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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Fund for Public Schools, Inc.
New York, New York

We have audited the accompanying statements of financial position of The Fund for Public Schools, Inc. (the "Fund") as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Fund'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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the financial position of The Fund for Public Schools, Inc. as of June 30, 2010 and 2009, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

New York, New York
December 14, 2010

THE FUND FOR PUBLIC SCHOOLS, INC.

Statements of Financial Position

	June 30,	
	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 11,620,776	\$ 12,587,248
Contributions receivable	13,579,839	16,243,049
Investments	23,379,661	17,731,965
Property and equipment		2,929
Other assets	<u>11,517</u>	<u>10,107</u>
	<u>\$ 48,591,793</u>	<u>\$ 46,575,298</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 127,111	\$ 95,713
Grants payable - NYC Department of Education	<u>13,151,773</u>	<u>8,913,738</u>
Total liabilities	<u>13,278,884</u>	<u>9,009,451</u>
Net assets:		
Unrestricted	2,632,032	2,223,579
Temporarily restricted	31,889,382	34,575,773
Permanently restricted	<u>791,495</u>	<u>766,495</u>
Total net assets	<u>35,312,909</u>	<u>37,565,847</u>
	<u>\$ 48,591,793</u>	<u>\$ 46,575,298</u>

THE FUND FOR PUBLIC SCHOOLS, INC.

Statements of Activities

	Year Ended June 30,							
	2010			2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions and grants	\$ 1,196,942	\$ 22,057,303	\$ 25,000	\$ 23,279,245	\$ 951,068	\$ 13,829,011	\$ 25,000	\$ 14,805,079
Donated services	676,808			676,808	741,497			741,497
Net investment earnings	334,920	28,727		363,647	132,602	(52,959)		79,643
Interest income	200,452	93,391		293,843	517,134	190,384		707,518
Support and revenue before release from restrictions	2,409,122	22,179,421	25,000	24,613,543	2,342,301	13,966,436	25,000	16,333,737
Net assets released from restrictions	24,865,812	(24,865,812)		0	39,600,528	(39,600,528)		0
Total support and revenue	27,274,934	(2,686,391)	25,000	24,613,543	41,942,829	(25,634,092)	25,000	16,333,737
Expenses:								
Program services:								
NYC Department of Education Awareness Initiative	24,607,885			24,607,885	34,610,821			34,610,821
Total program services	24,607,885			24,607,885	37,331,996			37,331,996
Supporting services:								
Management and general Fund-raising	1,229,402			1,229,402	1,323,939			1,323,939
	492,098			492,098	498,619			498,619
Total supporting services	1,721,500			1,721,500	1,822,558			1,822,558
Total expenses	26,329,385			26,329,385	39,154,554			39,154,554
Change in net assets before discontinued programs	945,549	(2,686,391)	25,000	(1,715,842)	2,788,275	(25,634,092)	25,000	(22,820,817)
Discontinued programs	(537,096)			(537,096)	(2,472,877)			(2,472,877)
Change in net assets	408,453	(2,686,391)	25,000	(2,252,938)	315,398	(25,634,092)	25,000	(25,293,694)
Net assets - beginning of year	2,223,579	34,575,773	766,495	37,565,847	1,908,181	60,209,865	741,495	62,859,541
Net assets - end of year	\$ 2,632,032	\$ 31,889,382	\$ 791,495	\$ 35,312,909	\$ 2,223,579	\$ 34,575,773	\$ 766,495	\$ 37,565,847

THE FUND FOR PUBLIC SCHOOLS, INC.

Statements of Functional Expenses
(with summarized financial information for 2009)

Year Ended June 30, 2010:

	<u>NYC Department of Education</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total Expenses 2010</u>
Grants	\$ 24,401,580			\$ 24,401,580
Salaries and fringe benefits	205,695	\$ 750,065	\$ 114,932	1,070,692
Donated goods and services		311,686	365,122	676,808
Audit fees		45,000		45,000
Tax filing fees		1,275		1,275
Professional fees		79,197	6,165	85,362
Travel and meals		1,153	3,909	5,062
Professional development		2,729	1,970	4,699
Insurance		11,815		11,815
Miscellaneous	<u>610</u>	<u>26,482</u>		<u>27,092</u>
Total expenses	<u>\$ 24,607,885</u>	<u>\$ 1,229,402</u>	<u>\$ 492,098</u>	<u>\$ 26,329,385</u>

Year Ended June 30, 2009:

	<u>NYC Department of Education</u>	<u>Awareness Initiative</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total Expenses 2009</u>
Grants	\$ 34,460,318	\$ 2,628,830			\$ 37,089,148
Salaries and fringe benefits	150,241	92,041	\$ 736,419	\$ 113,963	1,092,664
Donated goods and services			376,691	364,806	741,497
Audit fees			33,000		33,000
Tax filing fees			2,025		2,025
Professional fees			116,905	8,363	125,268
Travel and meals			1,802	5,943	7,745
Professional development			11,255	4,416	15,671
Insurance			4,764		4,764
Miscellaneous	<u>262</u>	<u>304</u>	<u>41,078</u>	<u>1,128</u>	<u>42,772</u>
Total expenses	<u>\$ 34,610,821</u>	<u>\$ 2,721,175</u>	<u>\$ 1,323,939</u>	<u>\$ 498,619</u>	<u>\$ 39,154,554</u>

THE FUND FOR PUBLIC SCHOOLS, INC.

Statements of Cash Flows

	Year Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (2,252,938)	\$ (25,293,694)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gains on investments	(363,647)	(79,643)
Depreciation and amortization	2,929	2,930
Donated stock	(103,300)	
Cost of discontinued programs	537,096	2,472,877
Changes in:		
Contributions receivable	2,126,114	15,017,461
Other assets	(1,410)	16,313
Accounts payable	31,398	24,047
Grants payable - NYC Department of Education	4,238,035	2,854,627
Net cash provided by (used in) operating activities	<u>4,214,277</u>	<u>(4,985,082)</u>
Cash flows from investing activities:		
Proceeds from redemption of investments	23,842,263	4,317,537
Purchases of investments	<u>(29,023,012)</u>	<u>(950,720)</u>
Net cash (used in) provided by investing activities	<u>(5,180,749)</u>	<u>3,366,817</u>
Net decrease in cash and cash equivalents	(966,472)	(1,618,265)
Cash and cash equivalents - beginning of year	<u>12,587,248</u>	<u>14,205,513</u>
Cash and cash equivalents - end of year	<u>\$ 11,620,776</u>	<u>\$ 12,587,248</u>
Supplementary information:		
Non-cash donations of goods and services	<u>\$ 676,808</u>	<u>\$ 741,497</u>

THE FUND FOR PUBLIC SCHOOLS, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

Located in New York City, the Fund for Public Schools, Inc. (the "Fund"), a not-for-profit organization, was established in New York in 1982 to facilitate the collection of private-sector grants and gifts and the disbursement of such funds as needed to finance certain educational programs of the New York City Department of Education. Oversight of the Fund is the responsibility of its directors, chief executive officer and chief financial officer. The Chancellor of the NYC Department of Education is also a director of the Fund. The Fund seeks critical funding for system-wide educational reform initiatives throughout the city's public schools. The Fund provides grants and other support to the NYC Department of Education for these purposes.

The Fund also seeks and accepts contributions on behalf of the New York City Leadership Academy, a separate not-for-profit entity which has a similar mission as the Fund and is affiliated with New York City's public school system. These contributions are received by the Fund on behalf of the Leadership Academy and transferred to them. For fiscal-years 2010 and 2009, amounts of approximately \$141,000 and \$50,000 were pledged or committed in support of the Leadership Academy. However, accounting principles generally accepted in the United States of America require that the contributions received for the Leadership Academy not be included in the Fund's financial statements for the Fund.

The Fund is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws.

[2] Financial reporting:

(a) Basis of accounting:

The accompanying financial statements have been prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to not-for-profit entities.

(b) Functional allocation of expenses:

The costs of providing the various programs and supporting services 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 using reasonable ratios determined by management.

(c) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingencies. Actual results may differ from those estimates.

(d) Cash equivalents:

The Fund considers all highly liquid investments, with a maturity of three months or less when purchased, to be cash equivalents, except those that are included as a part of the investment portfolio.

THE FUND FOR PUBLIC SCHOOLS, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Financial reporting: (continued)

(e) Net assets:

The Fund's net assets, as well as its revenues, expenses, gains and losses, are classified in the financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes therein are classified and reported as follows:

(i) *Unrestricted:*

Unrestricted net assets represent those resources available for current operations, with no donor restrictions.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources subject to donor-imposed stipulations that will be met by either specific actions of the Fund or the passage of time.

(iii) *Permanently restricted:*

Permanently restricted net assets represent those resources subject to donor-imposed stipulations that they be maintained permanently by the Fund.

[3] Endowment funds:

The Fund reports all applicable disclosures to its donor-restricted funds as endowment (see Note F).

[4] Investments:

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the accompanying statements of financial position, with realized and unrealized gains and losses included in the accompanying statements of activities. Net investment income, and the realized and unrealized gains and losses on investments, are reported as unrestricted unless specifically restricted by donors. Donated securities are recorded at their fair values at the dates of donation.

[5] Fair-value measurement:

The Fund reports a fair-value measurement of all applicable assets and liabilities (see Note C).

[6] Property and equipment:

Property and equipment are recorded at their original costs. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 7 years.

[7] Accrued vacation obligation:

Based on their tenure, the Fund's employees are entitled to be paid for unused vacation time if they leave the organization. Accordingly, at each fiscal year-end, the Fund recognizes a liability for the obligation that would be incurred if all employees with such unused vacation were to leave. At June 30, 2010 and 2009, this accrued vacation obligation was \$28,513 and \$24,853, respectively.

THE FUND FOR PUBLIC SCHOOLS, INC.

**Notes to Financial Statements
June 30, 2010 and 2009**

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Contributions:

Contributions are recorded as revenue upon the receipt of cash or unconditional pledges. Contributions are considered available for unrestricted use, unless specifically restricted by the donor.

The Fund reports contributions as temporarily or permanently restricted if they are received with donor stipulations or time considerations as to their use. When a donor's restriction is met, that is, when a stipulated time restriction ends or a specific purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Additional contributions are forthcoming but not included in these financial statements. These contributions are contingent on pledges that are related to grant performance milestones and metrics.

[9] Income taxes:

In fiscal-year 2010, the Fund adopted the provisions of Accounting Standards Codification ("ASC") 740-10-05 relating to accounting and reporting for uncertainty in income taxes. Because of the Fund's general tax-exempt status, ASC 740-10-05 has not had, and is not expected to have, a material effect on the Fund's financial statements.

[10] Subsequent events:

The Fund considers all accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after the fiscal year-end through the date of the independent auditors' report.

NOTE B - CONTRIBUTIONS RECEIVABLE

At each fiscal year-end, uncollected contributions made to the Fund were estimated to be collected as follows:

	June 30,	
	2010	2009
2010		\$ 7,239,203
2011	\$ 12,091,919	4,162,716
2012	1,511,450	3,377,242
2013	<u>170,000</u>	<u>3,110,044</u>
	13,773,369	17,889,205
Reduction in pledges due in excess of one year to present value, at a discount rate of 6% in 2010 and 2009	<u>(193,530)</u>	<u>(1,646,156)</u>
	<u>\$ 13,579,839</u>	<u>\$ 16,243,049</u>

THE FUND FOR PUBLIC SCHOOLS, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE B - CONTRIBUTIONS RECEIVABLE (CONTINUED)

The Fund's contributions receivable consisted of pledges which had not been collected as of those dates. Amounts not due within one year have been discounted to present value. Pledged amounts are from major institutional donors, and management expects the receivables to be fully collected. Accordingly, no allowance for doubtful amounts has been established. During fiscal-year 2010, the Fund received several payments in advance of the scheduled payment dates, resulting in additional recognition of contribution income from the change in the present value discount.

NOTE C - INVESTMENTS

At each fiscal year-end, the Fund's investments consisted of the following:

	June 30,			
	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Money market and U.S. government short-term duration funds	\$ 23,010,218	\$ 23,043,471	\$ 17,482,525	\$ 17,534,435
Common stock	330,284	287,005	269,022	197,530
Certificate of deposit	<u>50,000</u>	<u>49,185</u>	<u> </u>	<u> </u>
	<u>\$ 23,390,502</u>	<u>\$ 23,379,661</u>	<u>\$ 17,751,547</u>	<u>\$ 17,731,965</u>

During each fiscal-year, investment income consisted of the following:

	June 30,	
	2010	2009
Interest income	\$ 293,843	\$ 707,518
Net realized gains on investments	8,744	18,070
Net unrealized gains on investments	<u>354,903</u>	<u>61,573</u>
	<u>\$ 657,490</u>	<u>\$ 787,161</u>

As discussed in Note A, the Fund measures its investments at fair value, in the following manner:

- requiring consideration of non-performance risk when valuing liabilities;
- defining fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, and establishing a framework for measuring fair value; and
- establishing a three-level hierarchy for fair-value measurement based upon the observability of inputs to the evaluation of an asset or liability as of the measurement date.

ASC 820-10-05 establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained

THE FUND FOR PUBLIC SCHOOLS, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE C - INVESTMENTS (CONTINUED)

from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

Level 1 - Valuations are based on observable inputs that reflect quoted market prices in active markets for identical assets and liabilities at the reporting date. The types of investments and other assets included in Level 1 are exchange-traded equity and debt securities, short-term money-market funds, and actively traded obligations issued by the U.S. government and government agencies.

Level 2 - Valuations are based on (i) quoted prices for similar assets or liabilities in active markets, or (ii) quoted prices for identical or similar assets or liabilities in markets that are not active or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include other U.S. government and agency securities and corporate equity and debt securities that are redeemable at or near the balance sheet date and for which a model was derived for valuation.

Level 3 - Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. Level 3 assets include securities in privately held companies, secured notes, private corporate bonds, and limited partnerships, the underlying investments of which could not be independently valued, or cannot be immediately redeemed at or near the fiscal year-end.

All of the Fund's investments are classified within Level 1.

NOTE D - DONATED GOODS AND SERVICES

The NYC Department of Education has donated significant amounts of time and resources to the Fund. These donated services are valued at the standard market rates that would have been incurred by the Fund to obtain them and were reported as both revenue and expense in the accompanying statements of activities.

For fiscal-years 2010 and 2009, the Fund received donated services for its programs, consisting primarily of financial and administrative services, in the amounts of \$676,808 and \$741,497, respectively.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

For fiscal-years 2010 and 2009, temporarily restricted net assets consisted of \$31,889,382 and \$34,575,773, respectively, and were restricted for NYC Department of Education programs.

During each fiscal year, net assets released from restrictions consisted of the following:

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
NYC Department of Education programs	\$ 24,865,812	\$ 36,925,164
Awareness Initiative		2,675,364
	<u>\$ 24,865,812</u>	<u>\$ 39,600,528</u>

THE FUND FOR PUBLIC SCHOOLS, INC.

Notes to Financial Statements
June 30, 2010 and 2009

NOTE F - ENDOWMENT

[1] The endowment:

The Fund's endowment funds consist of seven donor-restricted funds, established to support educational services and scholarships.

[2] Interpretation of relevant law:

The Board of Directors has interpreted the New York State Uniform Management of Institutional Funds Act ("UMIFA") as requiring the preservation of the historic dollar value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies the following amounts as permanently restricted net assets:

- the original value of gifts donated to the permanent endowment,
- the original value of subsequent gifts to the permanent endowment, and
- accumulations of the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

[3] Changes in endowment net assets for fiscal-years 2010 and 2009:

	Year Ended June 30,	
	2010	2009
Endowment net assets, beginning of year	\$ 766,495	\$ 741,495
Contributions	<u>25,000</u>	<u>25,000</u>
Endowment net assets, end of year	<u>\$ 791,495</u>	<u>\$ 766,495</u>

[4] Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA requires the Fund to retain as a fund of perpetual duration. Deficiencies of this nature, reported in unrestricted net assets, were \$64,149 and \$100,860 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed to be prudent by the Board of Directors.

[5] Return objectives and risk parameters:

The Fund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Accordingly, the endowment assets are invested in a manner intended to produce a reasonable rate of return, while assuming a moderate level of investment risk.

[6] Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Fund relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Fund targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

THE FUND FOR PUBLIC SCHOOLS, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE G - CONCENTRATION OF CREDIT RISK

The Fund maintains its cash in bank accounts in amounts which at times may exceed federally insured limits. In addition, the Fund maintains its investments primarily in money-market funds and short-term fixed-income funds that are invested in direct obligations of the U.S. government and are AAA-rated. Management believes the Fund is not exposed to any significant risk of loss on these accounts.

NOTE H - PENSION PLAN

The Fund maintains a defined-contribution Section 403(b) pension plan and contributes a matching amount equal to 5% of each eligible employee's annual compensation. Contributions for fiscal-years 2010 and 2009 were \$45,134 and \$45,126, respectively.

NOTE I - COMMITMENTS

The Fund's government-funded activities are subject to audit by the applicable granting agencies. At June 30, 2010, there were no material obligations outstanding as a result of such audit, and the Fund's management believes that unaudited projects will not result in any material obligations.

NOTE J - DISCONTINUED PROGRAMS

Fiscal-year 2010:

In 2006, Beat the Streets Wrestling ("BTSW") formed a partnership with the Fund on behalf of the NYC Department of Education to support the extension of wrestling programs into middle schools and high schools. BTSW originally granted \$1,025,901 with the goal of dramatically expanding wrestling opportunities in the City's public schools, to be used over a three-year engagement that ended in June 2009. During this time period, the partnership was focused on planning and implementation activities, including school outreach to create interest in wrestling programs, outreach to generate student interest, new program implementation, professional development for coaches, and continuing program administration. In fiscal-year 2010, the determination was made by BTSW to operate the wrestling program in the City's public schools without the Fund's involvement, and therefore, \$537,096 of the grant will not be distributed to the Fund.

Fiscal-year 2009:

The Partnership for Teacher Excellence (the "Partnership"), formed in February 2006, brought together The City University of New York, New York University and the NYC Department of Education to develop and implement an innovative model for teacher education. The model was supported by a \$15,000,000 grant provided to the NYC Department of Education through the Fund, from the Carroll and Milton Petrie Foundation (the "Foundation"), during a three and a half-year grant period. At the end of the grant period, \$2,472,877 remained unspent from the original pledge. In discussion with the Foundation, the determination was made during fiscal year 2009 to conclude the Partnership per the original grant period and therefore, the remaining unspent balance has been characterized as a discontinued program.