

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2007

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2007

CONTENTS

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS'	1
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5 – 8
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	9
SCHEDULE OF FUNCTIONAL EXPENSES	10

FRUCHTER, ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET

NEW YORK, NY 10019

TEL: (212) 957-3600

FAX: (212) 957-3696

REPORT OF INDEPENDENT AUDITORS'

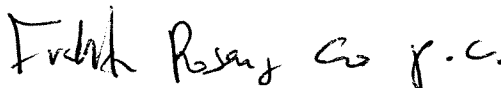
TO THE BOARD OF DIRECTORS
DEMOCRACY PREPARATORY CHARTER SCHOOL

We have audited the accompanying statement of financial position of Democracy Preparatory Charter School (a not-for-profit corporation) as of June 30, 2007, and the related statements of activities, and cash flows for the period December 9, 2005 (inception) to June 30, 2007. These financial statements are the responsibility of the Democracy Preparatory Charter School's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Democracy Preparatory Charter School as of June 30, 2007, and the changes in its net assets and its cash flows for the period December 9, 2005 (inception) to June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2007 on our consideration of Democracy Preparatory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



FRUCHTER ROSEN & COMPANY, P.C.

Certified Public Accountants

New York, New York
October 22, 2007

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2007

ASSETS

Current assets:

Cash and cash equivalents	\$ 233,320
Grants receivable	489,988
Related party receivable	60,000
Prepaid expenses	<u>13,861</u>
Total current assets	797,169

Restricted cash	<u>25,000</u>
-----------------	---------------

TOTAL ASSETS	<u>\$ 822,169</u>
--------------	-------------------

LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 109,067
Deferred revenue	<u>53,500</u>
Total current liabilities	<u>162,567</u>

Unrestricted net assets	<u>659,602</u>
-------------------------	----------------

TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u>\$ 822,169</u>
---	-------------------

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

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE PERIOD DECEMBER 9, 2005 (INCEPTION) TO JUNE 30, 2007

Revenue and support:	
State and local per pupil operating Revenue	\$ 1,476,831
Federal grants	228,010
State and city grants	404,079
Contributions and grants	413,946
Donated services	106,934
Interest	12,581
Total revenue and Support	<u>2,642,381</u>
Expenses:	
Program services	
Regular education	1,312,978
Special education	290,951
Management and general	359,002
Fundraising	19,848
Total expenses	<u>1,982,779</u>
Changes in unrestricted net assets	659,602
Restricted net assets – beginning of period	<u>-</u>
Restricted net assets - end of period	<u>\$ 659,602</u>

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

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE PERIOD DECEMBER 9, 2005 (INCEPTION) TO JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 659,602
Adjustments to reconcile net assets to net cash provided by operating activities:	
Changes in certain assets and liabilities:	
(Increase) in grants receivable	(489,988)
(Increase) in prepaid expenses	(13,861)
(Increase) in related party receivable	(60,000)
(Increase) in restricted cash	(25,000)
Increase in accounts payable and accrued expenses	109,067
Increase in deferred revenue	<u>53,500</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	233,320
NET INCREASE IN CASH AND CASH EQUIVALENTS	233,320
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS – END OF PERIOD	<u><u>\$ 233,320</u></u>

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

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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. The School is dedicated to providing a high quality college Preparatory education to primarily disadvantaged students. Classes commenced in Harlem, New York, in August 2006 and the School presently provides education to approximately 125 students in grade six.

The School shares space with a New York City public school beginning in August 2006. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the school's programs that take place outside the district's school day. On October 1, 2007, the School entered into a sublease for new facilities that will be available for the 2008 – 2009 school year (See Note 7).

Food Services

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

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

Basis of Presentation

Financial statement presentation follows the requirements of Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets classifications are described as follows:

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School has no temporarily or permanently restricted net assets.

Revenue and support

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.

Revenue from the state and local governments that are based on the number of students enrolled is recorded when services are performed. Other federal and state funds are recorded when expenditures are incurred and billable to the government agency.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the School considers all highly liquid debt 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.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. No depreciation is recorded on construction-in-progress until property and equipment is placed into service. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	5 years
Furniture and Fixtures	7 years
Leasehold Improvements	Useful life or related lease

Concentration of Credit Risk

The School places its cash in what it believes to be credit-worthy financial institutions. However, cash balances may exceed FDIC insured levels at various times during the year.

Refundable Advances

The school records grant revenue as a refundable advance until it is expended for the purpose of the grant, at which time it is recognized as revenue.

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consisted of federal and city entitlements and grants. The School anticipates the receivable being collected before December 31, 2007.

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Democracy Builders (“Builders”), a New York State not-for-profit corporation. Builders supports the school through financial and development efforts, and for the period December 9, 2005 (inception) to June 30, 2007, Builders contributed \$60,000 to the school which is included in the statement of activities under contributions and Grants. Prior to the School’s operations, Builders received and disbursed funding for start up costs associated with the School.

At June 30, 2007, balance due from Builders was \$60,000.

NOTE 4 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue 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.

NOTE 5 - FUNCTIONAL ALLOCATION OF EXPENSE

The cost of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 6 - DONATED SERVICES

Donated services are recognized as contributions in accordance with SFAS No. 116, “Accounts for Contributions Received and Contributions Made,” if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

One entity has provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the period December 9, 2005 (inception) to June 30, 2007, the value of such donated services amounted to approximately \$106,934. The entire value is included in management and general expenses in the accompanying statement of activities.

NOTE 7 - SUBSEQUENT EVENT

On October 1, 2007, the School entered into a triple-net sublease agreement with Civic Builders Property Holding Corp. for new facilities. 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 leased property. The term of the sublease is twenty two years from the commencement date and total commitment for base rent is approximately \$7,300,000.

FRUCHTER, ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET
NEW YORK, NY 10019

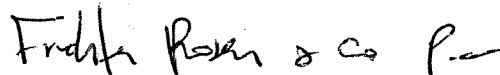
TEL: (212) 957-3600

FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF DIRECTORS
DEMOCRACY PREPARATORY CHARTER SCHOOL

Our report on our audit of the basic financial statements of Democracy Preparatory Charter School (a not-for-profit corporation) for June 30, 2007, appears on Page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.



FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 22, 2007

**SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE PERIOD DECEMBER 9, 2005 (INCEPTION) TO JUNE 30, 2007**

	Program Services			Supporting Services		Total
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising	
Salaries	\$ 638,239	\$ 149,710	\$ 787,949	\$ 176,346	\$ 17,267	\$ 981,562
Employee benefit and payroll taxes	97,508	22,873	120,381	23,409	2,581	146,371
Accounting/Auditing fees	-	-	-	17,526	-	17,526
Computers and equipment	25,520	5,986	31,506	7,502	-	39,008
Consultant - computer	5,752	1,349	7,101	1,745	-	8,846
Contracted services -- administrative	-	-	-	10,401	-	10,401
Contracted services -- connection	59,305	13,911	73,216	-	-	73,216
Equipment rental/leasing	860	202	1,062	261	-	1,323
Food	8,416	1,974	10,390	-	-	10,390
Furniture and fixtures	11,435	2,682	14,117	3,469	-	17,586
Insurance	17,921	4,204	22,125	5,436	-	27,561
Legal	69,507	-	69,507	37,427	-	106,934
Meeting expenses	7,275	1,707	8,982	2,207	-	11,189
Printing and postage	7,102	1,666	8,768	2,154	-	10,922
Professional fees	61,274	14,373	75,647	18,588	-	94,235
Educational supplies and materials	59,544	13,967	73,511	4,655	-	78,166
Other expenses	6,306	752	7,058	3,055	-	10,113
Staff development	6,767	1,587	8,354	-	-	8,354
Staff recruitment and marketing	2,669	626	3,295	810	-	4,105
Substitute teachers	24,472	5,740	30,212	-	-	30,212
Telephone	10,877	2,551	13,428	3,300	-	16,728
Textbooks	42,129	9,882	52,011	-	-	52,011
Student transportation	15,897	3,729	19,626	-	-	19,626
Travel	2,353	552	2,905	714	-	3,619
Facility expense	131,850	30,928	162,778	39,997	-	202,775
Total Expenses	\$ 1,312,978	\$ 290,951	\$ 1,603,929	\$ 359,002	\$ 19,848	\$ 1,982,779