

THE UFT CHARTER SCHOOL

**Financial Statements
and
Supplemental Schedules**

For the Years Ended June 30, 2008 and 2007

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THE UFT CHARTER SCHOOL
For the Years Ended June 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
The UFT Charter School

We have audited the accompanying statements of financial position of The UFT Charter School (the "School") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the 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.

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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 UFT Charter School as of June 30, 2008 and 2007, 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 20, 2008 on our consideration of the The UFT Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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* and should be considered in assessing the results of our audits.



Our audits were conducted for the purpose of forming an opinion on the basic financial statements of The UFT Charter School taken as a whole. The accompanying supplemental schedules of functional expenses are presented for purposes of additional analysis and are 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 taken as a whole.

Buchbinder Tunick & Company LLP

BUCHBINDER TUNICK & COMPANY LLP

October 20, 2008

THE UFT CHARTER SCHOOL
Statements of Financial Position
June 30, 2008 and 2007

| | 2008 | 2007 |
|---------------------------------------|--------------|--------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 12,186 | \$ 71,596 |
| Investments: | | |
| Certificate of participation | - | 37,000 |
| Grants receivable | 98,668 | 349,788 |
| Other receivable | 205,530 | 1,866 |
| Inventory | 38,284 | 38,643 |
| Prepaid expenses | 27,254 | 5,540 |
| Furniture and equipment, net | 772,843 | 642,549 |
| Total assets | \$ 1,154,765 | \$ 1,146,982 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 328,487 | \$ 284,136 |
| Due to United Federation of Teachers | 1,122,748 | 734,960 |
| Deferred revenue | 32,575 | 65,788 |
| Accrued sick and vacation pay | 120,926 | 68,193 |
| Total liabilities | 1,604,736 | 1,153,077 |
| NET ASSETS (DEFICIT) | | |
| Unrestricted | (449,971) | (6,095) |
| Temporarily restricted | - | - |
| Total net assets (deficit) | (449,971) | (6,095) |
| Total liabilities and net assets | \$ 1,154,765 | \$ 1,146,982 |

See notes to financial statements.

| | 2007 | |
|--|----------------|---------------------------|
| | Restricted | Temporarily Restricted |
| Revenue: | | |
| Local per pupil operating revenue | \$37,412 | \$ - |
| Government grants | - | 536,212 |
| Contributions | 22,000 | 351,089 |
| Fund-raising event, net of direct expenses of \$ | | |
| and \$-0- for 2007, respectively | 31,000 | - |
| Interest income | 20,127 | - |
| School uniform sales | 11,097 | - |
| Other income | 9,031 | - |
| Released from purpose restriction | 91,401 | (891,401) |
| | <u>22,068</u> | <u>(4,100)</u> |
| Total operating revenue | | |
| Expenses: | | |
| Program services: | | |
| Educational | 83,334 | - |
| Supporting services: | | |
| Management and general | 14,042 | - |
| Fund-raising | 56,624 | - |
| | <u>54,000</u> | <u>-</u> |
| Total expenses | | |
| Change in net assets | 31,932) | (4,100) |
| Net (deficit): | | |
| Beginning of year | 25,837 | 4,100 |
| End of year | <u>(6,095)</u> | <u>\$ -</u> |

THE UFT CHARTER SCHOOL
Statements of Activities
For the years ended June 30, 2008 and 2007

| | 2008 | | | 2007 | | |
|--|------------------|------------------|------------------------|------------------|------------------|------------------------|
| | Total | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted |
| Revenue: | | | | | | |
| Local per pupil operating revenue | \$ 6,036,574 | \$ 6,036,574 | \$ - | \$ 3,637,412 | \$ 3,637,412 | \$ - |
| Government grants | 321,778 | - | 321,778 | 536,212 | - | 536,212 |
| Contributions | 252,208 | 10,000 | 242,208 | 473,089 | 122,000 | 351,089 |
| Fund-raising event, net of direct expenses of \$91,542 for 2008 and \$-C- for 2007, respectively | 205,530 | 205,530 | - | 31,000 | 31,000 | - |
| Interest income | 13,958 | 13,958 | - | 20,127 | 20,127 | - |
| School uniform sales | 10,269 | 10,269 | - | 11,097 | 11,097 | - |
| Other income | 11,343 | 11,343 | - | 9,031 | 9,031 | - |
| Released from purpose restriction | - | 563,986 | (563,986) | - | 891,401 | (891,401) |
| Total operating revenue | 6,851,660 | 6,851,660 | - | 4,717,968 | 4,722,068 | (4,100) |
| Expenses: | | | | | | |
| Program services: | | | | | | |
| Educational | 6,012,318 | 6,012,318 | - | 3,683,334 | 3,683,334 | - |
| Supporting services: | | | | | | |
| Management and general | 1,259,480 | 1,259,480 | - | 1,114,042 | 1,114,042 | - |
| Fund-raising | 23,738 | 23,738 | - | 56,624 | 56,624 | - |
| Total expenses | 7,295,536 | 7,295,536 | - | 4,854,000 | 4,854,000 | - |
| Change in net assets | (443,876) | (443,876) | - | (136,032) | (131,932) | (4,100) |
| Net (deficit): | | | | | | |
| Beginning of year | (6,095) | (6,095) | - | 129,937 | 125,837 | 4,100 |
| End of year | \$ (449,971) | \$ (449,971) | \$ - | \$ (6,095) | \$ (6,095) | \$ - |

See notes to financial statements.



THE UFT CHARTER SCHOOL
Statements of Cash Flows
For the years ended June 30, 2008 and 2007

| | 2008 | 2007 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (443,876) | \$ (136,032) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 160,440 | 76,654 |
| (Increase) decrease in operating assets: | | |
| Grants receivable | 251,120 | (109,223) |
| Other receivable | (203,664) | 2,267 |
| Prepaid expenses | (21,714) | 1,031 |
| Inventory | 359 | (19,565) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | 44,351 | 157,520 |
| Due to United Federation of Teachers | 387,788 | 156,943 |
| Due to UFT Welfare Fund | - | (27,522) |
| Deferred revenue | (33,213) | (116,648) |
| Accrued sick and vacation pay | 52,733 | 52,309 |
| Net cash provided by operating activities | 194,324 | 37,734 |
| Cash flows from investing activities: | | |
| Proceeds from sale or redemption of investments | 37,000 | 293,000 |
| Additions to furniture and equipment | (290,734) | (608,023) |
| Net cash (used in) investing activities | (253,734) | (315,023) |
| (Decrease) in cash and cash equivalents | (59,410) | (277,289) |
| Cash and cash equivalents: | | |
| Beginning of year | 71,596 | 348,885 |
| End of year | \$ 12,186 | \$ 71,596 |

See notes to financial statements.

THE UFT CHARTER SCHOOL
Notes to Financial Statements
June 30, 2008 and 2007

Note 1 - Nature of Organization

The UFT Elementary Charter School (the "School") was formed under an education corporation that operates charter schools in the borough of Brooklyn, New York City. On July 21, 2005, the Board of Regents of the University of the State of New York for and on behalf of the Education Department of the State of New York granted the School a provisional charter valid for a term of five years from the effective date of July 15, 2005 and renewable upon expiration. On July 25, 2006, the New York State Board of Regents approved a revision to the charter for the name of the schools to be changed to the "UFT Charter School". Beginning September 2006, the UFT Secondary Charter School commenced classes. The UFT Secondary Charter School operates under the same charter as the UFT Elementary Charter School.

The School's mission is to prepare all students to achieve academic and personal excellence and to graduate students fully prepared for a demanding secondary education and help prepare students for meaningful lives as full democratic citizens in a free society.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its 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.

Net Assets

Unrestricted net assets are not restricted by donors/grantors or the donor/grantor-imposed restrictions have expired.

Temporarily restricted net assets contain donor/grantor-imposed restrictions that permit the School to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by action of the School.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the School.

THE UFT CHARTER SCHOOL
Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The School considers all highly liquid investments with a maturity of three months or less at time of purchase to be cash equivalents.

Valuation of Investments

Investment in the certificate of participation is carried at cost which approximates fair value.

Grants Receivable

Unconditional grants receivable are recognized as revenue in the period in which the grant is awarded. Conditional grants receivable are recognized when the conditions on which they depend are substantially met.

Inventory

Inventory is recorded at cost, which approximates its fair value. Inventory at June 30, 2008 and 2007 consists of shirts to be worn as part of a school uniform. The shirts are available for sale only to students and their families.

Furniture and Equipment

Furniture and equipment is recorded at cost except for assets acquired in accordance with government contracts, which are recorded as expenses of such contracts because the government agency retains title to the assets.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

THE UFT CHARTER SCHOOL
Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions and Grants

Contributions and grant revenue received are recorded as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. Contributions and grant revenue that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized.

Revenue from the local government 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.

Promises to Give

Conditional promises to give are not included as support until the conditions are substantially met. There are no unconditional promises to give.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

Note 3 - Furniture and Equipment

Furniture and equipment at June 30, 2008 and 2007 consists of:

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|
| Classroom and office furniture | \$ 290,144 | \$ 215,812 |
| Classroom and office computers and equipment | <u>729,702</u> | <u>513,300</u> |
| | 1,019,846 | 729,112 |
| Less: accumulated depreciation | <u>(247,003)</u> | <u>(86,563)</u> |
| Furniture and equipment, net | <u>\$ 772,843</u> | <u>\$ 642,549</u> |

THE UFT CHARTER SCHOOL
Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 4 - Related Party Transactions

The School is related to the United Federation of Teachers, Local 2, AFT (the "UFT"). The School utilizes the resources and personnel of the UFT and UFT Welfare Fund to effectuate cost savings and to minimize duplication of efforts. During the years ended June 30, 2008 and 2007, the School was allocated \$242,208 and \$351,089 from these entities, respectively. Allocated expenses consisted mainly of salaries, payroll taxes and employee benefits. The UFT contributed the allocated expenses to the School for the years ended June 30, 2008 and 2007.

Note 5 - Conditional Promises to Give

The School received the following conditional promise to give that is not recognized as assets in the statements of financial position:

| <u>Year Ending June 30,</u> | <u>UFT Elementary Charter School</u> | <u>UFT Secondary Charter School</u> |
|-----------------------------|--|---|
| 2009 | \$ <u>339,333</u> | \$ <u>166,667</u> |

Note 6 - Pension Plan

Effective fiscal year 2008 The UFT Charter School began contributing to the Teachers Retirement System, a defined contribution plan. The Total amount contributed for the year ended June 30, 2008 was \$241,816.

Note 7 - Concentrations of Credit Risk

The School maintains cash balances at a banking institution. Accounts are insured by the Federal Deposit Insurance Corporation for up to \$100,000. The School does not anticipate any risk problems.

Note 8 - Tax Status

The School has been determined by the Internal Revenue Service to be exempt from Federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code (the "Code").

2007

| | General | Fund-raising | Total |
|-------------------------------------|---------|--------------|--------------|
| Salaries | 1,106 | \$ 45,944 | \$ 3,072,891 |
| Payroll taxes | 1,696 | 3,534 | 236,356 |
| Employee benefits | 1,975 | 5,972 | 399,388 |
| Provision for sick and vacation pay | 1,294 | - | 52,309 |
| Classroom textbooks and supplies | - | - | 154,413 |
| Classroom furniture and equipment | - | - | 11,826 |
| Office furniture and equipment | 1,522 | - | 25,413 |
| Consulting | 1,560 | - | 112,560 |
| After school program | - | - | 339,344 |
| School uniforms | - | - | 20,022 |
| Insurance | 1,249 | - | 52,421 |
| Telephone | 1,243 | 658 | 43,961 |
| Meetings and conferences | 1,815 | - | 26,815 |
| Auditing | 1,000 | - | 25,000 |
| Teacher recruitment | - | - | 38,519 |
| Student recruitment | - | - | 26,877 |
| Printing | 964 | 69 | 4,586 |
| Office supplies | 1,750 | - | 30,750 |
| Postage | 479 | 34 | 2,280 |
| Copying | - | - | - |
| Teachers' discretionary | - | - | 15,488 |
| Student trips | - | - | 15,382 |
| Food service | - | - | 19,946 |
| Equipment rental | 3,810 | - | 3,810 |
| Maintenance and supplies | 5,971 | - | 5,971 |
| Payroll processing | 1,174 | 83 | 5,583 |
| Student testing materials | - | - | 13,344 |
| Depreciation | 3,789 | - | 76,654 |
| Miscellaneous | 4,645 | 330 | 22,091 |
| Total | 4,042 | \$ 56,624 | \$ 4,854,000 |



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Trustees
The UFT Charter School

We have audited the financial statements of The UFT Charter School as of and for the year ended June 30, 2008, and have issued our report thereon dated October 20, 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 UFT Charter 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 UFT Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The UFT Charter 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 entity'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 entity's financial statements 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 a material misstatement of the financial statements will not be prevented or detected by the entity'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.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether The UFT Charter 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*.

This report is intended solely for the information and use of The Board of Trustees of The UFT Charter School, others within the entity, 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.

Buchbinder Tunick & Company LLP

BUCHBINDER TUNICK & COMPANY LLP

October 20, 2008