

**THE UFT CHARTER SCHOOL**

**Financial Statements  
and  
Supplemental Schedules**

**For the Years Ended June 30, 2010 and 2009**

**THE UFT CHARTER SCHOOL**  
**For the Years Ended June 30, 2010 and 2009**

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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, 2010 and 2009, 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, 2010 and 2009, 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 27, 2010 on our consideration of 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules of functional expenses are presented for the purpose 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 27, 2010

**THE UFT CHARTER SCHOOL**  
**Statements of Financial Position**  
**June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 518,022	\$ 5,033
Grants receivable	586,728	184,641
Other receivable	577	152
Inventory	50,789	12,119
Due from Green Dot NY Charter School	1,590	1,424
Prepaid expenses	20,600	65,752
Furniture and equipment, net	<u>1,142,923</u>	<u>811,147</u>
Total assets	<u>\$ 2,321,229</u>	<u>\$ 1,080,268</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 518,607	\$ 411,498
Due to United Federation of Teachers	2,629,353	159,119
Due to UFT Welfare Fund	17,782	-
Deferred revenue	-	32,408
Accrued sick and vacation pay	<u>199,515</u>	<u>140,953</u>
Total liabilities	<u>3,365,257</u>	<u>743,978</u>
<b>NET (DEFICIT) ASSETS</b>		
Unrestricted	(1,105,171)	291,760
Temporarily restricted	<u>61,143</u>	<u>44,530</u>
Total net (deficit) assets	<u>(1,044,028)</u>	<u>336,290</u>
Total liabilities and net (deficit) assets	<u>\$ 2,321,229</u>	<u>\$ 1,080,268</u>

See notes to financial statements.

**THE UFT CHARTER SCHOOL**  
**Statements of Activities**  
**For the years ended June 30, 2010 and 2009**

	2010			2009*		
	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted
<b>Revenue:</b>						
Local per pupil operating revenue	\$ 10,686,610	\$ 10,686,610	\$ -	\$ 9,189,280	\$ 9,189,280	\$ -
Government grants	744,121	-	744,121	911,816	-	911,816
Contributions	284,700	10,000	274,700	1,099,943	506,000	593,943
Interest income	1,582	1,582	-	4,588	4,588	-
School uniform sales	19,534	19,534	-	7,525	7,525	-
Other income	10,421	10,421	-	12,886	12,886	-
Released from purpose restriction	-	1,002,208	(1,002,208)	-	1,461,229	(1,461,229)
<b>Total operating revenue</b>	<b>11,746,968</b>	<b>11,730,355</b>	<b>16,613</b>	<b>11,226,038</b>	<b>11,181,508</b>	<b>44,530</b>
<b>Expenses:</b>						
<b>Program services:</b>						
Regular Education	10,777,095	10,777,095	-	8,343,886	8,343,886	-
Special Education	679,834	679,834	-	503,513	503,513	-
<b>Supporting services:</b>						
Management and general	1,657,326	1,657,326	-	1,577,881	1,577,881	-
Fund-raising	13,031	13,031	-	14,497	14,497	-
<b>Total expenses</b>	<b>13,127,286</b>	<b>13,127,286</b>	<b>-</b>	<b>10,439,777</b>	<b>10,439,777</b>	<b>-</b>
Change in net assets	(1,380,318)	(1,396,931)	16,613	786,261	741,731	44,530
<b>Net (deficit) assets:</b>						
Beginning of year	336,290	291,760	44,530	(449,971)	(449,971)	-
End of year	<u>\$ (1,044,028)</u>	<u>\$ (1,105,171)</u>	<u>\$ 61,143</u>	<u>\$ 336,290</u>	<u>\$ 291,760</u>	<u>\$ 44,530</u>

\* Reclassified for comparative purposes.

See notes to financial statements.

**THE UFT CHARTER SCHOOL**  
**Statements of Cash Flows**  
**For the years ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,380,318)	\$ 786,261
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	292,137	210,818
(Increase) decrease in operating assets:		
Grants receivable	(402,087)	(85,973)
Other receivable	(425)	205,378
Inventory	(38,670)	26,165
Due from Green Dot NY Charter School	(166)	(1,424)
Prepaid expenses	45,152	(38,498)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	107,109	83,011
Due to United Federation of Teachers	-	(963,629)
Due to UFT Welfare Fund	17,782	-
Deferred revenue	(32,408)	(167)
Accrued sick and vacation pay	<u>58,562</u>	<u>20,027</u>
Net cash (used in) provided by operating activities	<u>(1,333,332)</u>	<u>241,969</u>
Cash flows from investing activities:		
Additions to furniture and equipment	<u>(623,913)</u>	<u>(249,122)</u>
Net cash (used in) investing activities	<u>(623,913)</u>	<u>(249,122)</u>
Cash flows from financing activities:		
Due to United Federation of Teachers	<u>2,470,234</u>	<u>-</u>
Net cash provided by financing activities	<u>2,470,234</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	512,989	(7,153)
Cash and cash equivalents:		
Beginning of year	<u>5,033</u>	<u>12,186</u>
End of year	<u>\$ 518,022</u>	<u>\$ 5,033</u>

See notes to financial statements.

**THE UFT CHARTER SCHOOL**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**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 school 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 to 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 School reports 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.

**THE UFT CHARTER SCHOOL**  
**Notes to Financial Statements (Continued)**  
**June 30, 2010 and 2009**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Net Assets (Continued)**

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the School. As of June 30, 2010 and 2009, the School did not have any permanently restricted net assets.

The State of New York has not adopted UPMIFA.

**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.

**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, 2010 and 2009 consists of shirts to be worn as part of a school uniform. The shirts are available for sale only to students and their families.

**THE UFT CHARTER SCHOOL**  
**Notes to Financial Statements (Continued)**  
**June 30, 2010 and 2009**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**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, which range from five to seven years.

**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. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases that net asset class. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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. Unconditional promises to give are recognized in the period received.

**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.

**THE UFT CHARTER SCHOOL**  
**Notes to Financial Statements (Continued)**  
**June 30, 2010 and 2009**

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Subsequent Events**

The School has evaluated subsequent events and transactions through October 27, 2010, the date that the School's financial statements were available to be issued.

**Note 3 - Furniture and Equipment**

At June 30, 2010 and 2009, furniture and equipment consisted of:

	2010	2009
Classroom and office furniture	\$ 499,597	\$ 342,071
Classroom and office computers and equipment	1,393,284	926,897
	1,892,881	1,268,968
Less: accumulated depreciation	(749,958)	(457,821)
Furniture and equipment, net	\$ 1,142,923	\$ 811,147

During the years ended June 30, 2010 and 2009, depreciation expense amounted to \$292,137 and \$210,818, respectively.

**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, 2010 and 2009, the School was allocated \$274,700 and \$260,217 from these entities, respectively. Allocated expenses consisted mainly of salaries, payroll taxes and employee benefits. Of these allocated expenses, the UFT contributed \$274,700 and \$130,109 to the School for the years ended June 30, 2010 and 2009, respectively.

**THE UFT CHARTER SCHOOL**  
**Notes to Financial Statements (Continued)**  
**June 30, 2010 and 2009**

**Note 5 - Temporarily Restricted Net Assets**

At June 30, 2010 and 2009, temporarily restricted net assets were available for the following purposes:

	<u>2010</u>	<u>2009</u>
Temporarily restricted:		
Individuals with Disabilities Education Act Grant	\$ -	\$ 33,030
Title I Grant 9/1/08-8/31/09	-	11,500
Title I Grant- NYS Department of Education 9/1/09-8/31/10	34,669	-
Title I Grant- American Recovery and Reinvestment Act 9/1/09-8/31/10	<u>26,474</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 61,143</u>	<u>\$ 44,530</u>

The School has adopted investment and spending policies for endowment assets (donor-restricted and Board-designated) that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. As of June 30, 2010, the School's endowment assets consisted of temporarily restricted net assets invested in cash and cash equivalents.

**Note 6 - Pension Plan**

Effective fiscal year 2008, the School began contributing to the Teachers Retirement System, a defined contribution plan. The total amounts contributed for the years ended June 30, 2010 and 2009 were \$1,087,086 and \$746,748, respectively.

**Note 7 - Concentrations**

**Credit Risk**

The School maintains cash balances at a banking institution. Accounts are insured by the Federal Deposit Insurance Corporation. The School does not anticipate any risk problems.

**THE UFT CHARTER SCHOOL**  
**Notes to Financial Statements (Continued)**  
**June 30, 2010 and 2009**

**Note 7 - Concentrations (Continued)**

**Significant Funding**

The School has entered into service contracts and grant agreements with New York State and New York City government agencies that are subject to business risks associated with the economy and administrative directives, rules and regulations that are subject to change. A significant reduction in revenue from these various governmental agency contracts would have an adverse effect on the School's programs.

**Note 8 - Tax Status**

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

The FASB established guidance on accounting for uncertainty in income taxes. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The School files an annual return Form 990, *Return of Organization Exempt from Income Tax*, with the IRS. At June 30, 2010, the School's Form 990s for the years 2007 through 2009 remain eligible for examination by the IRS.

**THE UFT CHARTER SCHOOL**  
**(Supplemental Schedules)**  
**Schedules of Functional Expenses**  
**For the years ended June 30, 2010 and 2009**

	2010					2009*				
	Program Services		Supporting Services			Program Services		Supporting Services		
	Regular Education	Special Education	Management and General	Fund-raising	Total	Regular Education	Special Education	Management and General	Fund-raising	Total
Salaries	\$ 6,686,758	\$ 418,281	\$ 576,016	\$ 9,480	\$ 7,690,535	\$ 5,302,686	\$ 351,808	\$ 688,981	\$ 10,969	\$ 6,354,444
Payroll taxes	572,114	35,794	49,283	790	657,981	403,308	26,774	52,389	822	483,293
Employee benefits	1,819,235	113,820	156,712	2,510	2,092,277	1,238,285	82,206	160,851	2,522	1,483,864
Provision for sick and vacation pay	45,766	(188)	12,984	-	58,562	24,660	-	(4,633)	-	20,027
Classroom textbooks and supplies	262,558	19,945	-	-	282,503	201,162	6,865	-	-	208,027
Classroom furniture and equipment	70,436	5,351	-	-	75,787	49,670	1,695	-	-	51,365
Office furniture and equipment	-	-	51,816	-	51,816	-	-	54,328	-	54,328
Consulting	-	-	179,425	-	179,425	-	-	258,642	-	258,642
After school program	827,485	62,858	-	-	890,343	702,462	23,972	-	-	726,434
School uniforms	28,181	2,141	-	-	30,322	58,020	1,980	-	-	60,000
Insurance	22,709	2,199	58,034	-	82,942	29,669	-	41,286	-	70,955
Telephone	44,441	2,780	3,828	62	51,111	35,497	1,211	4,473	71	41,252
Meetings and conferences	-	-	100,206	-	100,206	-	-	88,433	-	88,433
Auditing	-	-	27,100	-	27,100	-	-	26,000	-	26,000
Teacher recruitment	13,974	1,061	-	-	15,035	29,186	996	-	-	30,182
Student recruitment	7,395	562	-	-	7,957	955	23	-	-	978
Printing	23,103	1,445	1,990	33	26,571	11,178	381	1,408	23	12,990
Office supplies	-	-	19,256	-	19,256	-	-	71,278	-	71,278
Postage	7,743	484	667	12	8,906	5,192	177	654	11	6,034
Copying	228	14	20	-	262	-	-	-	-	-
Teachers' discretionary	33,229	2,524	-	-	35,753	36,557	1,247	-	-	37,804
Student trips	63,809	3,992	5,497	88	73,386	21,833	745	-	-	22,578
Food service	8,888	675	-	-	9,563	21,839	745	-	-	22,584
Repairs and maintenance	-	-	245,623	-	245,623	-	-	-	-	-
Equipment rental	-	-	903	-	903	-	-	1,209	-	1,209
Maintenance and supplies	-	-	23,912	-	23,912	-	-	16,071	-	16,071
Payroll processing	7,609	476	655	11	8,751	6,496	431	844	13	7,784
Student testing materials	20,664	1,570	-	-	22,234	34,960	1,193	-	-	36,153
School programs	25,948	1,971	-	-	27,919	-	-	-	-	-
Depreciation	151,600	-	140,537	-	292,137	99,081	-	111,737	-	210,818
Miscellaneous	33,222	2,079	2,862	45	38,208	31,190	1,064	3,930	66	36,250
<b>Total</b>	<b>\$ 10,777,095</b>	<b>\$ 679,834</b>	<b>\$ 1,657,326</b>	<b>\$ 13,031</b>	<b>\$ 13,127,286</b>	<b>\$ 8,343,886</b>	<b>\$ 503,513</b>	<b>\$ 1,577,881</b>	<b>\$ 14,497</b>	<b>\$ 10,439,777</b>

\* Reclassified for comparative purposes.

See independent auditor's report.

**INDEPENDENT AUDITOR'S 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**

The Board of Trustees  
The UFT Charter School

We have audited the financial statements of The UFT Charter School (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 27, 2010. 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 deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (2010-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The UFT Charter School's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 27, 2010

**THE UFT CHARTER SCHOOL**  
**Schedule of Findings and Responses**  
**For the years ended June 30, 2010 and 2009**

**Financial Statement Findings**

**Finding 2010-1**

During the year ended June 30, 2010, The UFT Charter School's management opened a bank account dedicated for specific school operating activities. In creating this bank account, management did not inform the finance and accounting department as to this matter. Additionally, management did not inquire of the finance and accounting department as to The UFT Charter School's internal control policy with respect to the creation of new bank accounts with financial institutions.

*Auditor's Recommendation:*

We recommend that management be informed of The UFT Charter School internal control policy with respect to the creation of new bank accounts. Additionally, the communication process between the bank and The UFT Charter School with respect to the creation of new bank accounts should be restricted to senior personnel of the accounting and finance department.

*Views of Management and Planned Corrective Actions:*

The accounting/finance department will reinforce to The UFT Charter School's management the existing internal control policy regarding the creation of new bank accounts. The creation and management of all bank accounts for The UFT Charter School is restricted to senior management of the accounting/finance department.