>NET ASSETS</b>			
Beginning of year	<u>4,618,809</u>	<u>21,857</u>	<u>4,640,666</u>
End of year	<u>\$ 7,736,408</u>	<u>\$ 21,857</u>	<u>\$ 7,758,265</u>

**Democracy Prep New York Charter Schools**

Schedule of Activities by School  
Democracy Preparatory Harlem Charter School  
Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 18,201,299	\$ -	\$ 18,201,299
Students with disabilities	2,709,319	-	2,709,319
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	1,481,416	-	1,481,416
State	<u>56,115</u>	<u>-</u>	<u>56,115</u>
Total Operating Revenue	<u>22,448,149</u>	<u>-</u>	<u>22,448,149</u>
<b>EXPENSES</b>			
Program Services			
Regular education	11,122,958	-	11,122,958
Special education	<u>3,015,194</u>	<u>-</u>	<u>3,015,194</u>
Total Program Services	14,138,152	-	14,138,152
Supporting Services			
Management and general	2,240,543	-	2,240,543
Fundraising	<u>133,160</u>	<u>-</u>	<u>133,160</u>
Total Expenses	<u>16,511,855</u>	<u>-</u>	<u>16,511,855</u>
Surplus from Operations	<u>5,936,294</u>	<u>-</u>	<u>5,936,294</u>
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	709	7,034	7,743
Other income	5,409	-	5,409
Net assets released from restrictions	<u>7,034</u>	<u>(7,034)</u>	<u>-</u>
Total Support and Other Revenue	<u>13,152</u>	<u>-</u>	<u>13,152</u>
Change in Net Assets	5,949,446	-	5,949,446
<b>NET ASSETS</b>			
Beginning of year	<u>7,994,041</u>	<u>15,190</u>	<u>8,009,231</u>
End of year	<u>\$ 13,943,487</u>	<u>\$ 15,190</u>	<u>\$ 13,958,677</u>

**Democracy Prep New York Charter Schools**

Schedule of Activities by School  
Harlem Preparatory Charter School  
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 16,616,122	\$ -	\$ 16,616,122
Students with disabilities	1,485,564	-	1,485,564
Facilities funding	818,160	-	818,160
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	1,283,651	-	1,283,651
State	73,528	-	73,528
Total Operating Revenue	<u>20,277,025</u>	<u>-</u>	<u>20,277,025</u>
<b>EXPENSES</b>			
Program Services			
Regular education	11,830,281	-	11,830,281
Special education	2,979,776	-	2,979,776
Total Program Services	14,810,057	-	14,810,057
Supporting Services			
Management and general	2,542,066	-	2,542,066
Fundraising	114,770	-	114,770
Total Expenses	<u>17,466,893</u>	<u>-</u>	<u>17,466,893</u>
Surplus from Operations	<u>2,810,132</u>	<u>-</u>	<u>2,810,132</u>
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	-	10,709	10,709
Other income	188,644	-	188,644
Net assets released from restrictions	10,709	(10,709)	-
Total Support and Other Revenue	<u>199,353</u>	<u>-</u>	<u>199,353</u>
Change in Net Assets	3,009,485	-	3,009,485
<b>NET ASSETS</b>			
Beginning of year	<u>9,200,042</u>	<u>7,500</u>	<u>9,207,542</u>
End of year	<u>\$ 12,209,527</u>	<u>\$ 7,500</u>	<u>\$ 12,217,027</u>

## Democracy Prep New York Charter Schools

### Schedule of Activities by School Democracy Preparatory Endurance Charter School Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING REVENUE</b>			
State and Local Per Pupil Operating Revenue			
Regular student enrollment	\$ 11,034,421	\$ -	\$ 11,034,421
Students with disabilities	1,198,362	-	1,198,362
Facilities funding	822,600	-	822,600
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	914,516	-	914,516
State	56,115	-	56,115
Total Operating Revenue	14,026,014	-	14,026,014
<b>EXPENSES</b>			
Program Services			
Regular education	7,740,225	-	7,740,225
Special education	1,956,669	-	1,956,669
Total Program Services	9,696,894	-	9,696,894
Supporting Services			
Management and general	1,774,583	-	1,774,583
Fundraising	77,645	-	77,645
Total Expenses	11,549,122	-	11,549,122
Surplus from Operations	2,476,892	-	2,476,892
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	1,000	11,729	12,729
Other income	238,589	-	238,589
Net assets released from restrictions	11,729	(11,729)	-
Total Support and Other Revenue	251,318	-	251,318
Change in Net Assets	2,728,210	-	2,728,210
<b>NET ASSETS</b>			
Beginning of year	4,680,986	-	4,680,986
End of year	\$ 7,409,196	\$ -	\$ 7,409,196

**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses by School  
Bronx Preparatory Charter School  
Year Ended June 30, 2021

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	13	\$ 529,197	\$ 151,199	\$ 680,396	\$ 576,100	\$ -	\$ 1,256,496
Instructional personnel	75	4,600,135	813,362	5,413,497	-	-	5,413,497
Non-instructional personnel	6	447,525	79,128	526,653	-	-	526,653
Total Personnel Services Costs	<u>94</u>	5,576,857	1,043,689	6,620,546	576,100	-	7,196,646
Fringe benefits and payroll taxes		882,954	165,242	1,048,196	91,211	-	1,139,407
Retirement		217,285	40,664	257,949	22,446	-	280,395
Management company fees		1,257,916	290,288	1,548,204	290,288	96,763	1,935,255
Legal services		-	-	-	10,803	-	10,803
Accounting/audit services		-	-	-	120,274	-	120,274
Other purchased/professional/consulting services		131,455	43,251	174,706	84,441	-	259,147
Occupancy		279,279	52,266	331,545	28,850	-	360,395
Repair and maintenance		437,929	81,957	519,886	45,239	-	565,125
Insurance		68,095	12,744	80,839	7,034	-	87,873
Utilities		194,577	36,414	230,991	20,100	-	251,091
Supplies/materials		315,350	55,758	371,108	-	-	371,108
Equipment/furnishings		33,695	6,306	40,001	3,481	-	43,482
Staff development		38,364	7,180	45,544	3,963	-	49,507
Marketing/recruitment		21,680	3,833	25,513	-	-	25,513
Technology		160,558	30,048	190,606	16,586	-	207,192
Student services		97,976	17,323	115,299	-	-	115,299
Office expense		173,656	32,499	206,155	17,939	-	224,094
Depreciation and amortization		311,702	58,333	370,035	32,199	-	402,234
Travel		222	42	264	23	-	287
Other		130,402	24,404	154,806	13,473	-	168,279
Total Expenses Before Amortization of Interest in Friends' Building		10,329,952	2,002,241	12,332,193	1,384,450	96,763	13,813,406
Amortization of interest in Friends' building		376,615	70,483	447,098	38,905	-	486,003
Total Expenses		<u>\$ 10,706,567</u>	<u>\$ 2,072,724</u>	<u>\$ 12,779,291</u>	<u>\$ 1,423,355</u>	<u>\$ 96,763</u>	<u>\$ 14,299,409</u>

See independent auditors' report

**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses by School  
Democracy Preparatory Charter School  
Year Ended June 30, 2021

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	13	\$ 410,097	\$ 117,170	\$ 527,267	\$ 792,011	\$ -	\$ 1,319,278
Instructional personnel	69	3,536,005	689,341	4,225,346	-	-	4,225,346
Non-instructional personnel	6	138,322	26,966	165,288	-	-	165,288
Total Personnel Services Costs	<u>88</u>	<u>4,084,424</u>	<u>833,477</u>	<u>4,917,901</u>	792,011	-	5,709,912
Fringe benefits and payroll taxes		634,096	129,395	763,491	122,958	-	886,449
Retirement		150,193	30,649	180,842	29,124	-	209,966
Management company fees		1,024,588	236,443	1,261,031	236,443	78,814	1,576,288
Accounting/audit services		15,741	3,212	18,953	3,052	-	22,005
Other purchased/professional/consulting services		104	20	124	32,035	-	32,159
Occupancy		482,933	98,548	581,481	93,646	-	675,127
Repair and maintenance		72,819	14,860	87,679	14,120	-	101,799
Insurance		62,165	12,685	74,850	12,054	-	86,904
Utilities		178,926	36,512	215,438	34,696	-	250,134
Supplies/materials		121,225	24,737	145,962	23,507	-	169,469
Equipment/furnishings		17,445	3,560	21,005	3,383	-	24,388
Staff development		26,530	5,414	31,944	5,144	-	37,088
Marketing/recruitment		32,913	6,596	39,509	3,828	-	43,337
Technology		183,237	37,392	220,629	35,531	-	256,160
Student services		105,959	21,622	127,581	20,547	-	148,128
Office expense		33,209	6,777	39,986	6,440	-	46,426
Depreciation and amortization		207,364	42,315	249,679	40,210	-	289,889
Travel		921	188	1,109	179	-	1,288
Other		64,242	13,109	77,351	12,451	-	89,802
Total Expenses		<u>\$ 7,499,034</u>	<u>\$ 1,557,511</u>	<u>\$ 9,056,545</u>	<u>\$ 1,521,359</u>	<u>\$ 78,814</u>	<u>\$ 10,656,718</u>

**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses by School  
Democracy Preparatory Harlem Charter School  
Year Ended June 30, 2021

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
<b>Personnel Services Costs</b>							
Administrative staff personnel	22	\$ 767,296	\$ 219,227	\$ 986,523	\$ 1,240,082	\$ -	\$ 2,226,605
Instructional personnel	106	5,441,846	1,510,437	6,952,283	-	-	6,952,283
Non-instructional personnel	6	123,567	34,297	157,864	-	-	157,864
<b>Total Personnel Services Costs</b>	<b>134</b>	<b>6,332,709</b>	<b>1,763,961</b>	<b>8,096,670</b>	<b>1,240,082</b>	<b>-</b>	<b>9,336,752</b>
Fringe benefits and payroll taxes		950,115	264,652	1,214,767	186,052	-	1,400,819
Retirement		230,497	64,204	294,701	45,136	-	339,837
Management company fees		1,731,084	399,481	2,130,565	399,481	133,160	2,663,206
Accounting/audit services		-	-	-	29,259	-	29,259
Other purchased/professional/consulting services		2,856	793	3,649	46,147	-	49,796
Occupancy		286,992	79,941	366,933	56,199	-	423,132
Repair and maintenance		250,573	69,796	320,369	49,068	-	369,437
Insurance		58,943	16,419	75,362	11,542	-	86,904
Utilities		45,310	12,621	57,931	8,873	-	66,804
Supplies/materials		234,673	65,136	299,809	-	-	299,809
Equipment/furnishings		20,981	5,844	26,825	4,108	-	30,933
Staff development		19,114	5,324	24,438	3,743	-	28,181
Marketing/recruitment		43,313	12,031	55,344	1,867	-	57,211
Technology		306,690	85,428	392,118	60,057	-	452,175
Student services		103,891	28,836	132,727	-	-	132,727
Office expense		118,000	32,869	150,869	23,107	-	173,976
Depreciation and amortization		328,222	91,425	419,647	64,273	-	483,920
Other		58,995	16,433	75,428	11,549	-	86,977
<b>Total Expenses</b>		<b>\$ 11,122,958</b>	<b>\$ 3,015,194</b>	<b>\$ 14,138,152</b>	<b>\$ 2,240,543</b>	<b>\$ 133,160</b>	<b>\$ 16,511,855</b>

**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses by School  
Harlem Preparatory Charter School  
Year Ended June 30, 2021

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
<b>Personnel Services Costs</b>							
Administrative staff personnel	22	\$ 708,570	\$ 202,449	\$ 911,019	\$ 1,371,710	\$ -	\$ 2,282,729
Instructional personnel	108	5,620,194	1,412,255	7,032,449	-	-	7,032,449
Non-instructional personnel	7	161,372	40,550	201,922	-	-	201,922
<b>Total Personnel Services Costs</b>	<b>137</b>	<b>6,490,136</b>	<b>1,655,254</b>	<b>8,145,390</b>	<b>1,371,710</b>	<b>-</b>	<b>9,517,100</b>
Fringe benefits and payroll taxes		974,986	248,662	1,223,648	206,066	-	1,429,714
Retirement		209,859	53,523	263,382	44,354	-	307,736
Management company fees		1,492,012	344,310	1,836,322	344,310	114,770	2,295,402
Accounting/audit services		-	-	-	29,312	-	29,312
Other purchased/professional/consulting services		28,462	7,259	35,721	59,354	-	95,075
Occupancy		1,299,239	331,359	1,630,598	274,598	-	1,905,196
Repair and maintenance		152,832	38,979	191,811	32,302	-	224,113
Insurance		56,544	14,421	70,965	11,951	-	82,916
Utilities		54,279	13,843	68,122	11,472	-	79,594
Supplies/materials		203,020	51,015	254,035	-	-	254,035
Equipment/furnishings		12,143	3,097	15,240	2,567	-	17,807
Staff development		14,394	3,671	18,065	3,042	-	21,107
Marketing/recruitment		48,110	12,170	60,280	3,200	-	63,480
Technology		278,434	71,012	349,446	58,848	-	408,294
Student services		94,822	23,827	118,649	-	-	118,649
Office expense		82,872	21,136	104,008	17,515	-	121,523
Depreciation and amortization		284,586	72,581	357,167	60,148	-	417,315
Other		53,551	13,657	67,208	11,317	-	78,525
<b>Total Expenses</b>		<b>\$ 11,830,281</b>	<b>\$ 2,979,776</b>	<b>\$ 14,810,057</b>	<b>\$ 2,542,066</b>	<b>\$ 114,770</b>	<b>\$ 17,466,893</b>

**Democracy Prep New York Charter Schools**

Schedule of Functional Expenses by School  
Democracy Preparatory Endurance Charter School  
Year Ended June 30, 2021

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
<b>Personnel Services Costs</b>							
Administrative staff personnel	15	\$ 503,133	\$ 143,752	\$ 646,885	\$ 902,811	\$ -	\$ 1,549,696
Instructional personnel	71	3,310,964	834,168	4,145,132	-	-	4,145,132
Non-instructional personnel	1	41,228	10,387	51,615	-	-	51,615
<b>Total Personnel Services Costs</b>	<b>87</b>	<b>3,855,325</b>	<b>988,307</b>	<b>4,843,632</b>	<b>902,811</b>	<b>-</b>	<b>5,746,443</b>
Fringe benefits and payroll taxes		687,398	176,214	863,612	160,970	-	1,024,582
Retirement		124,586	31,937	156,523	29,175	-	185,698
Management company fees		1,009,383	232,934	1,242,317	232,934	77,645	1,552,896
Legal services		-	-	-	10,803	-	10,803
Accounting/audit services		-	-	-	7,850	-	7,850
Other purchased/professional/consulting services		41,491	10,453	51,944	37,509	-	89,453
Occupancy		975,566	250,086	1,225,652	228,451	-	1,454,103
Repair and maintenance		55,707	14,280	69,987	13,045	-	83,032
Insurance		53,315	13,667	66,982	12,485	-	79,467
Utilities		32,388	8,303	40,691	7,584	-	48,275
Supplies/materials		228,732	57,627	286,359	-	-	286,359
Equipment/furnishings		11,383	2,918	14,301	2,665	-	16,966
Staff development		14,514	3,721	18,235	3,399	-	21,634
Marketing/recruitment		34,568	8,758	43,326	2,591	-	45,917
Technology		184,951	47,412	232,363	43,310	-	275,673
Student services		93,562	23,572	117,134	-	-	117,134
Office expense		125,998	32,299	158,297	29,505	-	187,802
Depreciation and amortization		180,181	46,189	226,370	42,193	-	268,563
Travel		4,779	1,225	6,004	1,119	-	7,123
Other		26,398	6,767	33,165	6,184	-	39,349
<b>Total Expenses</b>		<b>\$ 7,740,225</b>	<b>\$ 1,956,669</b>	<b>\$ 9,696,894</b>	<b>\$ 1,774,583</b>	<b>\$ 77,645</b>	<b>\$ 11,549,122</b>

See independent auditors' report

# **Democracy Prep New York Charter Schools**

Uniform Guidance  
Schedules and Reports

June 30, 2021

## Democracy Prep New York Charter Schools

### Schedule of Expenditures of Federal Awards Year Ended June 30, 2021

#### Democracy Prep New York Charter Schools

#### Schedule of Expenditures of Federal Awards Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Education</u>				
Passed Through the New York State				
Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021-20-4002	\$ -	\$ 26,996
Title I Grants to Local Educational Agencies	84.010	0021-20-4125	-	33,529
Title I Grants to Local Educational Agencies	84.010	0021-20-4349	-	24,743
Title I Grants to Local Educational Agencies	84.010	0021-20-4685	-	46,087
Title I Grants to Local Educational Agencies	84.010	0021-20-4220	-	42,794
			<u>-</u>	<u>174,149</u>
Title I Grants to Local Educational Agencies	84.010	0021-21-4002	-	320,056
Title I Grants to Local Educational Agencies	84.010	0021-21-4125	-	469,916
Title I Grants to Local Educational Agencies	84.010	0021-21-4349	-	307,501
Title I Grants to Local Educational Agencies	84.010	0021-21-4685	-	481,331
Title I Grants to Local Educational Agencies	84.010	0021-21-4220	-	408,070
			<u>-</u>	<u>1,986,874</u>
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-20-4685	-	3,503
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-20-4125	-	6,591
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-20-4349	-	3,503
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-20-4002	-	3,503
			<u>-</u>	<u>17,100</u>
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4685	-	8,457
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4220	-	9,330
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4349	-	5,780
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4125	-	9,403
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-21-4002	-	7,634
			<u>-</u>	<u>40,604</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, 2021

English Language Acquisition State Grants	84.365	0293-20-4349	\$ -	\$ 15,319
English Language Acquisition State Grants	84.365	0293-21-4685	-	5,533
English Language Acquisition State Grants	84.365	0293-21-4220	-	5,508
English Language Acquisition State Grants	84.365	0293-21-4349	-	5,633
English Language Acquisition State Grants	84.365	0293-21-4125	-	8,862
English Language Acquisition State Grants	84.365	0293-21-4002	-	9,353
			<u>-</u>	<u>34,889</u>
Student Support and Academic Enrichment Program	84.424	0204-20-4685	-	1,915
Student Support and Academic Enrichment Program	84.424	0204-20-4220	-	2,722
Student Support and Academic Enrichment Program	84.424	0204-20-4125	-	3,364
Student Support and Academic Enrichment Program	84.424	0204-20-4002	-	3,050
			<u>-</u>	<u>11,051</u>
Student Support and Academic Enrichment Program	84.424	0204-21-4685	-	20,084
Student Support and Academic Enrichment Program	84.424	0204-21-4220	-	27,290
Student Support and Academic Enrichment Program	84.424	0204-21-4349	-	44,089
Student Support and Academic Enrichment Program	84.424	0204-21-4125	-	35,418
Student Support and Academic Enrichment Program	84.424	0204-21-4002	-	30,315
			<u>-</u>	<u>157,196</u>
Charter Schools/Covid-19 Relief	84.282	Not available	-	7,602
Charter Schools/Covid-19 Relief	84.282	Not available	-	9,645
Charter Schools/Covid-19 Relief	84.282	Not available	-	7,992
Charter Schools/Covid-19 Relief	84.282	Not available	-	12,852
Charter Schools/Covid-19 Relief	84.282	Not available	-	11,859
			<u>-</u>	<u>49,950</u>
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund	84.425D	5890-21-4685	-	273,407
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund	84.425D	5890-21-4220	-	409,606
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund	84.425D	5890-21-4349	-	315,898
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund	84.425D	5890-21-4125	-	477,671
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund	84.425D	5890-21-4002	-	432,633
			<u>-</u>	<u>1,909,215</u>
Total U.S. Department of Education			<u>-</u>	<u>4,396,347</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 4,396,347</u>

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

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

Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

### **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, 2021. 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. Pass through entity identifying numbers are presented when available.

### **3. Indirect Cost Rate**

The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

**Independent Auditors' Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Democracy Prep New York Charter Schools (the "School"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2021.

***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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

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

*PKF O'Connor Davies, LLP*

November 1, 2021

**Report on Compliance for Each Major Federal Program and Report on Internal Control  
Over Compliance Required by the Uniform Guidance**

**Independent Auditors' Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited Democracy Prep New York Charter Schools' (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2021. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

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

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

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

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

November 1, 2021

**Democracy Prep New York Charter Schools**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2021

**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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.425D	Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000  
Auditee qualified as low-risk auditee? \_\_\_\_\_ yes X no

**Section II – Financial Statement Findings**

During our audit, we noted no material findings.

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

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

**Democracy Prep New York Charter Schools**

Schedule of Findings and Questioned Costs *(continued)*  
Year Ended June 30, 2021

**Section IV - Prior Period Findings**

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

***Criteria***

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

***Condition***

Schedules and reconciliations were not prepared and updated throughout the fiscal year. This delayed management's preparation of the year-end financial statements and the completion of the audit. We noted that improvements are needed in the financial statement closing process to address the timeliness of the School's year-end financial reporting.

***Status***

The condition was corrected in fiscal 2021.

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

***Criteria***

The School's Financial Policies and Procedures Manual ("FPP"), requires three price quotes for purchases and/or contracts greater than \$5,000.

***Condition***

During our test of three procurement transactions over \$5,000, we noted that the School did not perform sufficient competitive bidding procedures on the selections.

***Status***

This condition was corrected in fiscal 2021.

\* \* \* \* \*

# **Democracy Prep New York Charter Schools**

Independent Auditors' Report on Communication of  
Internal Control Matters

June 30, 2021

**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, 2021, 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.

We have an observation and recommendation for strengthening internal control and/or operating efficiency, presented in Addendum A to this letter.

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*

November 1, 2021

**Democracy Prep New York Charter Schools**

**Addendum A**

**Other Observation and Recommendation for Strengthening  
Internal Control and/or Operating Efficiency**

**1. General Ledger Maintenance and Account Analysis (Prior Year Comment)**

During our audit, we noted that account analysis schedules and reconciliations were not prepared and updated throughout the fiscal year. This delayed management's preparation of the year-end financial statements and the completion of the audit. We noted that improvements are needed in the financial statement closing processes to address the timeliness of the School's year-end financial reporting.

We recommend that the School should assess the adequacy of resources in the finance department in relation to its periodic reporting responsibility. The School may consider an increased level of financial analysis of significant accounts on a regular basis, as well as providing additional support to the finance department in the area of financial reporting.

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