

Democracy Prep New York Charter Schools

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

June 30, 2018

Democracy Prep New York Charter Schools

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

June 30, 2018

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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") (formerly known as Bronx Preparatory Charter School), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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.

PKF O'CONNOR DAVIES, LLP

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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, 2018, and the changes in its net assets and its cash flows for the year then ended 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 for the year ended June 30, 2018 on pages 18 through 25 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 26 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 9, 2018, 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
November 9, 2018

Democracy Prep New York Charter Schools

Statement of Financial Position June 30, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,713,448
Investments	2,071,438
Grants and contracts receivable	3,993,191
Due from related parties	1,448,403
Prepaid expenses and other current assets	<u>1,750,260</u>
Total Current Assets	11,976,740

Property and equipment, net 17,111,230

Restricted cash 217,700

\$ 29,305,670

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 1,149,325
Accrued payroll and payroll taxes	3,706,139
Capital lease obligation	338,025
Refundable advances	<u>43,316</u>
Total Current Liabilities	5,236,805

Deferred rent 887,151

Capital lease obligation, less current portion 779,380

Total Liabilities 6,903,336

Net Assets

Unrestricted

Undesignated 9,641,429

Board designated 1,012,812

Total Unrestricted 10,654,241

Temporarily restricted 11,748,093

Total Net Assets 22,402,334

\$ 29,305,670

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Activities Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE			
State and local per pupil operating revenue			
Regular student enrollment	\$ 47,338,436	\$ -	\$ 47,338,436
Students with disabilities	4,528,212	-	4,528,212
Facilities funding	849,712		849,712
Grants and contracts			
Federal E-Rate, IDEA, and Titles	2,345,380	-	2,345,380
Total Operating Revenue	<u>55,061,740</u>	<u>-</u>	<u>55,061,740</u>
EXPENSES			
Program Services			
Regular education	40,638,731	-	40,638,731
Special education	7,852,999	-	7,852,999
Total Program Services	48,491,730	-	48,491,730
Supporting Services			
Management and general	9,767,169	-	9,767,169
Total Expenses	<u>58,258,899</u>	<u>-</u>	<u>58,258,899</u>
Deficit from Operations	<u>(3,197,159)</u>	<u>-</u>	<u>(3,197,159)</u>
SUPPORT AND OTHER REVENUE			
Contributions	2,142	37,500	39,642
Rental income	598,007	-	598,007
Other income	86,860	-	86,860
Net assets released from restriction	30,847	(30,847)	-
Total Support and Other Revenue	<u>717,856</u>	<u>6,653</u>	<u>724,509</u>
Result of Operations	<u>(2,479,303)</u>	<u>6,653</u>	<u>(2,472,650)</u>
Net assets released from restriction - amortization of interest in Friends' Building	<u>486,003</u>	<u>(486,003)</u>	<u>-</u>
Change in Net Assets	(1,993,300)	(479,350)	(2,472,650)
NET ASSETS			
Beginning of year	1,943,321	12,186,226	14,129,547
Transfer of net assets pursuant to merger of related charter schools	<u>10,704,220</u>	<u>41,217</u>	<u>10,745,437</u>
End of year	<u>\$ 10,654,241</u>	<u>\$ 11,748,093</u>	<u>\$ 22,402,334</u>

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Functional Expenses

Year Ended June 30, 2018

	No. of Positions	Program Services			Management and	Total
		Regular Education	Special Education	Total	General	
Personnel services costs						
Administrative staff personnel	86	\$ 993,882	\$ 194,824	\$ 1,188,706	\$ 5,106,490	\$ 6,295,196
Instructional personnel	356	18,571,881	3,595,904	22,167,785	-	22,167,785
Non-instructional personnel	9	380,674	65,807	446,481	-	446,481
Total salaries and staff	451	19,946,437	3,856,535	23,802,972	5,106,490	28,909,462
Fringe benefits and payroll taxes		4,239,221	796,003	5,035,224	1,113,472	6,148,696
Retirement		676,177	130,093	806,270	173,597	979,867
Management company fees		5,063,871	977,065	6,040,936	1,299,663	7,340,599
Accounting/audit services		-	-	-	45,950	45,950
Other purchased/professional/consulting services		684,649	137,459	822,108	169,538	991,646
Occupancy		2,152,687	454,331	2,607,018	519,912	3,126,930
Repair and maintenance		1,490,768	292,758	1,783,526	376,978	2,160,504
Insurance		227,552	44,147	271,699	58,581	330,280
Utilities		505,978	93,127	599,105	129,806	728,911
Supplies/materials		940,525	181,507	1,122,032	-	1,122,032
Equipment/furnishings		12,888	2,073	14,961	3,615	18,576
Staff development		401,297	78,390	479,687	102,053	581,740
Marketing/recruitment		116,182	23,070	139,252	29,176	168,428
Technology		426,841	84,253	511,094	108,858	619,952
Student services		1,750,121	332,618	2,082,739	-	2,082,739
Office expense		191,099	36,920	228,019	48,980	276,999
Depreciation and amortization		1,133,556	220,540	1,354,095	290,414	1,644,509
Travel		20,202	4,053	24,255	4,989	29,244
Other		320,082	61,547	381,629	84,203	465,832
Total expenses before amortization of interest in Friends' building		40,300,133	7,806,489	48,106,621	9,666,275	57,772,896
Amortization of interest in Friends' building		338,598	46,510	385,109	100,894	486,003
Total Expenses		<u>\$ 40,638,731</u>	<u>\$ 7,852,999</u>	<u>\$ 48,491,730</u>	<u>\$ 9,767,169</u>	<u>\$ 58,258,899</u>

See notes to financial statements

Democracy Prep New York Charter Schools

Statement of Cash Flows Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (2,472,650)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	1,644,509
Retirement of property and equipment	275,700
Amortization of interest in Friends' building	486,003
Deferred rent	120,409
Changes in operating assets and liabilities	
Grants and contracts receivable	(837,783)
Due from related parties	10,554
Prepaid expenses and other current assets	(1,167,505)
Accounts payable and accrued expenses	(1,159,135)
Accrued payroll and payroll taxes	1,217,924
Refundable advances	<u>(9,327)</u>
Net Cash from Operating Activities	<u>(1,891,301)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(92,305)
Purchase of investments	<u>(1,292,268)</u>
Net Cash from Investing Activities	<u>(1,384,573)</u>

CASH FLOWS FROM FINANCING ACTIVITY

Payments made on capital lease obligation	<u>(254,928)</u>
Net Change in Cash and Cash Equivalents	(3,530,802)

CASH AND CASH EQUIVALENTS

Beginning of year	<u>6,244,250</u>
End of Year	<u><u>\$ 2,713,448</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$ 98,684
Computer and equipment acquired under a capital lease	76,709

See notes to financial statements

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2018

1. Organization and Tax Status

Democracy Prep New York Charter Schools (the "School") (formerly known as Bronx Preparatory Charter School) is a New York State, not-for-profit educational corporation that was incorporated to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School is dedicated to providing a high quality college preparatory education to primarily disadvantaged students. The School provided education to approximately 3,179 students in grades kindergarten through twelfth during the 2017-2018 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. During 2015, the Board of Regents extended the School's charter for an additional five year term expiring on June 30, 2020.

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 of the University of the State of New York. During 2015, the Board of Regents extended the School's charter for an additional five year term expiring on June 30, 2020.

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 of the University of the State of New York. During 2015, the Board of Regents extended the School's charter for an additional four term expiring on June 30, 2019.

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 of the University of the State of New York. The Board of Regents approved and issued several renewals to the School's charter expiring on July 31, 2021.

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 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.

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2018

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 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:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Democracy Prep New York Charter Schools

Notes to Financial Statements

June 30, 2018

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

Net Assets Presentation (continued)

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no permanently restricted net assets at June 30, 2018.

Cash and Cash Equivalents

The School considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

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.

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

Investments are carried at 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, 2018

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 \$1,000 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
Software	3 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 year ended June 30, 2018.

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 statement of financial position.

Revenue and Support

Revenue from 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.

Democracy Prep New York Charter Schools

Notes to Financial Statements

June 30, 2018

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

Revenue and Support (continued)

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 year 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 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 year ended June 30, 2018, marketing and recruiting costs totaled \$168,428.

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, 2015.

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 9, 2018.

3. Investments

The School's investments at June 30, 2018 consist of money market funds held by two financial institutions totaling \$2,071,438. The investments are classified as level 1 in the fair value hierarchy.

Democracy Prep New York Charter Schools

Notes to Financial Statements

June 30, 2018

4. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state and city entitlements and grants. The School expects to collect these receivables within one year.

5. Property and Equipment

Property and equipment consists of the following at June 30, 2018:

Computers and equipment	\$ 14,082,487
Furniture and fixtures	1,720,746
Leasehold improvements	2,169,384
Interest in Friends' Building (a)	<u>13,608,077</u>
	31,580,694
Accumulated depreciation and amortization	<u>(14,469,464)</u>
	<u>\$ 17,111,230</u>

(a) On July 1, 2014, the lease agreement originally commenced in fiscal year 2007, with Friends, was amended and restated. The amended and restated lease agreement shall expire 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 the management agreement between the School and Democracy Prep Public Schools ("DPPS", a related party) (see Note 4); or 3) revocation or nonrenewal of the School's 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 \$48,000 for the year ended June 30, 2018.

Due to the estimated fair value rental over the estimated lease payment amount throughout the lease term is 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 the years ended June 30, 2018 was \$486,003. Interest in the School's building, net of accumulated amortization is \$11,691,111 at June 30, 2018, and is included in property and equipment in the accompanying statement of financial position.

Democracy Prep New York Charter Schools

Notes to Financial Statements
June 30, 2018

6. Related Party Transactions (not disclosed elsewhere)

DPNY is affiliated with Democracy Prep Endurance Charter School ("DPE"), a New York State not-for-profit organization, Democracy Prep Congress Heights ("DPCH"), a Washington, DC 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. All are managed by Democracy Prep Public Schools ("DPPS").

The School is an affiliate of DPPS, a New York State not-for-profit charter management organization. The School entered into a management agreement with DPPS to assume responsibility for the School's educational process, management and operations. As compensation to DPPS for these services rendered, the School shall pay to DPPS an annual fee equal to 12% to 15% of the School's non-competitive public revenue in the initial term of one year. The percentage will decrease by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of the non-competitive public revenue of the School and will remain in effect for all subsequent renewal terms. Following the initial term, the agreement will automatically extend for successive one-year periods unless terminated by either party. For the year ended June 30, 2018, DPPS charged an annual management fee of 12% to 14% to the School. On July 1, 2015, the School and DPPS amended the management agreement to include a provision which states that in the event the School incurs an operating deficit due to management fees charged, the management fees will be reduced to an amount that would result in a zero change in net assets, excluding depreciation and amortization (including amortization of Friends' building) and capital lease interest. For the year ended June 30, 2018, management fees charged by DPPS were reduced by \$408,468 to reduce the operating deficit. For the year ended June 30, 2018, the School incurred \$7,340,599 in management fees and HPCS paid DPPS \$1,000,000, included in repairs and maintenance in the statement of functional expenses, for the build out of the 3rd floor of the Taino facilities which HPCS uses for its High School.

For operational efficiency and purchasing power, the School shares expenses with the related charter schools and charter management organization. The balance of due from related parties consists of the following at June 30, 2018:

DPE	\$ 273,588
DPPS	1,107,020
DPBR	6,358
DPCH	59,004
DPAC	<u>2,433</u>
	<u>\$ 1,448,403</u>

Democracy Prep New York Charter Schools

Notes to Financial Statements

June 30, 2018

7. 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. As of June 30, 2018, approximately \$2,400,000 of cash was maintained with two institutions in excess of FDIC limits.

8. 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 year ended June 30, 2018, the School received approximately 95% 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.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2018:

Korean dual language program	\$ 56,366
Field trips and classroom incentives	616
Interest in Friends' building (Note 5)	11,691,111
	<u>\$ 11,748,093</u>

Net assets were released from donor restrictions by satisfying the purpose specified by the donors as follows for year ended June 30, 2018:

Korean dual language program	\$ 30,847
Interest in Friends' building (Note 5)	486,003
	<u>\$ 516,850</u>

10. Commitments

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

Effective July 1, 2012, DPCS entered into a sub-sublease agreement with DPH (a related party, see Note 6) 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

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2018

10. Commitments (*continued*)

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 by either party. Rental income was \$598,007 for the year ended June 30, 2018. The School does not disclose the minimum future rent to be received due to the undetermined number of future students served.

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 5 years. HPCS exercised its option until June 30, 2016. During fiscal year 2017, the lease was renewed for another 5 years expiring on June 30, 2021.

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.

On September 1, 2016, HPCS entered into a non-cancelable operating lease for additional office and instructional space expiring on June 29, 2047.

The future minimum lease payments under these operating leases are as follows:

Year ending June 30,	2019	\$ 2,027,557
	2020	2,059,384
	2021	2,071,970
	2022	1,621,555
	2023	1,674,608
	Thereafter	<u>29,908,387</u>
		<u>\$ 39,363,461</u>

Rent expense under these leases was \$2,316,229 for the year ended June 30, 2018.

11. 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, 2018:

Computers and Equipment	\$ 1,796,732
Accumulated Depreciation	<u>(765,724)</u>
	<u>\$ 1,031,008</u>

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2018

11. Capital Lease Obligation (*continued*)

The future minimum lease payments are as follows:

Year ending June 30,	2019	\$	413,698
	2020		412,955
	2021		412,955
	2022		17,796
	2023		<u>2,973</u>
Total minimum lease payments			1,260,377
Amounts representing interest			<u>(142,972)</u>
Present value of minimum lease payments			1,117,405
Current portion			<u>(338,025)</u>
Capital lease obligation, less current portion		\$	<u><u>779,380</u></u>

12. Employee Benefit Plan

The School maintains a retirement plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 5% of the participant's annual compensation. Employer match for the years ended June 30, 2018 amounted to \$968,663.

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 reimbursements. 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.

14. Merger Information

As stated in Note 1, the New York State Board of Regents approved the merger of DPCS, DPH and HPCS effective July 1, 2017 into a single entity under BPCS, which serves as the sole surviving entity. Below is a summary of opening balances as of July 1, 2017 for DPCS, DPH and HPCS:

Democracy Prep New York Charter Schools

Notes to Financial Statements June 30, 2018

14. Merger Information (*continued*)

	<u>DPCS</u>	<u>DPH</u>	<u>HPCS</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 35,696	\$ 2,459,612	\$ 3,740,505	\$ 6,235,813
Grants and contracts receivable	682,596	845,375	916,490	2,444,461
Due from related parties	1,466,482	139,674	-	1,606,156
Prepaid expenses and other assets	377,422	29,535	151,166	558,123
Property and equipment, net	1,149,699	1,245,119	3,050,504	5,445,322
Restricted cash	71,632	70,521	75,548	217,701
	<u>\$ 3,783,527</u>	<u>\$ 4,789,836</u>	<u>\$ 7,934,213</u>	<u>\$ 16,507,576</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 675,718	\$ 530,640	\$ 614,518	\$ 1,820,876
Accrued payroll and payroll taxes	572,364	753,286	605,504	1,931,154
Due to related parties	-	-	173,646	173,646
Capital lease obligation	219,113	409,359	388,606	1,017,078
Refundable advances	26,301	25,641	701	52,643
Deferred rent	54,207	-	712,535	766,742
Total Liabilities	<u>1,547,703</u>	<u>1,718,926</u>	<u>2,495,510</u>	<u>5,762,139</u>
Net Assets				
Unrestricted				
Undesignated	1,934,296	2,570,633	5,114,061	9,618,990
Board designated	282,785	481,902	320,543	1,085,230
Total Unrestricted	<u>2,217,081</u>	<u>3,052,535</u>	<u>5,434,604</u>	<u>10,704,220</u>
Temporarily restricted	18,743	18,375	4,099	41,217
Total Net Assets	<u>\$ 3,783,527</u>	<u>\$ 4,789,836</u>	<u>\$ 7,934,213</u>	<u>\$ 16,507,576</u>

Democracy Prep New York Charter Schools

Supplementary Information

June 30, 2018

Democracy Prep New York Charter Schools

Schedule of Activities by School Bronx Preparatory Charter School Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE			
Public School District			
Regular student enrollment	\$ 10,432,822	\$ -	\$ 10,432,822
Students with disabilities	669,273	-	669,273
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	504,476	-	504,476
Total Operating Revenue	<u>11,606,571</u>	<u>-</u>	<u>11,606,571</u>
EXPENSES			
Program Services			
Regular education	9,138,769	-	9,138,769
Special education	1,255,214	-	1,255,214
Total Program Services	10,393,983	-	10,393,983
Supporting Services			
Management and general	2,556,394	-	2,556,394
 Total Expenses	 <u>12,950,377</u>	 <u>-</u>	 <u>12,950,377</u>
Deficit from Operations	<u>(1,343,806)</u>	<u>-</u>	<u>(1,343,806)</u>
SUPPORT AND OTHER REVENUE			
Contributions	142	11,000	11,142
Other income	28,048	-	28,048
Net assets released from restrictions	11,365	(11,365)	-
Total Support and Other Revenue	<u>39,555</u>	<u>(365)</u>	<u>39,190</u>
Result of Operations	(1,304,251)	(365)	(1,304,616)
 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	 (818,248)	 (486,368)	 (1,304,616)
NET ASSETS			
Beginning of year	<u>1,943,321</u>	<u>12,186,226</u>	<u>14,129,547</u>
End of year	<u>\$ 1,125,073</u>	<u>\$ 11,699,858</u>	<u>\$ 12,824,931</u>

Democracy Prep New York Charter Schools

Schedule of Activities by School Democracy Preparatory Charter School Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE			
Public School District			
Regular student enrollment	\$ 9,941,460	\$ -	\$ 9,941,460
Students with disabilities	1,237,587	-	1,237,587
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	491,229	-	491,229
Total Operating Revenue	11,670,276	-	11,670,276
EXPENSES			
Program Services			
Regular education	8,912,347	-	8,912,347
Special education	1,914,327	-	1,914,327
Total Program Services	10,826,674	-	10,826,674
Supporting Services			
Management and general	1,759,561	-	1,759,561
 Total Expenses	 12,586,235	 -	 12,586,235
Deficit from Operations	(915,959)	-	(915,959)
SUPPORT AND OTHER REVENUE			
Contributions	-	11,000	11,000
Rental income	598,007	-	598,007
Other income	13,345	-	13,345
Net assets released from restrictions	7,320	(7,320)	-
Total Support and Other Revenue	618,672	3,680	622,352
 Change in Net Assets	 (297,287)	 3,680	 (293,607)
NET ASSETS			
Beginning of year	2,217,081	18,743	2,235,824
 End of year	 \$ 1,919,794	 \$ 22,423	 \$ 1,942,217

Democracy Prep New York Charter Schools

Schedule of Activities by School Democracy Prep Harlem Charter School Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE			
Public School District			
Regular student enrollment	\$ 13,732,131	\$ -	\$ 13,732,131
Students with disabilities	1,382,261	-	1,382,261
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	660,860	-	660,860
Total Operating Revenue	<u>15,775,252</u>	<u>-</u>	<u>15,775,252</u>
EXPENSES			
Program Services			
Regular education	11,029,683	-	11,029,683
Special education	2,150,319	-	2,150,319
Total Program Services	13,180,002	-	13,180,002
Supporting Services			
Management and general	<u>2,824,321</u>	<u>-</u>	<u>2,824,321</u>
 Total Expenses	<u>16,004,323</u>	<u>-</u>	<u>16,004,323</u>
Deficit from Operations	<u>(229,071)</u>	<u>-</u>	<u>(229,071)</u>
SUPPORT AND OTHER REVENUE			
Contributions	-	7,500	7,500
Other income	19,900	-	19,900
Net assets released from restrictions	<u>7,563</u>	<u>(7,563)</u>	<u>-</u>
Total Support and Other Revenue	<u>27,463</u>	<u>(63)</u>	<u>27,400</u>
 Change in Net Assets	(201,608)	(63)	(201,671)
NET ASSETS			
Beginning of year	<u>3,052,535</u>	<u>18,375</u>	<u>3,070,910</u>
 End of year	<u>\$ 2,850,927</u>	<u>\$ 18,312</u>	<u>\$ 2,869,239</u>

Democracy Prep New York Charter Schools

Schedule of Activities by School Harlem Prep Charter School Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE			
Public School District			
Regular student enrollment	\$ 13,232,023	\$ -	\$ 13,232,023
Students with disabilities	1,239,091	-	1,239,091
Facilities funding	849,712	-	849,712
Grants and Contracts			
Federal E-Rate, IDEA, and Titles	688,815	-	688,815
Total Operating Revenue	<u>16,009,641</u>	<u>-</u>	<u>16,009,641</u>
EXPENSES			
Program Services			
Regular education	11,557,932	-	11,557,932
Special education	2,533,139	-	2,533,139
Total Program Services	14,091,071	-	14,091,071
Supporting Services			
Management and general	2,626,893	-	2,626,893
 Total Expenses	<u>16,717,964</u>	<u>-</u>	<u>16,717,964</u>
Deficit from Operations	<u>(708,323)</u>	<u>-</u>	<u>(708,323)</u>
SUPPORT AND OTHER REVENUE			
Contributions	2,000	8,000	10,000
Other income	25,567	-	25,567
Net assets released from restrictions	4,599	(4,599)	-
Total Support and Other Revenue	<u>32,166</u>	<u>3,401</u>	<u>35,567</u>
 Change in Net Assets	(676,157)	3,401	(672,756)
NET ASSETS			
Beginning of year	<u>5,434,604</u>	<u>4,099</u>	<u>5,438,703</u>
 End of year	<u>\$ 4,758,447</u>	<u>\$ 7,500</u>	<u>\$ 4,765,947</u>

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School

Bronx Preparatory Charter School

Year Ended June 30, 2018

	No. of Positions	Program Services			Management and	Total
		Regular Education	Special Education	Total	General	
Personnel services costs						
Administrative staff personnel	20	\$ 190,252	\$ 26,131	\$ 216,383	\$ 1,317,729	\$ 1,534,112
Instructional personnel	80	4,033,935	554,063	4,587,998	-	4,587,998
Non-instructional personnel	5	198,695	27,292	225,987	-	225,987
Total salaries and staff	105	4,422,882	607,486	5,030,368	1,317,729	6,348,097
Fringe benefits and payroll taxes		1,164,022	159,879	1,323,901	346,802	1,670,703
Retirement		152,293	20,917	173,210	45,373	218,583
Management company fees		1,123,911	154,370	1,278,281	334,852	1,613,133
Accounting/audit services		-	-	-	21,750	21,750
Other purchased/professional/consulting services		78,903	10,838	89,741	23,508	113,249
Occupancy		46,652	6,408	53,060	13,899	66,959
Repair and maintenance		396,669	54,483	451,152	118,181	569,333
Insurance		45,858	6,299	52,157	13,663	65,820
Utilities		185,698	25,506	211,204	55,326	266,530
Supplies/materials		195,901	26,907	222,808	-	222,808
Equipment/furnishings		9,048	1,243	10,291	2,696	12,987
Staff development		82,390	11,316	93,706	24,547	118,253
Marketing/recruitment		17,163	2,357	19,520	5,114	24,634
Technology		70,578	9,694	80,272	21,022	101,294
Student services		435,469	59,811	495,280	-	495,280
Office expense		41,538	5,704	47,242	12,376	59,618
Depreciation		261,144	35,864	297,007	77,790	374,797
Travel		3,204	440	3,644	955	4,599
Other		66,848	9,182	76,030	19,917	95,947
Total expenses before amortization of interest in Friends' building		8,800,171	1,208,704	10,008,874	2,455,500	12,464,374
Amortization of interest in Friends' building		338,598	46,510	385,109	100,894	486,003
Total Expenses		\$ 9,138,769	\$ 1,255,214	\$ 10,393,983	\$ 2,556,394	\$ 12,950,377

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School

Democracy Preparatory Charter School

Year Ended June 30, 2018

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel services costs						
Administrative staff personnel	20	\$ 363,507	\$ 78,080	\$ 441,587	\$ 985,843	\$ 1,427,430
Instructional personnel	79	4,191,532	900,321	5,091,853	-	5,091,853
Non-instructional personnel	2	84,153	18,075	102,228	-	102,228
Total salaries and staff	101	4,639,192	996,476	5,635,668	985,843	6,621,511
Fringe benefits and payroll taxes		780,024	167,545	947,569	165,758	1,113,327
Retirement		167,512	35,981	203,493	35,597	239,090
Management company fees		1,170,196	251,352	1,421,548	248,670	1,670,218
Other purchased/professional/consulting services		167,625	36,005	203,630	33,121	236,751
Occupancy		539,551	115,893	655,444	114,657	770,101
Repair and maintenance		143,806	30,884	174,690	30,559	205,249
Insurance		45,316	9,733	55,049	9,630	64,679
Utilities		180,197	38,705	218,902	38,292	257,194
Supplies/materials		174,802	37,547	212,349	-	212,349
Equipment/furnishings		529	115	644	112	756
Staff development		90,050	19,343	109,393	19,136	128,529
Marketing/recruitment		33,174	7,124	40,298	7,050	47,348
Technology		79,982	17,180	97,162	16,996	114,158
Student services		445,616	95,717	541,333	-	541,333
Office expense		45,854	9,851	55,705	9,744	65,449
Depreciation		172,859	37,130	209,989	36,733	246,722
Travel		5,926	1,273	7,199	1,259	8,458
Other		30,136	6,473	36,609	6,404	43,013
Total Expenses		\$ 8,912,347	\$ 1,914,327	\$ 10,826,674	\$ 1,759,561	\$ 12,586,235

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School Democracy Preparatory Harlem Charter School Year Ended June 30, 2018

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel services costs						
Administrative staff personnel	24	\$ 241,503	\$ 47,082	\$ 288,585	\$ 1,515,185	\$ 1,803,770
Instructional personnel	106	5,207,974	1,015,335	6,223,309	-	6,223,309
Non-instructional personnel	1	41,372	8,066	49,438	-	49,438
Total salaries and staff	131	5,490,849	1,070,483	6,561,332	1,515,185	8,076,517
Fringe benefits and payroll taxes		1,423,043	277,434	1,700,477	392,685	2,093,162
Retirement		202,751	39,527	242,278	55,949	298,227
Management company fees		1,474,636	287,492	1,762,128	406,922	2,169,050
Accounting/audit services		-	-	-	22,500	22,500
Other purchased/professional/consulting services		223,291	43,532	266,823	61,617	328,440
Occupancy		466,492	90,946	557,438	128,727	686,165
Repair and maintenance		36,286	7,070	43,356	10,013	53,369
Insurance		73,319	14,294	87,613	20,232	107,845
Utilities		73,736	14,376	88,112	20,347	108,459
Supplies/materials		323,687	63,106	386,793	-	386,793
Equipment/furnishings		447	88	535	123	658
Staff development		100,259	19,546	119,805	27,666	147,471
Marketing/recruitment		34,702	6,764	41,466	9,576	51,042
Technology		131,116	25,563	156,679	36,181	192,860
Student services		552,532	107,720	660,252	-	660,252
Office expense		56,449	11,006	67,455	15,577	83,032
Depreciation		238,463	46,490	284,953	65,803	350,756
Travel		3,529	688	4,217	974	5,191
Other		124,096	24,194	148,290	34,244	182,534
Total Expenses		<u>\$ 11,029,683</u>	<u>\$ 2,150,319</u>	<u>\$ 13,180,002</u>	<u>\$ 2,824,321</u>	<u>\$ 16,004,323</u>

See independent auditors' report

Democracy Prep New York Charter Schools

Schedule of Functional Expenses by School Harlem Prep Charter School Year Ended June 30, 2018

	No. of Positions	Program Services			Management and	Total
		Regular Education	Special Education	Total	General	
Personnel services costs						
Administrative staff personnel	22	\$ 198,620	\$ 43,531	\$ 242,151	\$ 1,287,733	\$ 1,529,884
Instructional personnel	91	5,138,440	1,126,185	6,264,625	-	6,264,625
Non-instructional personnel	<u>1</u>	<u>56,454</u>	<u>12,374</u>	<u>68,828</u>	<u>-</u>	<u>68,828</u>
Total salaries and staff	114	5,393,514	1,182,090	6,575,604	1,287,733	7,863,337
Fringe benefits and payroll taxes		872,132	191,145	1,063,277	208,227	1,271,504
Retirement		153,621	33,668	187,289	36,678	223,967
Management company fees		1,295,128	283,851	1,578,979	309,219	1,888,198
Accounting/audit services				-	1,700	1,700
Other purchased/professional/consulting services		214,830	47,084	261,914	51,292	313,206
Occupancy		1,099,992	241,084	1,341,076	262,629	1,603,705
Repair and maintenance		914,007	200,321	1,114,328	218,225	1,332,553
Insurance		63,059	13,821	76,880	15,056	91,936
Utilities		66,347	14,540	80,887	15,841	96,728
Supplies/materials		246,135	53,947	300,082	-	300,082
Equipment/furnishings		2,864	627	3,491	684	4,175
Staff development		128,598	28,185	156,783	30,704	187,487
Marketing/recruitment		31,143	6,825	37,968	7,436	45,404
Technology		145,165	31,816	176,981	34,659	211,640
Student services		316,504	69,370	385,874	-	385,874
Office expense		47,258	10,359	57,617	11,283	68,900
Depreciation		461,090	101,056	562,146	110,088	672,234
Travel		7,543	1,652	9,195	1,801	10,996
Other		<u>99,002</u>	<u>21,698</u>	<u>120,700</u>	<u>23,638</u>	<u>144,338</u>
Total Expenses		<u>\$ 11,557,932</u>	<u>\$ 2,533,139</u>	<u>\$ 14,091,071</u>	<u>\$ 2,626,893</u>	<u>\$ 16,717,964</u>

See independent auditors' report

Democracy Prep New York Charter Schools

Uniform Guidance
Schedules and Reports

June 30, 2018

Democracy Prep New York Charter Schools

Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Pass-through to Subrecipients	Total Federal Expenditures
U.S. Department of Education Passed Through the New York State Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021-17-4125	\$ -	\$ 353,476
Title I Grants to Local Educational Agencies	84.010	0021-17-4685	-	405,643
Title I Grants to Local Educational Agencies	84.010	0021-17-4349	-	314,295
Title I Grants to Local Educational Agencies	84.010	0021-17-4220	-	405,935
			-	1,479,349
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-17-4125	-	89,692
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-17-4685	-	112,794
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-17-4349	-	46,487
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-17-4220	-	137,124
			-	386,097
The Expansion and Replication of the Democracy Prep New York Academic Model	84.282M	N/A	-	31,595
Total U.S. Department of Education			-	1,897,041
Total Expenditures of Federal Awards			\$ -	\$ 1,897,041

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

Democracy Prep New York Charter Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2018. 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 cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

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

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

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ascend Charter Schools (the "School"), which comprise the statement of financial position as of June 30, 2018, 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 9, 2018.

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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

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*.

The School's Response to the Finding

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
November 9, 2018

**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, 2018. 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, 2018.

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
Harrison, New York
November 9, 2018

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2018

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?

 X yes 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:

CFDA Number

84.010

Name of Federal Program or Cluster

Title I Grants to Local Educational
Agencies

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

\$750,000

Auditee qualified as low-risk auditee?

 yes X no

Democracy Prep New York Charter Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2018

Section II – Financial Statement Findings

2018-001- General Ledger Maintenance and Account Analysis

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 package. We noted that improvements are needed in the financial statement closing process to address the timeliness of the School's year-end financial reporting.

Cause

The finance department appears to be understaffed and continual training is required to enable a good understanding of effective internal controls.

Effect

The School's system of internal control is not effective for managing its resources and resulted in difficulties with meeting external deadlines for submission of the audited financial statements.

Recommendation

We recommend that the School 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 Chief Financial Officer in the area of financial reporting.

Views of Responsible Officials

See management corrective action plan in Exhibit A.

Section III – Federal Award Findings and Questioned Costs

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

Section IV – Prior Year Findings

There were no prior year audit findings.



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The State Education Department of the State University of New York
The Charter Schools Institute of the State University of New York

Exhibit A: Management Corrective Action Plan

2018-001 – General Ledger Maintenance and Account Analysis

With the conversion from QuickBooks to Intacct, there were transactions imported from one system to the other that impacted the AP subledger differently. As well, the two systems function differently within the AP GL account wherein vendors are tagged in QB and automatically flow through the subledger but in Intacct, those same transactions are simply journal entries that do not interact with the subledger. Reconciliation required both journal entries as well as entries that would process through the AP subledger in order to get the accounts to tie out. As well, the initial set up was limiting the automatic entry of due to/due from transactions which took time to manually reconcile. While the transition has been lengthy, ultimately, the new accounting program has many benefits over our previous accounting package and is allowing us to operate more quickly and efficiently. In addition, we are performing a quarterly reconciliation of the AP Trial Balance amount vs. the AP subledger in order to ensure that they continue to tie out.

Greg Spreeman
Chief Financial Officer

11/14/18

Democracy Prep New York Charter Schools

Independent Auditors' Report on Communication of Internal Control Matters

June 30, 2018

**Independent Auditors Communication on
Internal Control Matters**

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

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, 2018, 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 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.

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 consider the deficiency in the School's internal control presented in Addendum A to this letter to be a material weakness.

We have an observation and recommendation that is an opportunity for strengthening internal control and/or operating efficiency presented in Addendum B to this letter.

This communication is intended solely for the information and use of management, the Board of Trustees, federal, state, and local awarding agencies, The Charter Schools Institute of the State University of New York, The State Education Department of the State University of New York, and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.

November 9, 2018

Democracy Prep New York Charter Schools

Addendum A

Deficiency in Internal Control that We Consider to be a Material Weakness

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

During our audit, we noted that 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 package. We noted that improvements are needed in the financial statement closing processes to address the timeliness of the Organization's year-end financial reporting.

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

Democracy Prep New York Charter Schools

Addendum B

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

2. Updating the Policies and Procedures Manual

We noted that although the School previously adopted and implemented a formal financial policies and procedures manual (the “manual”), we concluded that there is a number of procedures and thresholds that should be updated and reviewed pursuant to the merger of four charters into one legal entity and the upgrade to new accounting software. This will help improve the School’s ability to process, record, summarize, and report financial information.

We recommend that consideration be given to updating the manual wherein threshold are increased to a more practical range and finance and accounting policies and procedures are clearly defined under the new accounting software.