

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

FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

DEMOCRACY PREPARATORY CHARTER SCHOOL  
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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES  
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, 2008 and 2007, and the related statements of activities, and cash flows for year ended June 30, 2008 and the period from December 9, 2005 (inception) to June 30, 2007. 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 2007 financial statements and, in our report dated October 22, 2007, 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, 2008 and 2007, and the changes in its net assets and its cash flows for the year ended June 30, 2008 and the period from 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 2, 2008 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.

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

New York, New York  
October 2, 2008

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

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 918,734	\$ 233,320
Grants receivable	392,659	489,988
Related party receivable	-	60,000
Prepaid expenses	<u>8,076</u>	<u>13,861</u>
Total current assets	1,319,469	797,169
Property and equipment, net of accumulated depreciation and amortization of \$10,933 and \$-0-	62,273	-
Restricted cash	<u>25,000</u>	<u>25,000</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,406,742</u></u>	<u><u>\$ 822,169</u></u>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 288,288	\$ 109,067
Deferred revenue	<u>-</u>	<u>53,500</u>
Total current liabilities	<u>288,288</u>	<u>162,567</u>
Unrestricted net assets	<u>1,118,454</u>	<u>659,602</u>
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<u><u>\$ 1,406,742</u></u>	<u><u>\$ 822,169</u></u>

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

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

	<u>Year Ended June 30, 2008</u>	<u>Period from December 9, 2005 (Inception) to June 30, 2007</u>
Revenue and support:		
State and local per pupil operating revenue	\$ 2,601,470	\$ 1,476,831
Federal grants	328,263	228,010
State and city grants	162,582	404,079
Contributions and grants	409,258	413,946
Donated services	68,642	106,934
Interest income	18,933	12,581
Total revenue and Support	<u>3,589,148</u>	<u>2,642,381</u>
Expenses:		
Program services		
Regular education	2,359,893	1,312,978
Special education	146,541	290,951
Management and general	547,879	359,002
Fundraising	75,983	19,848
Total expenses	<u>3,130,296</u>	<u>1,982,779</u>
Changes in unrestricted net assets	458,852	659,602
Unrestricted net assets – beginning of period	<u>659,602</u>	<u>-</u>
Unrestricted net assets - end of period	<u>\$ 1,118,454</u>	<u>\$ 659,602</u>

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

DEMOCRACY PREPARATORY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF CASH FLOWS

	<u>Year Ended</u> <u>June 30, 2008</u>	<u>Period from</u> <u>December 9,</u> <u>2005</u> <u>(Inception) to</u> <u>June 30, 2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in unrestricted net assets	\$ 458,852	\$ 659,602
Adjustments to reconcile increase unrestricted net assets to net cash provided by operating activities:		
Depreciation and Amortization	10,933	-
Changes in certain assets and liabilities:		
Decrease (Increase) in grants receivable	97,329	(489,988)
Decrease (Increase) in prepaid expenses	5,786	(13,861)
Decrease (Increase) in related party receivable	60,000	(60,000)
(Increase) in restricted cash	-	(25,000)
Increase in accounts payable and accrued expenses	179,220	109,067
(Decrease) Increase in deferred revenue	<u>(53,500)</u>	<u>53,500</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>758,620</u>	<u>233,320</u>
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Purchase of property and equipment	<u>(73,206)</u>	<u>-</u>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 685,414	 233,320
 <b>CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD</b>	 <u>233,320</u>	 <u>-</u>
 <b>CASH AND CASH EQUIVALENTS – END OF PERIOD</b>	 <u>\$ 918,734</u>	 <u>\$ 233,320</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, 2008 AND 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 2007 and the School presently provides education to approximately 200 students in grades six and seven.

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 8).

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, 2008 AND 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 at June 30, 2008 and 2007.

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, 2008 AND 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.

Concentration of Credit Risk

The School maintains 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. The School 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 statement of functional expenses. Accordingly, such information should be read in conjunction with the School's 2007 financial statements from which the summarized information was derived.

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.

DEMOCRACY PREPARATORY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 3 - PROPERTY AND EQUIPMENT

	2008	2007
Computer equipment	\$ 32,801	\$ -
Furniture and Fixtures	32,307	-
Software	8,098	-
	73,206	-
Less accumulated depreciation and amortization	10,933	-
	\$ 62,273	\$ -

Depreciation and amortization expense were \$10,933 and \$-0- for the year ended June 30, 2008 and for the period December 9, 2005 (inception) to June 30, 2007 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, and for the period from 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, 2008 and 2007, balance due from Builders was \$-0- and \$60,000 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 8).

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.

DEMOCRACY PREPARATORY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

NOTE 7 - 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 year ended June 30, 2008 and the period from December 9, 2005 (inception) to June 30, 2007, the value of such donated services amounted to \$68,642 and \$106,934 respectively. The entire value is included in management and general expenses in the accompanying statement of activities and statement of functional expenses.

NOTE 8 - SUBSEQUENT EVENT

On October 1, 2007, the School entered into a triple-net sublease agreement with Civic Builders Property Holding Corp. 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 and total commitment for base rent is approximately \$7,300,000.

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INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES  
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, 2008 and 2007, 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 2, 2008

DEMOCRACY PREPARATORY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2008  
(With comparative totals for the period ended June 30, 2007)

	For The Year Ended June 30, 2008						Period from
	Program Services			Supporting Services			December 9,
	Regular Education	Special Education	Total Program Service	Management and General	Fundraising	Total	2005 (Date of Inception) to June 30, 2007
Salaries and wages	\$ 1,549,822	\$ 123,819	\$ 1,673,641	\$ 201,907	\$ 63,850	\$1,939,398	\$ 981,562
Employee benefits and payroll taxes	257,050	20,536	277,586	33,488	10,590	321,664	146,371
Accounting fees	-	-	-	12,750	-	12,750	17,526
Advertising and recruiting	9,726	-	9,726	-	-	9,726	4,105
Professional fees	-	-	-	104,821	1,543	106,364	216,910
Conferences and meetings	-	-	-	11,470	-	11,470	11,189
Legal fees	-	-	-	68,642	-	68,642	106,934
Equipment rental	-	-	-	-	-	-	1,323
Food	13,185	-	13,185	-	-	13,185	10,390
Insurance	20,342	-	20,342	3,230	-	23,572	27,561
Facility expense	120,633	-	120,633	19,155	-	139,788	202,775
Printing and postage	-	-	-	21,834	-	21,834	10,922
Office supplies and instructional materials	145,715	2,186	147,901	42,620	-	190,521	130,177
Professional development	92,145	-	92,145	-	-	92,145	8,354
Miscellaneous expenses	-	-	-	4,555	-	4,555	10,113
Telephone and communications	137,977	-	137,977	21,909	-	159,886	55,736
Travel	3,863	-	3,863	-	-	3,863	23,245
Noncapitalized furniture and fixtures	-	-	-	-	-	-	17,586
Depreciation	9,435	-	9,435	1,498	-	10,933	-
<b>Total</b>	<b>\$ 2,359,893</b>	<b>\$ 146,541</b>	<b>\$ 2,506,434</b>	<b>\$ 547,879</b>	<b>\$ 75,983</b>	<b>\$3,130,296</b>	<b>\$ 1,982,779</b>

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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, 2008, and have issued our report thereon dated October 2, 2008. 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 2, 2008.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees, and 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 2, 2008