

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

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
DEMOCRACY PREPARATORY CHARTER SCHOOL

We have audited the accompanying statements of financial position of Democracy Preparatory Charter School (the "School") (a not-for-profit corporation) as of June 30, 2009 and 2008, and the related statements of activities, and cash flows for years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior period summarized comparative information has been derived from the School's 2008 financial statements and, in our report dated October 2, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits 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 the School as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, 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, 2009 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 to describe the scope of our testing of internal control over financial reporting and on 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* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the 2009 basic financial statements of the School taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2009 is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.


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

New York, New York
October 22, 2009

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

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,338,433	\$ 918,734
Grants receivable	385,032	392,659
Due from related party	268	-
Prepaid expenses	20,204	8,076
Total current assets	1,743,937	1,319,469
Property and equipment, net of accumulated depreciation and amortization of \$75,403 and \$10,933, respectively	319,558	62,273
Restricted cash	75,221	25,000
TOTAL ASSETS	\$ 2,138,716	\$ 1,406,742
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 157,696	\$ 97,474
Accrued payroll and payroll taxes	394,056	190,814
Total current liabilities	551,752	288,288
Deferred rent	256,539	-
Total liabilities	808,291	288,288
Unrestricted net assets	1,330,425	1,118,454
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 2,138,716	\$ 1,406,742

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

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2009	2008
Revenue and support:		
State and local per pupil operating revenue	\$ 4,686,131	\$ 2,601,470
Federal grants	574,570	328,263
State and city grants	72,165	162,582
Contributions and grants	317,371	409,258
Donated services	113,617	68,642
Interest income	5,506	18,933
Total revenue and support	5,769,360	3,589,148
Expenses:		
Program services	4,494,820	2,506,434
Management and general	918,020	547,879
Fundraising	144,549	75,983
Total expenses	5,557,389	3,130,296
Change in unrestricted net assets	211,971	458,852
Unrestricted net assets - beginning of year	1,118,454	659,602
Unrestricted net assets - end of year	\$ 1,330,425	\$ 1,118,454

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

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	\$ 211,971	\$ 458,852
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	64,470	10,933
Changes in certain assets and liabilities:		
Decrease in grants receivables	7,627	97,329
(Increase) Decrease in prepaid expense	(12,128)	5,786
(Increase) Decrease in due from related party	(268)	60,000
Increase in accounts payable and accrued expenses	60,222	41,950
Increase in accrued payroll and payroll taxes	203,242	137,270
(Increase) in restricted cash	(50,221)	-
Increase in deferred rent	256,539	-
(Decrease) in deferred revenue	-	(53,500)
NET CASH PROVIDED BY OPERATING ACTIVITIES	741,454	758,620
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(321,755)	(73,206)
NET INCREASE IN CASH AND CASH EQUIVALENTS	419,699	685,414
CASH AND CASH EQUIVALENTS - BEGINNING THE YEAR	918,734	233,320
CASH AND CASH EQUIVALENTS - END THE YEAR	\$ 1,338,433	\$ 918,734

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

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 2007, and the School presently provides education to approximately 315 students in grades six, seven and eight.

The School shared space with a New York City public school beginning in August 2006. The School was 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 and occupied the space during the 2008-2009 school year (see Note 9).

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:

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.

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

Basis of Presentation (Continued)

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 at June 30, 2009 and 2008.

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 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.

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, 2009 AND 2008

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.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

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. 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
Software	3 years

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.

Comparative Financial Information

The accompanying statements of activities and functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statement of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2008 financial statements from which the summarized information was derived.

Reclassifications

Certain 2008 accounts have been reclassified to conform to the 2009 financial statement presentation. The reclassifications have no effect on 2008 total assets, liabilities, net assets and changes in net assets.

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*- an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. In 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The School will be required to adopt FIN 48 in its June 30, 2010 financial statements. The adoption of FIN 48 is not expected to have a material impact on the School's financial position, results of operations or cash flows.

NOTE 2 - GRANTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

	2009	2008
Computer equipment	\$ 235,943	\$ 32,801
Furniture and fixtures	140,270	32,307
Software	18,748	8,098
	394,961	73,206
Less: Accumulated depreciation and amortization	75,403	10,933
	\$ 319,558	\$ 62,273

Depreciation and amortization expense was \$64,470 and \$10,933 for the years ended June 30, 2009 and 2008, respectively.

NOTE 4 - 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. At June 30, 2009 and 2008, balance due from Builders was \$268 and \$-0-, respectively.

For the year ended June 30, 2008, Builders supported the School through research and development efforts of new School facilities and provided a security deposit of \$300,000 under a sublease agreement on behalf of the School (see Note 9).

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 5 - 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 6 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 7 - 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.

NOTE 8 - 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 School.

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 years ended June 30, 2009 and June 30, 2008, the value of such donated services amounted to \$73,617 and \$68,642, respectively.

In addition, a foundation donated other professional services of \$40,000 for the year ended June 30, 2009. The entire value is included in management and general expenses in the accompanying statement of activities and schedule of functional expenses.

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 9 - OPERATING LEASE COMMITMENTS

On October 1, 2007, the School entered into a triple-net sublease agreement with Civic Builders Property Holding Corp. (“Sublandlord”) 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. The annual straight-line rent expense under the operating lease for the year ended June 30, 2009 amounted to \$602,377.

Commencing on November 1, 2009, and on each subsequent November 1, the School shall pay the Sublandlord the lesser of 50% of any School surplus (shown on the annual audited financial statement 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 Sublandlord as of the date of the date of final completion of Tenant’s work.

Future minimum lease payments are as follows:

Year ended June 30,	2010	\$ 546,750
	2011	595,917
	2012	773,601
	2013	831,771
	2014	861,646
Thereafter		<u>9,872,009</u>
Total future minimum rental payments		<u>\$ 13,481,694</u>

NOTE 10 - RETIREMENT PLAN

During the fiscal year ended 2009, the School set up a 403(b) retirement plan. Under the plan, the School matches employee contributions up to 5% of the annual compensation. Employee match for the year ended June 30, 2009 amounted to \$91,208.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES OF
DEMOCRACY PREPARATORY CHARTER SCHOOL

Our report on our audits of the basic financial statements of Democracy Preparatory Charter School (a not-for-profit corporation) for June 30, 2009 and 2008, appears on Page 1. We conducted our audits 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, 2009

DEMOCRACY PREPARATORY CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

2009

	Program Services			Management and		Total	2008
	Regular Education	Special Education	Total	General			
Salaries and wages	\$ 2,510,663	\$ 122,236	\$ 2,632,899	\$ 382,897	\$ 3,086,270	\$ 1,939,398	
Employee benefits and payroll taxes	440,758	21,459	462,217	67,219	541,808	321,664	
Accounting fees	-	-	-	20,750	20,750	12,750	
Advertising and recruiting	25,448	-	25,448	-	25,448	9,726	
Professional fees	-	-	-	135,209	173,377	106,364	
Conferences and meetings	-	-	-	4,286	4,286	11,470	
Donated services	-	-	-	113,617	113,617	68,642	
Food	6,182	-	6,182	-	6,182	13,185	
Insurance	31,385	4,603	35,988	5,022	41,847	23,572	
Facility expense	509,438	74,718	584,156	81,510	679,251	138,471	
Repairs and maintenance	131,747	19,322	151,069	21,080	175,662	1,317	
Printing and postage	-	-	-	13,212	13,212	21,834	
Office supplies and instructional materials	331,070	40,919	371,989	15,987	387,976	190,521	
Professional development	81,501	10,073	91,574	19,308	113,382	92,145	
Miscellaneous expenses	-	-	-	1,088	1,088	4,555	
Telephone and communications	67,895	9,958	77,853	10,863	90,527	159,886	
Travel	-	-	-	18,236	18,236	3,863	
Depreciation and amortization	48,353	7,092	55,445	7,736	64,470	10,933	
Total	\$ 4,184,440	\$ 310,380	\$ 4,494,820	\$ 918,020	\$ 5,557,389	\$ 3,130,296	

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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*

TO THE BOARD OF TRUSTEES OF
DEMOCRACY PREPARATORY CHARTER SCHOOL

We have audited the financial statements of Democracy Preparatory Charter School (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 22, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

TO THE BOARD OF TRUSTEES OF
DEMOCRACY PREPARATORY CHARTER SCHOOL

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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 22, 2009.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


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

New York, New York
October 22, 2009

TEL: (212) 957-3600
FAX: (212) 957-3696

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO THE BOARD OF TRUSTEES OF
DEMOCRACY PREPARATORY CHARTER SCHOOL

Compliance

We have audited the compliance of Democracy Preparatory Charter School (the "School") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

TO THE BOARD OF TRUSTEES OF
DEMOCRACY PREPARATORY CHARTER SCHOOL

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any of the deficiencies in internal control over compliance that we consider to be material weakness, as defined above.

This report is intended solely for the information and use of management, the audit committee, board of trustees, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


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

New York, New York
October 22, 2009

DEMOCRACY PREPARATORY CHARTER SCHOOL
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor Pass-through Grantor Program Name	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Passed through the New York State Education Department.		
Public Charter School Program	84.282	\$ 175,000
Special Education - IDEA	84.027	34,253
Title I Part A	84.010	154,040
Title II A&D	84.318	12,309
Title IV Part A	84.186	1,446
		<u>377,048</u>
Federal Communications Commission:		
Universal Service Administrative Company Schools and Library Division.		
E-RATE Program	N/A	208,638
Total Expenditures		<u>\$ 585,686</u>

N/A - Not Available

See accompanying notes to schedule of expenditures of federal awards.

DEMOCRACY PREPARATORY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONABLE COSTS
FOR THE YEAR ENDED JUNE 30, 2009

A - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Democracy Preparatory Charter School.
2. No significant deficiencies and no material weaknesses were discovered during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Democracy Preparatory Charter School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Democracy Preparatory Charter School expresses an unqualified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for Democracy Preparatory Charter School are reported in this schedule.
7. The programs tested as major programs included:
Public Charter School Program, CFDA No. 84.282
Title I Part A, CFDA No. 84.010
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Democracy Preparatory Charter School did not qualify as a low-risk auditee.

B - FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

DEMOCRACY PREPARATORY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Democracy Preparatory Charter School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements on OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.