

# **Democracy Preparatory Charter School**

Financial Statements

June 30, 2017 and 2016

## Independent Auditors' Report

### **Board of Trustees Democracy Preparatory Charter School**

We have audited the accompanying financial statements of Democracy Preparatory Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, 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 School'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 School'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, 2017, 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.

***Prior Period Financial Statements***

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated October 31, 2016.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 27, 2017

**Democracy Preparatory Charter School**

Statement of Financial Position  
 June 30, 2017  
 (with comparative amounts at June 30, 2016)

	2017	2016
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 35,696	\$ 400,500
Grants and contracts receivable	682,596	573,275
Due from related parties	1,466,482	1,320,852
Prepaid expenses and other current assets	76,922	69,228
Total Current Assets	2,261,696	2,363,855
Property and equipment, net	1,149,699	1,004,014
Security deposits	300,500	300,400
Restricted cash	71,632	71,489
	\$ 3,783,527	\$ 3,739,758
 <b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 675,718	\$ 651,176
Accrued payroll and payroll taxes	572,364	392,377
Capital lease obligation	47,418	31,624
Refundable advances	26,301	81,387
Total Current Liabilities	1,321,801	1,156,564
Capital lease obligation, less current portion	171,695	2,721
Deferred rent	54,207	14,845
Total Liabilities	1,547,703	1,174,130
Net Assets		
Unrestricted		
Undesignated	1,934,296	2,222,183
Board-designated	282,785	315,331
Total Unrestricted	2,217,081	2,537,514
Temporarily restricted	18,743	28,114
Total Net Assets	2,235,824	2,565,628
	\$ 3,783,527	\$ 3,739,758

See notes to financial statements

**Democracy Preparatory Charter School**

Statement of Activities  
 Year Ended June 30, 2017  
 (with summarized totals for the year ended June 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
<b>REVENUE AND SUPPORT</b>				
State and local per pupil operating revenue	\$ 10,795,187	-	\$ 10,795,187	\$ 10,519,112
Federal grants	517,156	-	517,156	564,699
State and city grants	48,306	-	48,306	55,176
Contributions and grants	6,000	29,500	35,500	92,690
Rental income	535,279	-	535,279	529,327
Interest and other income	5,594	-	5,594	1,447
Net assets released from restrictions	38,871	(38,871)	-	-
<b>Total Revenue and Support</b>	<u>11,946,393</u>	<u>(9,371)</u>	<u>11,937,022</u>	<u>11,762,451</u>
<b>EXPENSES</b>				
Program Services				
Regular education	8,262,342	-	8,262,342	8,262,731
Special education	1,702,697	-	1,702,697	1,647,379
<b>Total Program Services</b>	<u>9,965,039</u>	<u>-</u>	<u>9,965,039</u>	<u>9,910,110</u>
Supporting Services				
Management and general	2,269,241	-	2,269,241	1,852,341
<b>Total Expenses</b>	<u>12,234,280</u>	<u>-</u>	<u>12,234,280</u>	<u>11,762,451</u>
Change in Net Assets	(287,887)	(9,371)	(297,258)	-
<b>OTHER EXPENSE</b>				
Board-designated scholarships	(32,546)	-	(32,546)	(24,538)
<b>NET ASSETS</b>				
Beginning of Year	<u>2,537,514</u>	<u>28,114</u>	<u>2,565,628</u>	<u>2,590,166</u>
End of Year	<u>\$ 2,217,081</u>	<u>\$ 18,743</u>	<u>\$ 2,235,824</u>	<u>\$ 2,565,628</u>

See notes to financial statements

**Democracy Preparatory Charter School**

Statement of Functional Expenses  
 Year Ended June 30, 2017  
 (with summarized totals for the year ended June 30, 2016)

	2017			2016		
	Regular Education	Special Education	Total	Management and General	Total	Total
Salaries	\$ 4,526,782	\$ 932,876	\$ 5,459,658	\$ 1,233,421	\$ 6,693,079	\$ 6,327,894
Employee benefits and payroll taxes	884,177	182,210	1,066,387	240,913	1,307,300	1,261,409
Audit fees	-	-	-	22,250	22,250	20,250
Legal services	-	-	-	9,755	9,755	4,798
Professional fees	27,215	5,608	32,823	7,417	40,240	84,109
Management fees	799,842	164,831	964,673	217,930	1,182,603	1,199,591
Professional development	144,262	29,729	173,991	-	173,991	109,165
Marketing and recruiting	12,891	2,657	15,548	-	15,548	15,121
Office supplies and instructional materials	645,105	132,943	778,048	175,771	953,819	1,135,668
Food services	80,714	16,634	97,348	-	97,348	86,742
Insurance	51,567	10,627	62,194	14,051	76,245	74,327
Facility expense	578,349	119,186	697,535	157,583	855,118	783,643
Repairs and maintenance	227,021	46,784	273,805	61,859	335,664	221,397
Printing and postage	-	-	-	9,512	9,512	12,559
Telephone and communication	103,786	21,388	125,174	28,278	153,452	219,317
Travel	-	-	-	9,333	9,333	6,083
Depreciation and amortization	180,631	37,224	217,855	49,217	267,072	189,034
Miscellaneous	-	-	-	31,951	31,951	11,344
<b>Total</b>	<b>\$ 8,262,342</b>	<b>\$ 1,702,697</b>	<b>\$ 9,965,039</b>	<b>\$ 2,269,241</b>	<b>\$ 12,234,280</b>	<b>\$ 11,762,451</b>

See notes to financial statements

**Democracy Preparatory Charter School**

Statements of Cash Flows  
Year Ended June 30, 2017  
(with summarized totals for the year ended June 30, 2016)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (297,258)	\$ -
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	267,072	189,034
Deferred rent	39,362	(4,576)
Changes in operating assets and liabilities		
Grants and contracts receivable	(109,321)	89,711
Due from related parties	(145,630)	(614)
Prepaid expenses and other current assets	(7,694)	(47,000)
Security deposits	(100)	(400)
Accounts payable and accrued expenses	24,542	203,550
Accrued payroll and payroll taxes	179,987	11,353
Refundable advances	(55,086)	31,357
Net Cash from Operating Activities	(104,126)	472,415
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(156,767)	(406,419)
Restricted cash	(143)	(143)
Net Cash from Investing Activities	(156,910)	(406,562)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments made on capital lease obligation	(71,222)	(29,816)
Payments made on board-designated scholarships	(32,546)	(24,538)
Net Cash from Financing Activities	(103,768)	(54,354)
 Net change in Cash and Cash Equivalents	(364,804)	11,499
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	400,500	389,001
End of year	\$ 35,696	\$ 400,500
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 30,190	\$ 3,898
Supplemental Schedule of Noncash Investing and Financing Activities		
Computers and equipment acquired under a capital lease	255,990	89,993

See notes to financial statements

# Democracy Preparatory Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

## 1. Organization and Tax Status

Democracy Preparatory Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on December 9, 2005 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School 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. The School's mission is to provide a high quality college preparatory education to primarily disadvantaged students. Classes commenced in Harlem, New York, in August 2007, and the School provided education to approximately 667 students in grades sixth through twelfth during the 2016-2017 academic year.

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.



## Democracy Preparatory Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

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

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

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

*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. Board designated net assets was established by the Board of Trustees for the Dream Dollar Scholarship Fund which is a college scholarship fund for students who graduate from the School.

*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, 2017 and 2016.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash balances held in bank accounts and highly liquid financial instruments with maturities of three months or less at the time of purchase.

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

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

## Democracy Preparatory Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

### 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, whereby 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:

Equipment	3 and 5 years
Furniture and fixture	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 the fair value. There were no asset impairments for the years ended June 30, 2017 and 2016.

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

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

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

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

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current 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.

## **Democracy Preparatory Charter School**

Notes to Financial Statements  
June 30, 2017 and 2016

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

#### ***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, 2014.

#### ***Prior Year Summarized Comparative Financial Information***

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

#### ***Reclassification***

Certain accounts in the 2016 financial statements have been reclassified to conform to the 2017 financial statement presentation.

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

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 27, 2017.

Effective July 1, 2017, The School, Democracy Preparatory Harlem Charter School and Harlem Prep Charter School merged into a single legal entity under Bronx Preparatory Charter School. The School, Democracy Preparatory Harlem Charter School and Harlem Prep Charter School were dissolved and ceased to exist as legal entities in conjunction with the merger effective date. The plan of merger was approved by the New York State Board of Regents on April 4, 2017.

### **3. Grants and Contracts Receivable**

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

## Democracy Preparatory Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

### 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 1,694,093	\$ 1,363,864
Furniture and fixtures	500,176	417,648
Software	74,002	74,002
Leasehold improvements	<u>662,746</u>	<u>662,746</u>
	2,931,017	2,518,260
Accumulated depreciation and amortization	<u>(1,781,318)</u>	<u>(1,514,246)</u>
	<u>\$ 1,149,699</u>	<u>\$ 1,004,014</u>

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

Democracy Preparatory Charter School (“DPCS”) is affiliated with six charter schools: Democracy Preparatory Charter School (“DPCS”), Democracy Preparatory Harlem Charter School (“DPH”), Harlem Prep Charter School (“HPCS”), and Bronx Preparatory Charter School (“BPCS”), all New York State not-for-profit organizations. Democracy Prep Congress Heights (“DPCH”) is a Washington, DC not-for-profit organization. Democracy Prep Baton Rouge Charter School (“DPBR”) is a Louisiana not-for-profit organization. Democracy Prep Agassi Campus (“DPAC”) is 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 13% of the School’s non-competitive public revenue in the initial term. The initial term is for one year beginning July 1, 2010 and ending June 30, 2011. 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 years ended June 30, 2017 and 2016, DPPS charged an annual management fee to the School of 12%. 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 zero change in net assets. During the years ended June 30, 2017 and 2016, management fees charged by DPPS were reduced by \$163,752 and \$36,434 to reduce the operating deficit. For the years ended June 30, 2017 and 2016, the School incurred \$1,182,603 and \$1,199,591 in management fees.

## Democracy Preparatory Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

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

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

	2017	2016
DPH	\$ 250,123	\$ 235,379
HPCS	74,587	32,710
DPE	17,969	16,433
BPCS	4,025	1,846
DPCH	123,964	64,888
DPPS	990,039	967,001
DPAC	86	-
DPBR	5,689	2,595
Net balance due from related parties	<u>\$ 1,466,482</u>	<u>\$ 1,320,852</u>

### 6. 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.

### 7. Concentration of Revenue and Support

The School receives a substantial portion of its support and revenue from the New York City Department of Education. For the years ended June 30, 2017 and 2016, the School received approximately 90% and 89% of 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.

### 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consists of the following at June 30:

	2017	2016
Korean dual language program	\$ 16,127	\$ 17,518
Korean scholarship fund	2,000	2,000
Field trips and classroom incentives	616	8,596
	<u>\$ 18,743</u>	<u>\$ 28,114</u>

## Democracy Preparatory Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

### 8. Temporarily Restricted Net Assets *(continued)*

Net assets for the years ended June 30, 2017 and 2016, were released from donor restrictions by satisfying the purpose specified by donor as follows:

	2017	2016
Korean dual language program	\$ 11,391	\$ 8,644
Korean scholarship fund	-	5,054
Field trips and classroom incentives	27,480	-
	\$ 38,871	\$ 13,698

### 9. Commitments

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

Commencing on November 1, 2009, and on each subsequent November 1, the School shall pay the Sub-landlord the lesser of 50% of any School surplus (shown on the annual audited financial statements of the School for the immediately prior fiscal year), or any amount equal to 3/7th of the principal amount of the equity investment made by the Sub-landlord as of the date of final completion of Tenant's work. Beginning with the year ended June 30, 2015 and thereafter, the School is not required to pay the 50% surplus to the Sub-landlord, as the equity investment balance was paid in full in September 2015.

The future minimum lease payments for the facility lease are as follows:

Year ending June 30,	2018	\$	641,978
	2019		650,351
	2020		662,541
	2021		675,127
	2022		688,122
	Thereafter		5,023,248
			\$ 8,341,367

## Democracy Preparatory Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

### 9. Commitments (*continued*)

The School recognizes rent expense on a straight-line basis. Rent expense in excess of payments is recorded as deferred rent in the accompanying statements of financial position. Rent expense under the operating lease for the years ended June 30, 2017 and 2016 amounted to \$662,972 and \$619,408.

Effective July 1, 2012, the School entered into a sub-sublease agreement with DPH (a related party, see Note 4) for use of office and classroom facilities at St. Philips Church (207 West 133<sup>rd</sup> Street). 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 the School 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 by either party. Rental income was \$535,279 and \$529,327 for the years ended June 30, 2017 and 2016. The School does not disclose the minimum future rent to be received due to the undetermined number of future students served.

### 10. Capital Lease Obligation

The School leases computers and equipment under capital leases that expire in June 2021. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is being depreciated over its estimated useful life.

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

	2017	2016
Computers and equipment	\$ 345,983	\$ 89,993
Accumulated depreciation	(138,691)	(57,496)
	<u>\$ 207,292</u>	<u>\$ 32,497</u>

The future minimum lease payments are as follows:

Year ending June 30,	2018	\$ 71,341
	2019	68,607
	2020	68,607
	2021	68,607
Total minimum lease payments		277,162
Amounts representing interest		(58,049)
Present value of minimum lease payments		219,113
Current portion		(47,418)
Capital lease obligation, less current portion		<u>\$ 171,695</u>

## Democracy Preparatory Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

### 11. 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, 2017 and 2016 amounted to \$240,534 and \$243,007.

### 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.

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**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 Preparatory Charter School**

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 Preparatory Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2016.

***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 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 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*.

We noted certain matters that were reported to the management of the School in a separate letter dated October 27, 2017.

***Purpose of this Report***

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

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 27, 2017