



# ACHIEVEMENT FIRST

AMISTAD ACADEMY · ELM CITY COLLEGE PREP · ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL  
ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL · ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL  
ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL · AMISTAD-ELM CITY HIGH · ACHIEVEMENT FIRST BRIDGEPORT ACADEMY  
ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL · ACHIEVEMENT FIRST HARTFORD ACADEMY

October 28, 2008

Maureen Murphy  
Charter Schools Institute  
41 State Street, Suite 700  
Albany, NY 12207

Dear Maureen:

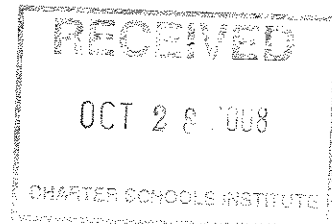
Enclosed please find the audited financial statements, management letters and management responses for Achievement First Bushwick Charter School.

If you have any questions please call me at 718-774-0906 x12406 or email at [abbyfarber@achievementfirst.org](mailto:abbyfarber@achievementfirst.org).

Sincerely,



Abby Farber  
Director of Finance



CT 403 James Street New Haven CT 06613 T 203 773 3223 F 203 773 3221  
NYC 1137 Herkimer Street Brooklyn NY 11233 T 718 774 0906 F 718 804 0131  
[www.achievementfirst.org](http://www.achievementfirst.org)



Charter School Annual Financial Statement Audit Report

To: Charter Schools Institute  
 State University of New York  
 41 State Street, Suite 700  
 Albany, New York 12207

From: School Name:	Achievement First Bushwick Charter School
Audit Period:	July 1 2007 – June 30 2008
Date: <i>Report is due Nov. 1</i>	October 29, 2008

The following items are required to be included:

- The independent auditor’s report on financial statements, financial statements and notes.
- Reports on internal control over financial reporting and on compliance.

The additional items listed below should be included if applicable. Please explain the reason(s) if the items are not included. Examples might include: a written management letter was not issued; the school did not expend federal funds in excess of the Single Audit Threshold of \$500,000; the management letter response will be submitted by the following date (should be no later than 30 days from the submission of the report); etc.

Item	If not included, state the reason(s) below
Management Letter	
Management letter response	
Federal Single Audit (A-133) <sup>1</sup>	Not required – school did not expend federal funds in excess of the Single Audit Threshold of \$500,000
Corrective Action Plan	

Please also send one copy of this form and all required enclosures to each of the following offices:

Public School Choice Programs New York State Education Department 89 Washington Avenue Room 462 EBA Albany, New York 12234	Office of Audit Services New York State Education Department 89 Washington Avenue Room 524 EB Albany, New York 12234
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**ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008**

**ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL**  
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June 30, 2008

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ERE LLP  
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New York, NY 10016-8012  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Achievement First Bushwick Charter School

We have audited the accompanying statement of financial position of Achievement First Bushwick Charter School (the "School") as of June 30, 2008, and the related statements of activities, functional expenses and cash flows for the year 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 audit.

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. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 Achievement First Bushwick Charter School as of June 30, 2008 and the changes in its net assets and its cash flows for the year 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 16, 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 considered in assessing the results of our audit.

ERE LLP

New York, NY  
October 16, 2008

# ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION

As of June 30, 2008

Assets:

Cash and Cash Equivalents	\$	695,600
Grants and other receivables		166,106
Prepaid expenses and other assets		16,909
Property and equipment, net		304,570

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<b>Total Assets</b>	<b>\$</b>	<b>1,183,185</b>
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Liabilities and Net Assets:

Liabilities:

Accounts payable and accrued expenses	\$	161,126
Accrued salary and other payroll related expenses		277,416
Due to Achievement First, Inc.		4,447

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Total Liabilities		442,989
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Net assets - unrestricted		740,196
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<b>Total Liabilities and Net Assets</b>	<b>\$</b>	<b>1,183,185</b>
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The accompanying notes are an integral part of these financial statements.

# ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

## STATEMENT OF ACTIVITIES

**Year Ended June 30, 2008**

Operating revenue:	
State and local per pupil operating revenue	\$ 3,785,139
Government grants and contracts	497,627
Student meal fees	18,249
Special education revenue	5,147
Total operating revenue	4,306,162
Expenses:	
Program services	3,645,201
Management and general	523,728
Fundraising	30,265
Total operating expenses	4,199,194
Surplus from school operations	106,968
Support and other income:	
Foundation grants	297,000
Corporations	3,000
Individuals	12,485
Interest income	7,319
Other income	41
Total support and other income	319,845
Change in net assets	426,813
Net assets – unrestricted – beginning of year	313,383
<b>Net assets – unrestricted – end of year</b>	<b>\$ 740,196</b>

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

# ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2008

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,164,812	\$ 309,638	\$ -	\$ 2,474,450
Payroll taxes and employee benefits	391,164	56,162	-	447,326
After-school academic program	1,347	-	-	1,347
Classroom supplies and instructional materials	340,693	-	-	340,693
Accounting	-	16,567	-	16,567
Management fees	233,039	39,344	30,265	302,648
Office expense	84,900	26,255	-	111,155
Insurance	16,419	2,348	-	18,767
Postage and delivery	2,652	663	-	3,315
Printing and copying	15,130	3,783	-	18,913
Rent - building permit fees	37,486	5,362	-	42,848
Student field trips and incentive programs	40,393	-	-	40,393
Student food services	34,277	-	-	34,277
Student transportation	47,480	-	-	47,480
Student uniforms	1,356	-	-	1,356
Staff professional development	23,453	-	-	23,453
Telephone and internet	32,900	4,706	-	37,606
Technology infrastructure and software	14,585	2,222	-	16,807
Interest and bank charges	-	1,670	-	1,670
Parent activities	259	-	-	259
Furniture and equipment - non-capitalized	15,585	2,229	-	17,814
Repairs and maintenance	21,393	3,060	-	24,453
Depreciation and amortization	125,878	18,004	-	143,882
Bad debt expense	-	31,715	-	31,715
<b>Total expenses</b>	<b>\$ 3,645,201</b>	<b>\$ 523,728</b>	<b>\$ 30,265</b>	<b>\$ 4,199,194</b>

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

# ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

## STATEMENT OF CASH FLOWS

**Year Ended June 30, 2008**

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 426,813
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	143,882
Bad debt expense	18,316
<b>Changes in operating assets and liabilities:</b>	
(Increase) decrease in assets	
Decrease in grants and other receivables	73,721
Increase in prepaid expenses and other assets	(10,468)
(Decrease) Increase in liabilities:	
Decrease in accounts payable and accrued expenses	(71,336)
Increase in accrued salary and other payroll related expenses	277,416
Increase in due to Achievement First, Inc.	4,447
<b>Net cash provided by operating activities</b>	<b>862,791</b>
<b>Cash flows from investing activities:</b>	
Purchase of property and equipment	(265,103)
<b>Net cash used in investing activities</b>	<b>(265,103)</b>
<b>Cash flows from financing activities:</b>	
Proceeds from line of credit	100,000
Principal payments on line of credit	(100,000)
<b>Net cash used in financing activities</b>	<b>-</b>
Net increase in cash and cash equivalents	597,688
Cash and cash equivalent - beginning of year	97,912
<b>Cash and cash equivalent - end of year</b>	<b>\$ 695,600</b>

**Supplementary information:**

Cash paid for interest	\$ 367
Cash paid for taxes	\$ -

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

# ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2008

### 1. NATURE OF THE ORGANIZATION:

Achievement First Bushwick Charter School (the "School"), was incorporated to focus on strengthening the academic and character skills needed for all students to excel in top-tier colleges, to achieve success in a competitive world, and to serve as the next generation of leaders in their communities. On June 27, 2006, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. Today the School serves students from low income households in Brooklyn, New York.

In fiscal year 2008, the School operated classes for students in kindergarten, first, second and fifth grades.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

### 2. SIGNIFICANT ACCOUNTING POLICIES:

#### Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting.

The classification of an organization's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

**Permanently Restricted** – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

**Temporarily Restricted** – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. 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. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

**Unrestricted** – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

#### Cash and Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

# ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2008

### Contribution and Other Receivables

Contribution and other receivables represent unconditional promises to give. At June 30, 2008, the School had \$166,106 of contribution and other receivables that are expected to be collected within one year and recorded at net realizable value. The School has determined that no allowance for uncollectible accounts for contribution receivable is necessary as of June 30, 2008. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

The School evaluates the collectability of the meal fee receivables and employs the direct-write off method which approximates U.S. Generally Accepted Accounting Principles.

### Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a \$1,000 threshold above which assets are capitalized. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease.

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the years ended June 30, 2008 and 2007.

### Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

### Functional Allocation of Expenses

Expenses that can directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable.

### 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2008

**3. AGREEMENT WITH SCHOOL FACILITY:**

The School entered into a "Facility Share Use Agreement" (the "Agreement") with the New York City Department of Education "(NYC DOE)" for dedicated and shared space at P.S. 45, a New York City public school located at 84 Schaefer Street, Brooklyn, New York. The Agreement commenced on July 1, 2006 at a cost of \$1 per year and expired on June 30, 2007. Subsequently, the School renewed their agreement with the NYC DOE for one year and in addition, entered into a second agreement with the NYC DOE for dedicated and shared space at P.S. 137, a New York City public school located at 1137 Herkimer Street, Brooklyn, New York. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the year ended June 30, 2008, the School incurred overtime permit fees of \$42,848, which is included in the accompanying statement of functional expenses.

**4. RELATED PARTY TRANSACTIONS**

The School entered into an Academic and Business Services Agreement (the "Agreement") with Achievement First, a not-for-profit organization dedicated to helping start and run charter schools. This Agreement provides management and other administrative support services to the School. Pursuant to the terms of the Agreement, the School shall pay a service fee equivalent to 8% of the average number of students enrolled during the school year, times the approved per pupil operating expense for the upcoming year. The initial term of this Agreement is for 5 years ending on June 30, 2011. For the year ended June 30, 2008, the School incurred management fees of \$302,648, which is included in the accompanying statement of functional expenses.

As of June 30, 2008 the amount due to Achievement First, Inc. was \$4,447.

**5. PROPERTY AND EQUIPMENT:**

Property and equipment consist of the following as of June 30, 2008:

			Estimated Useful Lives
Furniture and fixtures	\$	84,798	5 years
Computers and hardware		88,209	3 years
Waterford computers and hardware		180,898	5 years
Equipment		41,034	3 years
Software		73,155	5 years
Instruments		45,580	5 years
Leasehold improvements		3,793	5 years
		517,467	
Less: accumulated depreciation and amortization		(212,897)	
	\$	304,570	

Depreciation expense and amortization for the year ended June 30, 2008 was \$143,882.

# ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2008

6. **LINE OF CREDIT:** The School has a revolving line of credit agreement with Bank of America in which it can borrow up to \$200,000. The line of credit carries an interest rate of the bank's prime plus one percent (5.5%) and is secured by the School's equipment and receivables. As of June 30, 2008 and October 16, 2008, the School did not have an outstanding balance. Total interest expense as of June 30, 2008 was \$367 and is included in debt service and bank service charge in the accompanying statement of functional expenses.

7. **COMMITMENTS AND CONTINGENCIES:** The School leases telecommunications equipment and copiers under a non-cancelable operating lease which will expire in 2009. Future minimum lease payments are as follows:

June 30,	
2009	\$ 16,826
2010	1,402
<b>Total</b>	<b>\$ 18,228</b>

8. **PENSION PLAN** Effective September 1, 2006, the School adopted a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the plan either the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 4% of an employee's salary, up to a maximum match of \$2,500 per year per employee. The School contribution does not become vested until its third year when it becomes fully vested. As of June 30, 2008, pension expense for the School is \$33,150, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

9. **RISK MANAGEMENT** The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to protect itself from such risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School. The accompanying financial statements make no provision for the possible disallowance or refund.

10. **CONCENTRATIONS:**

- A. The School maintains cash accounts at financial institutions. The amount in excess of \$100,000 is not insured by the Federal Deposit Insurance Corporation.
- B. The School received approximately 82% of its total revenue from per pupil funding from New York City Department of Education.

**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  
Achievement First Bushwick Charter School

We have audited the financial statements of Achievement First Bushwick Charter School (the "School") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 16, 2008, 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.

## 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 we reported to management of the School in a separate letter dated October 16, 2008.

This report is intended solely for the information and use of the audit committee, board of trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

*ERE LLP*

New York, NY  
October 16, 2008



To the Board of Trustees  
Achievement First Bushwick Charter School

In planning and performing our audit of the financial statements of Achievement First Bushwick Charter School (the "School") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Achievement First Bushwick Charter School's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We consider the following deficiency to be a significant deficiency in internal control:

- The School currently uses QuickBooks accounting software to process and report on accounting transactions. This software provides the necessary features to process data and generate financial statements as well as security features including limiting user access and a permanent record of all activities that cannot be modified. However, since the software does not have the functionality to permanently close a financial period, there is a possibility that data could be changed after an audit is completed. Management has internal controls in place to limit the possibility of making such changes. We therefore recommend that management continue to follow these internal controls and investigate the use of different software that allows for a permanent year-end closing.

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. We believe that the following deficiency constitutes material weakness.

- Property and equipment purchased with government funds were not properly tagged.

This communication is intended solely for the information and use of Board of Trustees, management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*ENEUP*

New York, NY  
October 16, 2008

**Achievement First Bushwick Charter School**  
*Communication With Those Charged With Governance*

*OCTOBER 16, 2008*



October 16, 2008

To the Audit Committee  
Achievement First Bushwick Charter School

We have audited the financial statements of Achievement First Bushwick Charter School (the "School") for the year ended June 30, 2008 and are prepared to issue our report thereon dated October 16, 2008. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

#### **REQUIRED COMMUNICATIONS**

##### **A. Our Responsibility under U.S. Generally Accepted Auditing Standards:**

As stated in our engagement letter June 30, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Achievement First Bushwick Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

##### **B. Planned Scope and Timing of the Audit:**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 30, 2008.

##### **C. Auditor Independence:**

We affirm that ERE LLP is independent with respect to Achievement First Bushwick Charter School.

##### **D. Qualitative Aspects of Accounting Practices:**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Achievement First Bushwick Charter School are described in Note 2 to the

financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus.

**E. Accounting Estimates Used in the Financial Statements:**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

**Allowance for Doubtful Accounts:**

As of June 30, 2008, Achievement First Bushwick Charter School recorded contributions and other receivables of \$166,106. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with Achievement First, Inc.'s Director of Finance, we concur with management's conclusion.

**F. Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Except as made known to you, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. We will identify those adjustments proposed both corrected and uncorrected:

**Proposed and Corrected:**

There were 16 audit adjustments that decreased net assets by approximately \$82,000. Of the 15 adjustments, the four most significant journal entries effecting net assets were as follows:

1. To decrease net asset by approximately \$81,000 to accrue for July salaries.
2. To increase net asset by approximately \$40,000 to correct the attendance bonus accrual.
3. To decrease net asset by approximately \$36,000 to accrue for June salaries.
4. To increase net asset by approximately \$27,000 to correct the 403(b) pension liability.

**Proposed and Uncorrected:**

There were 2 audit adjustments that would have increased net assets by approximately \$180,000:

1. Reversal of July's payroll accrual in the amount of approximately \$136,000.
2. Reversal of summer school students' transportation cost of approximately \$44,000.

**G. Audit Difficulties and Disagreements with Management:**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

**H. Management Representations:**

We have requested certain representations from management that are included in the management representation letter dated October 16, 2008.

**I. Management Consultations with Other Independent Accountants:**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**J. Other Audit Findings or Issues:**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR  
ENHANCING OPERATING EFFICIENCY**

Please note: Comments with an asterisk (\*) were communicated in the prior fiscal year.

**\*Credit Cards:**

Our audit of credit card charges prior year revealed the following:

- The description of the business purposes was not documented on the receipts or the monthly statements. We recommend that all credit card receipts or statements include a brief description about the nature of the charge and how it relates to the School's activities.

- **Current year status:** descriptions of the business purposes remain absent on the receipts or the monthly statements. Finance charges incurred totaled approximately \$1,000. Of the 9 instances of late payments, 6 were paid after prior year's audit presentation.
- The School credit card has a credit line of \$20,000 per person and an aggregate cash advance line of \$10,000. These high lines may expose the School to potential risks. Accordingly, we recommend that management consider reducing the credit line and eliminating the cash advance feature.
  - **Current year status:** we noted that even though the board had approved to revoke the cash advance feature, the feature was still there as of the June 3, 2008 credit card statement.

**Projected Student Enrollment Invoice:**

During the audit, we noted that management was forced to draw on the line of credit as a precautionary measure because per-pupil funding was under-submitted by approximately \$137,788 ( $(\$11,023 * 75\text{students}) / 6\text{ months}$ ), due to a reporting error made at the beginning of the school year. As a result, the School drew \$100,000 from the line of credit. We recommend that a second member of management concurrently review any voucher before submitting it to the City; this will help prevent not only clerical error but also avoid the need to borrow funds to cover shortfalls.

**E-Rate Receivable:**

During the audit, we noted that the E-Rate funds from prior year was collected by Achievement First, Inc. but not forwarded to Achievement First Bushwick Charter School as of June 30, 2008. Even though this receivable was confirmed by Achievement First, Inc., we recommend all funds belonging to the school held by outside parties be transferred over to the school in a timely manner to avoid potential cash flow hardships.

**\*Write-offs:**

Through various conversations with the School's staff, there does not appear to be a formal written policy pertaining to the write-off of receivables. We have noted that an adjustment was made at the end of the year to write off receivables of lunch money that was due from the parents. Accordingly, we recommend that the School adopt a written policy regarding the processing of write-off of receivables.

- **Current year status:** we noted that the School still has not adopted a formal written policy pertaining to the write-off of receivables. Similar to prior year, an adjustment was made at the end of the year to write off receivables of lunch money that was due from the parents.

**\*Fixed Assets (See separate letter):**

Organizations that purchase fixed assets with government funding are required to properly tag those assets. As of the date of this letter, the School has not tagged the fixed assets. Accordingly, we recommend that the School not only adhere to this mandate, but also tag all significant fixed assets.

- **Current year status:** we noted that as of year-end, fixed assets from government funds are still not tagged.

**\*Payroll:**

U.S. Generally Accepted Accounting Principles ("US GAAP") limits only those expenditures that were incurred during the fiscal year to be accrued as of the fiscal year end. As of June 30, 2007, an accrual for the July 2007 salaries has been recorded. We recommend that management consider reversing the accrual.

- **Current year status:** we noted that management accrued July 2008 salaries as well.

**\*Cell Phones Usage Agreement:**

The School has established a policy where each employee issued a school cell phone, must sign the *Cell Phone Usage Agreement*. As of the end of our fieldwork the Principal and Director of Operations have not signed the policy. We recommend that the School enforce the established policy.

- **Current year status:** we noted that even though the Director of Operations and the Principal of the elementary school have signed the cell phone usage agreement, the Principal of the middle school has not.

**\*Outstanding checks:**

School's fiscal policies and procedures require that the Regional Director of Finance review bank reconciliations and the reconciling report on a monthly basis. We have noted that there are several checks from August and November of 2006 that are still on the outstanding checklist as of June 30, 2008. We recommend that the School adopt a written policy regarding the processing of checks that are outstanding more than six months.

- **Current year status:** we noted that there is close to \$10,000 worth of outstanding checks more than 6 months old as of June 30, 2008.

**\*Laptops:**

School's policies and procedures require that each employee carrying a school's lap top should have a signed *Laptop Usage Agreement*. We came across two instances where the lap top usage agreement was not in the employees' personnel files. Accordingly, we recommend that policies be implemented to ensure compliance with the School's established protocol.

- **Current year status:** we noted that laptop usage agreements for all employees are maintained by Achievement First, Inc. We were informed that even though laptop agreements were signed by each staff member, (done en masse by Achievement First Inc.'s IT department), staff's name and school assignments were not filled out on the form. Thus, making it impossible to send out the forms to the schools since each form only has a signature. We concur with management's action to revise the form so it has a line for the employee to enter his/her name and the school assignment so the

Achievement First, Inc can distribute these to the individual schools for documentation retention purposes. Since, each form only had a signature line and the signatures are illegible, these agreements could not be distributed to the proper schools.

**Conflict of Interest Policy, Annual Reaffirmations and Signed By-Laws:**

The School does not at present have a signed conflict of interest policy and signed By-Laws. Not only is a conflict of interest policy indicative of good governance, it is important to note that the IRS now asks on the Form 990 whether the tax exempt organization has established this policy. We recommend the School include a provision to provide for annual sign-offs and disclosures by Board members and senior management personnel of any business relations between them (and their immediate family) and the Organization. Such disclosures include an ownership interest in an entity from which the organization is procuring goods or services, or other transactions where an insider has the possibility of personal gain at the expense of the nonprofit. Disclosures should also cover any transaction in which the entity is conducting business with a family member or business partner of a member of the Board or management.

**Whistle-Blower Policy:**

Although the Sarbanes-Oxley Act does not in its entirety apply to nonprofits, all corporations, whether public or nonprofit must establish whistle-blower policy. Accordingly, we recommend that the School develop procedures for handling employee complaints and establish a confidential mode for employees to report any improprieties.

**Disaster Recovery Plan:**

During the audit, we noted that management does not have well defined, written disaster recovery procedures. The time to make contingency plan is before disaster strikes, so that all personnel will be aware of the responsibilities in the event of an emergency situation. We suggest that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage
- A listing of all data files that would have to be obtained from the off-site storage location
- Identification of a back-up location with similar or compatible equipment for emergency processing
- Responsibilities of various personnel in an emergency
- Priority of critical applications and reporting requirements during the emergency period.

**Software (See separate letter):**

The School currently uses QuickBooks accounting software to process and report on accounting transactions. This software provides the necessary features to process data and generate financial statements as well as security features including limiting user access and a permanent record of all activities that cannot be modified. However, since the software does not have the functionality to permanently close a financial period, there is a possibility that data could be changed after an audit is completed. Management has internal controls in place to limit the possibility of making such changes. We therefore recommend that management continue to follow these internal controls and investigate the use of different software that allows for a permanent year-end closing.

**Redesigned IRS Form 990:**

On December 20, 2007, the Internal Revenue Service (the "Service") released a redesigned Form 990, Return of Organization Exempt from Income Tax, for tax year 2008 (to be filed in 2009 and later years). The new form is comprised of an 11 page core form that applies to all organization. Although many of the questions request information on practices or policies that are not mandated by Federal tax law, the Service emphasizes that good governance and accountability practices are more likely to lead to "transparent organizations with regard to their operations, finances, fundraising practices and use of assets for exempt and unrelated purposes".

In an effort to provide accurate and positive information, management should review and if necessary establish the following policies:

- Procedures for making the organization's Form 1023 and 990 available for public inspection.
- Consideration of whether the organization makes its governing documents, conflict of interest policy and financial statements available for public inspection.
- Gift acceptance policy.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of Achievement First Bushwick Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*ERE LLP*

ERE LLP



# ACHIEVEMENT FIRST

AMISTAD ACADEMY · ELM CITY COLLEGE PREP · ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL  
ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL · ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL  
ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL · AMISTAD-ELM CITY HIGH · ACHIEVEMENT FIRST BRIDGEPORT ACADEMY  
ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL · ACHIEVEMENT FIRST HARTFORD ACADEMY

October 16, 2008

To Whom It May Concern:

The following are the responses of the management of Achievement First Bushwick Charter School to the findings and recommendations made by ERE LLP as part of the audit of the school's FY 2007-08 financial statements.

## **Credit Cards**

Management agrees that staff have not been consistently writing the purpose of credit card charges on receipts. We also agree that late payments have been made on monthly bills and finance charges incurred. We will continue to work with staff to make sure procedures are being followed and bill payments made timely.

We agree that the cash advance feature still appears on the card; however we note that the School Director of Operations has requested that the credit card company remove this feature several times, and despite assurances from the company that the feature was being removed, it still is active on the card. While school staff know they cannot use this feature and it has never been used, we will continue to request that it be removed or will consider changing the account to a different card issuer.

## **Projected Student Enrollment Invoice:**

Management agrees that the first per-pupil invoice was under-submitted in June 2007, as it omitted the new fifth grade starting in the school in September 2007. We have instituted closer monitoring of per-pupil invoice submission to ensure that they reflect the current projected enrollment.

## **E-Rate Receivable:**

Management agrees that E-Rate funding received by Achievement First Inc. was not passed to the school on a timely basis. While this did not create a cash flow hardship for the school, we will monitor receivables more closely to ensure timely transfers.

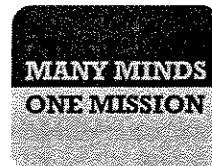
## **Write-offs:**

We concur that a formal written policy for writing off receivables has not been adopted into the school's Fiscal Policies and Procedures manual. We will incorporate this into the next manual update.

## **Property and Equipment purchased with Government funds not Tagged**

We agree that certain items purchased by the school with government (public) funds were not tagged for inventory purposes as required by the funder. We believe, however, that this does not put the school at risk and does not present any possibility that there is any misstatement of the schools financial statements as a result. We will complete a complete inventory of the school's fixed assets in FY 2009 and will tag any equipment as required.

CT 403 James Street New Haven CT 06513 T 203 773 3223 F 203 773 3221  
NYC 1137 Herkimer Street Brooklyn NY 11233 T 718 774 0906 F 718 804 0131  
[www.achievementfirst.org](http://www.achievementfirst.org)



**Payroll (July Salary Accrual)**

We continue to accrue July teacher salaries into the prior fiscal year as our operating year starts on August 1<sup>st</sup> (and is when staff offer letters are dated.) We therefore respectfully disagree with the recommendation and will continue to follow this practice.

**Cell Phone Usage Agreements:**

We agree that the Middle School principal did not sign the cell phone agreement and will have her do so.

**Outstanding (Uncleared) checks:**

We note that we have not processed stale-dated (over 6 months old) checks that have not cleared; it is our understanding that such checks cannot simply be voided but must be registered with the State of New York as "unclaimed property". We will investigate what the procedures are for doing so and will implement a new policy in FY 09.

**Laptop Usage Agreements:**

Management notes that laptop agreements were signed en masse by each staff member and collected at a central location by Achievement First Inc.'s IT department ; however, as noted, the form omitted a line to write in staff signature and school assignment, making dissemination of the user forms to each school impossible. The form has been redesigned for FY 09 and includes the information; forms will be distributed to the individual schools.

**Conflict of Interest Policy, Annual Reaffirmations and Signed By-Laws:**

Management respectfully disagrees with the finding that the school does not have a signed conflict of interest policy and signed by-laws. As a requirement for the School to receive its original charter, board members had to sign Conflict of Interest statements; each year they are required to sign annual reaffirmations as part of the Annual Report submitted to the charter authorizer. The School also had to create signed By-Laws to receive its original charter; however, while we are unable to locate the signed copies. We will secure new signed copies from the Board of Trustees in FY 09.

**Whistle-Blower Policy:**

While the School does not have a whistle-blower policy, a formal complaint policy for parents does exist. We will investigate establishing an employee complaint policy as part of our work to revise the school's Personnel manual.

**Disaster Recovery Plan**

We concur that the school does not have a written disaster recovery plan; Achievement First Inc.'s IT Team is developing one for implementation in FY 09.

**QuickBooks Accounting Software**

Management agrees that QuickBooks software does not allow the permanent closing of a financial period. We also agree that the possibility exists that, despite the software's own security features and our own internal controls, data could be changed after an audit is completed. We note, however, that there have been no findings that data has been changed. We also note that any software system is capable of being manipulated and that maintaining a strong internal control environment and culture are also important factors in achieving integrity of financial data. Management agrees with the recommendation that we continue to follow internal controls; we are also investigating the purchase alternative accounting software which may allow for permanent year-end closing.

**IRS Form 990 and 1023**

Management notes that the school's IRS Form 990 is readily available on public web sites such as Guidestar; we also make the Form 990 Form 1023 and any other governing documents available to any party who requests them. We will also consider incorporating a gift acceptance policy into our Personnel manual.