



**DEMOCRACY PREP**

AT THE STEWART CAMPUS

*Work Hard. Go to College. Change the World!*

***DEMOCRACY PREP TEXAS***

***(A NONPROFIT CORPORATION)***

***ANNUAL FINANCIAL REPORT***

***FOR THE YEAR ENDED***

***JUNE 30, 2019***

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Democracy Prep Texas  
San Antonio, Texas

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

We have audited the accompanying statement of financial position of Democracy Prep Texas as of June 30, 2019, 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.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Democracy Prep Texas as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019 on our consideration of Democracy Prep Texas' 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Democracy Prep Texas' internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

October 18, 2019

Discussion Draft

DEMOCRACY PREP TEXAS  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2019

**ASSETS**

*Current Assets:*

Cash and Cash Equivalents	\$ 279,205
Accounts Receivable - San Antonio ISD	587,455
Other Receivable	22,763
Prepaid Expenses	805
<i>Total Current Assets</i>	<u>890,228</u>

**TOTAL ASSETS** \$ 890,228

**LIABILITIES AND NET ASSETS**

*Current Liabilities:*

Accounts Payable	\$ 52,246
Wages Payable	206,560
Accrued Compensated Absences	24,030
Payable to Democracy Prep Public Schools	599,865
<i>Total Liabilities</i>	<u>882,701</u>

*Net Assets:*

Without Donor Restriction	(17,473)
With Donor Restriction	25,000
<i>Total Net Assets</i>	<u>7,527</u>

**TOTAL LIABILITIES AND NET ASSETS** \$ 890,228

The accompanying notes are an integral part of these financial statements.

DEMOCRACY PREP TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restriction	With Donor Restriction	Totals
<b>REVENUE</b>			
San Antonio ISD Partnership	\$ 4,033,426	\$ -	\$ 4,033,426
Contributions	20,000	25,000	45,000
<b>TOTAL REVENUE</b>	<u>4,053,426</u>	<u>25,000</u>	<u>4,078,426</u>
<b>EXPENSES</b>			
Program	3,424,475	-	3,424,475
General and Administrative	646,424	-	646,424
<b>TOTAL EXPENSES</b>	<u>4,070,899</u>	<u>-</u>	<u>4,070,899</u>
<b>CHANGE IN NET ASSETS</b>	(17,473)	25,000	7,527
<b>BEGINNING NET ASSETS</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>ENDING NET ASSETS</b>	<u>\$ (17,473)</u>	<u>\$ 25,000</u>	<u>\$ 7,527</u>

The accompanying notes are an integral part of these financial statements.

DEMOCRACY PREP TEXAS  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019

<b>EXPENSES</b>	<u>Program</u>	<u>General and Administrative</u>	<u>Totals</u>
Payroll and Benefits	\$ 2,436,261	\$ 216,734	\$ 2,652,995
Professional Services	163,528	-	163,528
Building Operations	109,846	-	109,846
Transportation	158,272	-	158,272
Supplies and Equipment	95,778	-	95,778
Operating Costs	118,698	109,802	228,500
Insurance	13,581	17,381	30,962
Professional Development	26,004	-	26,004
Management Fee	302,507	302,507	605,014
<b>TOTAL EXPENSES</b>	<u>\$ 3,424,475</u>	<u>\$ 646,424</u>	<u>\$ 4,070,899</u>

The accompanying notes are an integral part of these financial statements.

DEMOCRACY PREP TEXAS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019

<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Cash Received from ISD Partner and Donors	\$ 3,490,971
Cash Paid to Employees for Services	(2,601,555)
Payments to Vendors for Goods and Services	(610,211)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>279,205</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	279,205
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	-
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u>\$ 279,205</u>
 <b>RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Increase (Decrease) in Net Assets	\$ 7,527
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
(Increase) Decrease in Current Assets:	
Accounts Receivable - San Antonio ISD	(587,455)
Other Receivables	(22,763)
Prepaid Expenses	(805)
Increase (Decrease) in Liabilities:	
Accounts Payable	52,246
Payable to Democracy Prep Public Schools	599,865
Wages Payable	206,560
Accrued Compensated Absences	24,030
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 279,205</u>

The accompanying notes are an integral part of these financial statements.

DEMOCRACY PREP TEXAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Reporting Entity*

Democracy Prep Texas (“DPT”) is a nonprofit corporation in Texas created to assist Texas-based independent school districts operate in-district charter schools through senate bill 1882 partnerships. DPT is managed by and follows the educational model of Democracy Prep Public Schools (a New York nonprofit corporation). DPT is governed by a Board of Directors comprised of at five members. The Board of Directors has the authority to make decisions, appoint the chief executive officer, and has the primary accountability for the fiscal affairs of the entity.

*Basis of Accounting and Presentation*

The general-purpose financial statements of DPT were prepared in conformity with accounting principles generally accepted in the United States. The *Financial Accounting Standards Board* is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when they are incurred.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

*Without Donor Restriction* – net assets that are not subject to grantor or donor-imposed stipulations.

*With Donor Restrictions* – net assets subject to grantor or donor-imposed stipulations that may be met either by actions of DPT and/or passage of time or may be required to remain in perpetuity.

*Cash and Cash Equivalents*

For financial statement purposes, Democracy Prep Texas DPT considers all highly liquid investment instruments with an original maturity of three months or less to be cash.

*Contributions*

DPT accounts for contributions as with or without donor restrictions, depending on the existence and/or nature of any donor stipulations. Contributions that are restricted by the donor are reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with restrictions are reclassified to net assets without restriction and reported in the statement of activities as net assets released from restrictions. Promises to give are recognized when communication of the promise is made if the gift is unconditional. Conditional promises to give are not recognized until the conditions are met.

DEMOCRACY PREP TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2019

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

*Capital Assets*

Capital assets are defined by DPT as assets with a useful life greater than one year and an individual cost of more than \$5,000. Such assets are recorded at historical cost (or fair value if donated) and are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Useful lives are estimated to be 3 to 5 years for furniture and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or the expected useful life.

*Income Taxes*

Democracy Prep Texas is a not-for-profit organization exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code, except to the extent that it has unrelated business income. As such, no provision for income taxes has been made in the financial statements.

*Functional Expenses*

The statement of functional expenses presents expenses by function and natural classification. Instruction and classroom supporting activities are reported as program costs. Management personnel are reported as management and administrative expenses. The management fee for Democracy Prep Public Schools (“DPPS”) covers curriculum and programmatic support as well as back office operations. The management fee is estimated to be split evenly between program and management. A portion of general and administrative costs that benefit functional areas (indirect costs) have been allocated based on an evaluation of the services provided by the contractor or employee time.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Subsequent Events*

Subsequent events were considered through October 18, 2019, which is the date the financial statements were available to be issued.

NOTE 2 -- UNCOLLATERALIZED DEPOSITS

As of June 30, 2019, \$29,205 of DPT bank deposits exceeded FDIC coverage.

NOTE 3 -- NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2019, the organization held \$25,000 in contributions restricted for school uniform support, including a washer and dryer.

DEMOCRACY PREP TEXAS  
 NOTES TO FINANCIAL STATEMENTS (CONT.)  
 JUNE 30, 2019

NOTE 4 -- PENSION PLAN OBLIGATION

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the charter school, but are the liability of the State of Texas. Charters are legally separate entities from the State and there is no withdrawal penalty for leaving TRS. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas State Legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications Heading.

The plan financial statements for the year ending August 31, 2018 reported a plan net position of \$155 billion with a total pension liability of \$210 billion. Net position of the plan represented 74% of the total pension liability.

Contribution requirements are not actuarially determined but are established and amended by the Texas State Legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. The following table presents contribution rates and amounts:

Year Ending	Contribution Rates		
August 31,	Member	State	Employer
2019	7.70%	6.80%	1.50%
2018	7.70%	6.80%	1.50%

  

Year Ending	Contribution Amounts		
June 30,	Member	State	Employer
2019	\$ 144,418	\$ 127,538	\$ 74,176

In addition to the 1.5% contribution rate referred to above, employers are required to contribute in certain circumstances such as salaries funded through private and federal grants and new members.

DEMOCRACY PREP TEXAS  
 NOTES TO FINANCIAL STATEMENTS (CONT.)  
 JUNE 30, 2019

NOTE 5 -- RETIREE HEALTH PLAN

TRS also offers retiree health insurance, called TRS-Care, a cost-sharing multiple-employer defined benefit postemployment health care plan. Qualified retirees (and their dependents) receive health insurance paid for by the plan. The statutory authority for the program is Texas Insurance Code, Chapter 1575. The State, employees and employers contribute a portion of covered payroll.

The plan financial statements for the year ending August 31, 2018 reported a plan net position of \$799 billion with a total OPEB liability of \$51 billion. Net position of the plan represented 2% of the total OPEB liability.

Contribution requirements are not actuarially determined but are established each biennium by the Texas State Legislature. Contribution rates and amounts were as follows:

Year Ending August 31,	Contribution Rates		
	Member	State	Employer
2019	0.65%	1.25%	0.75%
2018	0.65%	1.25%	0.75%

  

Year Ending June 30,	Contribution Amounts		
	Member	State	Employer
2019	\$ 12,192	\$ 23,446	\$ 19,471

Similar to the pension plan, employers are required to contribute additional amounts above the standard rate for salaries funded through private and federal grants.

NOTE 6 -- CONTRACT WITH SAN ANTONIO ISD

Democracy Prep Texas has contracted with San Antonio ISD to operate one of the ISD's charter schools under a SB 1882 partnership. The ISD passes through state per-pupil funding and grants allocable to the campus less an administrative fee and costs the ISD incurs for the campus, such as transportation, building operations and limited personnel. The contract is effective for ten years through June 30, 2028. However, it may be terminated by statute for failing to meet academic performance requirements or by a vote of the full Board of the ISD with appropriate due process. The agreement may be extended for successive ten-year periods.

NOTE 7 -- MANAGEMENT CONTRACT

Democracy Prep Texas contracted with Democracy Prep Public Schools for curriculum development, human resources, student recruitment, staff recruitment and back office support. DPT compensates DPSS with a management fee based on a percentage of per pupil funding from San Antonio ISD.

DEMOCRACY PREP TEXAS  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 2019

NOTE 8 -- REVENUE CONCENTRATION

For the year ended June 30, 2019, revenues from the 1882 partnership with San Antonio ISD represented 99% of total revenues. Future operations of DPT would be severely impacted if the contract with the ISD were terminated.

NOTE 9 -- LIQUIDITY AND AVAILABILITY

The Organization ended June, 2019 with limited net assets. Cash flow is supported by lenient payment terms from Democracy Prep Public Schools management fee. Fortunately, resources are largely without restriction and funding through the 1882 partnership with San Antonio ISD is renewed for the 2020 fiscal year with increased enrollment. Management expects the continued funding to sufficiently support operations.

NOTE 10 -- LITIGATION

DPT is a defendant in a lawsuit with a local teacher's union seeking declaratory relief and attorney's fees. An appellate court has ruled in DPT's favor; however, the plaintiff filed a petition for review to the Texas Supreme Court. If reviewed by the Supreme Court and decided adversely to DPT, management does not anticipate any significant financial impact to these financial statements.



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

Deborah F. Fraser Phil S. Vaughan Nancy L. Vaughan Kimberly J. Roach

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 AUDITOR'S REPORT

To the Board of Directors  
Democracy Prep Texas ("DPT")  
San Antonio, Texas

We have audited 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, the combined financial statements of DPT, which comprise the statement of financial position as of June 30, 2019, 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 18, 2019.

***Internal Control Over Financial Reporting***

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

## **Purpose of This Report**

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



Armstrong, Vaughan & Associates, P.C.

October 18, 2019