

**ACHIEVEMENT FIRST BROWNSVILLE  
CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**(With Comparative Totals From Inception  
(January 15, 2008) to June 30, 2009)**

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

TABLE OF CONTENTS  
June 30, 2010

---

	<b>Page</b>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11
<b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	12-13



ERE LLP  
440 Park Avenue South  
New York, NY 10016-8012  
Tel: 212.576.1400  
Fax: 212.576.1414  
www.ere-cpa.com

Member of CPANet International

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Achievement First Brownsville Charter School

We have audited the accompanying statement of financial position of Achievement First Brownsville Charter School (the "School") as of June 30, 2010, 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. The prior year summarized comparative information has been derived from the School's 2009 financial statements and, in our report dated October 23, 2009 we expressed an unqualified opinion on those financial statements.

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 Brownsville Charter School as of June 30, 2010 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 26, 2010 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.

A handwritten signature in black ink that reads 'ERE LLP'. The signature is written in a cursive, stylized font.

New York, NY  
October 26, 2010

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION

As of June 30,	2010	2009
<b>Assets:</b>		
Cash	\$ 707,494	\$ 63,299
Grant and other receivables	146,783	374,842
Due from related school	1,218	1,038
Due from New York City Department of Education	10,851	23,331
Property and equipment, net	228,651	301,230
<b>Total Assets</b>	<b>\$ 1,094,997</b>	<b>\$ 763,740</b>
<b>Liabilities and Net Assets:</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 99,393	\$ 209,906
Accrued salaries and other payroll related expenses	223,734	86,746
Due to related school	40,356	-
Due to Achievement First, Inc.	166,472	-
<b>Total Liabilities</b>	<b>529,955</b>	<b>296,652</b>
<b>Net assets:</b>		
Unrestricted - Operating	399,184	467,088
Board-designated reserve	165,858	-
<b>Total Unrestricted</b>	<b>565,042</b>	<b>467,088</b>
<b>Total Net Assets</b>	<b>565,042</b>	<b>467,088</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,094,997</b>	<b>\$ 763,740</b>

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

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## STATEMENT OF ACTIVITIES

**For the Year Ended June 30, 2010 (With Comparative**

**Totals From Inception (January 15, 2009) to June 30, 2009)**

	2010	2009
<b>Operating revenue:</b>		
State and local per pupil operating revenue	\$ 3,093,059	\$ 2,227,297
Government grants and contracts	398,582	562,796
Student meal fees	2,975	6,247
Total operating revenue	3,492,616	2,796,340
<b>Expenses:</b>		
Program services	3,092,490	2,189,411
Management and general	424,956	299,903
Fundraising	30,728	22,273
Total operating expenses	3,548,174	2,511,587
(Deficit) Surplus from school operations	(55,558)	284,753
<b>Contributions and other grants:</b>		
Foundation grants	150,000	175,000
Corporations	-	500
Individuals	-	2,540
Interest and other income	3,512	4,295
Change in net assets	97,954	467,088
Net assets – beginning of year	467,088	-
<b>Net assets – end of year</b>	<b>\$ 565,042</b>	<b>\$ 467,088</b>

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

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended June 30, 2010 (With Comparative  
Totals From Inception (January 15, 2008) to June 30, 2009)**

	Program Services	Management and General	Fundraising	Total 2010	2009
Salaries and wages	\$ 1,851,756	\$ 158,461	\$ -	\$ 2,010,217	\$ 1,347,612
Payroll taxes and employee benefits	364,396	70,291	-	434,687	235,204
Accounting	-	43,288	-	43,288	19,381
Legal	-	77	-	77	-
Professional fees	-	45,826	-	45,826	-
Classroom supplies and instructional materials	237,364	-	-	237,364	307,365
Furniture and equipment - non-capitalized	29,848	20,599	-	50,447	20,404
Insurance	7,744	854	-	8,598	8,204
Interest and bank service charges	-	1,000	-	1,000	2,567
Management fees	236,605	39,947	30,728	307,280	222,729
Office expense	66,605	11,754	-	78,359	74,351
Parent activities	1,262	-	-	1,262	965
Postage and delivery	1,726	432	-	2,158	729
Printing and photocopying	5,118	3,699	-	8,817	6,665
Rent - building permit	-	-	-	-	24,314
Repairs and maintenance	680	-	-	680	1,184
After school academic	1,280	-	-	1,280	-
Special education contracted services	-	-	-	-	7,725
Staff professional development	62,770	-	-	62,770	51,209
Student field trips and incentive programs	8,602	-	-	8,602	9,323
Student food services	21,792	-	-	21,792	19,935
Student transportation	30,600	-	-	30,600	20,250
Student uniforms	867	-	-	867	790
Technology and infrastructure	22,241	1,420	-	23,661	16,969
Telephone and internet	57,606	6,401	-	64,007	39,852
Depreciation and amortization	83,628	20,907	-	104,535	73,860
<b>Total expenses</b>	<b>\$ 3,092,490</b>	<b>\$ 424,956</b>	<b>\$ 30,728</b>	<b>\$ 3,548,174</b>	<b>\$ 2,511,587</b>

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

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## STATEMENT OF CASH FLOWS

For the Year Ended June, 30	2010	2009
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 97,954	\$ 467,088
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	104,535	73,860
<b>Changes in operating assets and liabilities:</b>		
Decrease (Increase) in assets		
Grant and other receivables	228,059	(398,173)
Due from related school	(180)	(1,038)
Due from New York City Department of Education	12,480	-
(Decrease) Increase in liabilities:		
Accounts payable and accrued expenses	(110,513)	209,906
Accrued salaries and other payroll related expenses	136,988	86,746
Due to related school	40,356	-
Due to Achievement First, Inc.	166,472	-
<b>Net cash provided by operating activities</b>	<b>676,151</b>	<b>438,389</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(31,956)	(375,090)
<b>Net cash used in investing activities</b>	<b>(31,956)</b>	<b>(375,090)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit	-	150,000
Payments to line of credit	-	(150,000)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>-</b>
Net increase in cash	644,195	63,299
Cash - beginning of period	63,299	-
<b>Cash - end of period</b>	<b>\$ 707,494</b>	<b>\$ 63,299</b>

### Supplementary Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest	\$ 500	\$ 2,525
Income taxes	\$ -	\$ -

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

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2010

### 1. NATURE OF THE ORGANIZATION:

Achievement First Brownsville 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 January 15, 2008 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 (on July 28, 2008, the charter was revised). Today the School serves students from low income households in Brooklyn, New York.

The School is pending a tax exempt status under 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Because the School is newly created, the final determination will not be made until the end of the advanced ruling period.

In fiscal year 2010, the School operated classes for students in kindergarten to second grades.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation to and from their homes 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 in accordance with generally accepted accounting principles in the United States of America.

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.



# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2010

---

During the fiscal year ended June 30, 2009, the Board of Trustees enacted a Board Designated Reserve Policy in which unrestricted net assets are set aside to be used only with the approval of the Board. The reserve is calculated by netting the prior year's current assets against the prior year's current liabilities and reducing that difference by any assets whose use is contractually limited.

### Cash Equivalents

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

### Grant and Other Receivables

Grant and other receivables represent unconditional promises to give. Grant and other receivables that are expected to be collected within one year and recorded at net realizable value are \$146,783 and \$374,842 for the fiscal years ended June 30, 2010 and June 30, 2009, respectively. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary as of June 30, 2010. Such estimate is based on management's assessments of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions and historical information.

During the year ended June 30, 2009, the School was the beneficiary of a conditional pledge receivable. The total amount of the grant was \$418,820 of which \$175,000 was unconditional and the remaining \$243,820 was contingent on the School meeting various programmatic and economic milestones pursuant to the grant agreement. As of the year ended June 30, 2010, these milestones were not met and accordingly, the \$243,820 in contributions has not been recognized.

The carrying value of the grants and other receivables approximates fair value. Management reviews those receivables due in more than one year for impairment and none was determined as of June 30, 2010 and 2009.

### 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. Property and equipment acquired with certain government contract funds is recorded as an expense pursuant to the terms of the contract in which the government funding source retains ownership of the property.

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 year ended June 30, 2010.

### Planned Maintenance

Costs related to planned major maintenance are expensed as incurred.

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

---

### 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.

### Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through the auditors' report date and date of issuance. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

### Implementation of New Accounting Pronouncements

Effective December 15, 2009, the School adopted a new accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of this change in accounting principle was immaterial.

The School is under regular audit by tax authorities. The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts filed. Management believes that its nonprofit status would be sustained upon examination.

With few exceptions, the School is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for fiscal years before 2008.

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2010

**3. AGREEMENT WITH SCHOOL FACILITY:** The School has entered into a verbal agreement, (“the Agreement”), with the New York City Department of Education for dedicated and shared space at Brooklyn Collegiate School, a facility located at 2021 Bergen Street, Brooklyn, New York. The Agreement commenced on July 1, 2008 at a cost of \$1 per year. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the fiscal years ended June 30, 2010 and June 30, 2009, the School incurred overtime permit fees of \$- and \$24,314, respectively, 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 Inc., 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 10% 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, 2010. For the fiscal years ended June 30, 2010 and June 30, 2009, the School incurred management fees of \$307,280 and \$222,729, respectively, which is included in the accompanying statement of functional expenses.

For the fiscal year ended June 30, 2010 the amount due to Achievement First, Inc. was \$166,472 and for the fiscal year ended June 30, 2009 the amount due from Achievement First, Inc. was \$-.

Throughout the year the School shares various costs with other Achievement First schools. For the fiscal year ended June 30, 2010 the following amount was due to another school:

<u>Achievement First Bushwick Charter School</u>	\$ 40,356
<u>Total</u>	<u>\$ 40,356</u>

For the fiscal year ended June 30, 2010 the following amount was due from another school:

<u>Achievement First Apollo Charter School</u>	\$ 1,218
<u>Total</u>	<u>\$ 1,218</u>

**5. PROPERTY AND EQUIPMENT:**

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

	2010	2009	Estimated Useful Lives
Furniture and fixtures	\$ 97,904	\$ 97,904	5 years
Computers and servers	192,091	170,135	3 years
Software	26,724	26,724	5 years
Leasehold improvements	90,327	80,327	5 years
	407,046	375,090	
Less: accumulated depreciation and amortization	(178,395)	(73,860)	
	\$ 228,651	\$ 301,230	

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 were \$104,535 and \$73,860, respectively.

6. **LINE OF CREDIT:** The School has a revolving line of credit agreement with a financial institution where it can borrow up to \$200,000. The line of credit carries an interest rate of the bank's prime plus one percent (4.25% as of June 30, 2010) and is secured by the School's business assets. During the year ended June 30, 2010 and as of the report date, the School did not draw on the line of credit. The line of credit is to expire April 30, 2011, but is expected to be renewed on an annual basis.

7. **COMMITMENTS AND CONCENTRATIONS:** The School leases telecommunications equipment and copiers under a non-cancelable operating lease which will expire in fiscal year 2012. Future minimum lease payments are as follows:

June 30,	
2011	\$ 9,190
2012	4,595
Total	\$ 13,785

8. **PENSION PLAN:** Effective September 1, 2009, 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. Included in payroll taxes and employee benefits of \$434,687 in the accompanying statement of functional expenses is pension expense of \$61,045 for the year ended June 30, 2010.

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, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

# ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2010

---

- 10. CONCENTRATIONS:**
- A. Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that exceeded the Federal Deposit Insurance Corporation (FDIC) limits by approximately \$480,000 as of June 30, 2010. The FDIC has temporarily increased the limit to \$250,000 through December 31, 2013.
  - B. The School received approximately 85% of its total revenue from per pupil funding from New York City Department of Education.
  - C. Approximately 94% of the School's grant and other receivables consist of three major grantors.

**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 Brownsville Charter School

We have audited the financial statements of Achievement First Brownsville Charter School (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 26, 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 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 *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.

**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 26, 2010.

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.

ERELLIP

New York, NY  
October 26, 2010

**Achievement First Brownsville Charter School**

***Communication With Those Charged With Governance***

**OCTOBER 26, 2010**





October 26, 2010

To the Audit Committee  
Achievement First Brownsville Charter School

We have audited the financial statements of Achievement First Brownsville Charter School (the "School") for the year ended June 30, 2010 and are prepared to issue our report thereon dated October 26, 2010. 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 revised engagement letter dated September 20, 2010, 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 Brownsville 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 April 15, 2010.

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

We affirm that ERE LLP is independent with respect to Achievement First Brownsville 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 Brownsville Charter School are described in Note 2 to the financial statements. As described therein, the School elected to implement the application of an accounting pronouncement pertaining to accounting for uncertain tax positions. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

**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 estimates affecting the financial statements were:

**Allowance for Doubtful Accounts:**

As of June 30, 2010, Achievement First Brownsville Charter School recorded grant and other receivables of \$146,783. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's grantors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the Regional Director of Finance for New York Schools and an analysis of the nature of the receivables, we concur with management's conclusion even though there were no subsequent collections on receivables as of October 22, 2010.

**Depreciation:**

Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

**Functional Statement Allocation:**

Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

**E-rate Receivable:**

Management's estimate of e-rate receivable is based on a calculation which allows 90% of qualified costs to be reimbursed from the Federal Government via the Universal Service Administrative Company. We evaluated the qualified cost and the calculation used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

**F. Sensitive Disclosures Affecting the Financial Statements:**

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of related party transactions in Note 4 to the financial statements describes the management agreement with Achievement First, Inc.

The disclosure of risk management in Note 9 to the financial statements describes various risks to which the School is exposed.

**G. 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. Management has corrected all such misstatements. We will identify those adjustments proposed both corrected and uncorrected:

**Proposed and Corrected:**

There were 13 audit adjustments (including 2 reclassifying entries) that increased net assets by approximately \$65,000. Prior year there were 8 audit adjustments (including 3 reclassifying entries) that increased net assets by approximately \$23,000. Current year's most significant adjustments were as follows:

1. To increase net assets by \$150,000 to record The Walton Family Foundation grant income.
2. To increase net assets by approximately \$138,000 to correct the federal grant income.
3. To decrease net assets by approximately \$127,000 to record the teachers' July 2010 salaries.
4. To decrease net assets by approximately \$61,000 to record the pension accrual.
5. To decrease net assets by approximately \$31,000 to record the bonus accrual.

**Proposed and Uncorrected:**

There were 4 audit adjustments that would have increased net assets by approximately \$63,000:

1. To increase net assets by approximately \$127,000 to reverse the July 2010 teachers' salary and other payroll related expenses accrual.
2. To increase net assets by approximately \$25,000 to reverse 2010 summer school students' transportation cost.
3. To decrease net assets by approximately \$69,000 to record the July 2009 teachers' salary and other payroll related expenses accrual proposed adjustment from prior fiscal year.

4. To decrease net assets by approximately \$20,000 to record 2009 summer school students' transportation cost to net assets as of June 30, 2010.

**H. 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.

**I. Management Representations:**

We have requested certain representations from management that are included in the management representation letter dated October 26, 2010.

**J. 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.

**K. 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.

### **Cash:**

Our audit procedures revealed that the year-end bank reconciliation report contained an unreconciled difference of \$6,745. We recommend that all bank accounts should be reconciled on a monthly basis and all unreconciled differences be investigated and resolved on a timely basis.

### **Credit Cards:**

The School has established controls where the Principal and Director of Operations are required to approve credit card transactions prior to payment. Of the 3 credit card statements inspected, we noted that the Principal and Director of Operations did not document authorization for payment nor were the statements stamped "paid". Accordingly, we recommend that all credit card statements be authorized and stamped "paid".

### **Payroll Reconciliation:**

Sound internal controls mandate that a reconciliation be performed between IRS Form 941 *Employers Quarterly Federal Tax Return* and the School's general ledger. We noted that during the fiscal year ended June 30, 2010 reconciliations were not performed timely. Accordingly, we strongly recommend that not only should a reconciliation be prepared, but such a reconciliation be performed on quarterly basis. This process will highlight any discrepancies in either the Form 941 or the School's books and records.

### **\*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, 2010, an accrual for the July 2010 teachers' salary has been recorded. We recommend that management consider reversing the accrual.

### **Personnel File Testing:**

The School's policies and procedures require various forms/documents to be maintained in each employee's personnel file. Our testing of the personnel files revealed the following:

- Three instances of missing offer letters
- Two instances of missing *Laptop Usage Agreement*

### **Escrow Policy:**

Each charter school authorizer has its own escrow policy requirements (these funds are to be used in the event of termination of the Charter, whether prematurely or at the end of 5 years). Accordingly, we recommend for the School to review the current authorizer's escrow compliance policy and to establish an escrow account.

**\*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. Accordingly, we recommend that the School adopt a written policy regarding the processing of write-off of receivables. Management has informed us that a thorough review of the School's fiscal policies and procedures is substantially complete, and that a write-off policy has been added. It is expected that the Board of Trustees will adopt the revised policies at the November 2010 meeting.

**Internal Control Review:**

The School's recent financial management changes, which consisted of centralizing accounting function by AF Network Support, present an opportunity for the School to update all of its written internal control policies and procedures. Performing a review of current policies and procedures can also greatly assist the Board in fully understanding day-to-day activities as well as disclosing any potential current inefficiency. Management has notified us that such a review has been completed, and a revised policies and procedures manual is substantially complete, with the expectation that the Board of Trustees will adopt it in November 2010.

**Board Minutes:**

Minutes for all Board meetings were prepared and available for our examination. While documentation of Board approval of the meeting were present in the minutes, it is recommended under good Board governance policies that upon such approval a Board official sign a copy of the minutes and the signed copy be filed with the School's records.

**Investment Policy:**

Currently, the School has money invested in certain bank savings accounts; interest earned on these savings accounts is minimal. While clearly there generally exists an excess of cash balances, there are currently no plans in place that could take advantage of this situation. We suggest that the School's management and/or the Board review its investing policy.

**\*School Facility Lease Agreement**

Through conversations with the Senior Director of Finance, we have been informed that a formal written agreement between Achievement First Brownsville Charter School and the Department of Education does not exist. We recommend that the School periodically re-explore the risks of such a relationship.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

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

Very truly yours,

A handwritten signature in black ink that reads "ERE LLP". The letters are cursive and slightly slanted to the right.

ERE LLP



# Achievement First

October 26, 2010

To Whom It May Concern:

The following are the responses of the management of Achievement First Brownsville Charter School to the findings and recommendations made by ERE LLP as part of the audit of the school's FY 2009-10 financial statements:

## **Credit Cards**

Management will continue to work with the Directors of School Operations and Regional Directors of Operations to ensure that credit card policies are being followed, that bills are paid timely and that expenses are entered promptly. In the matter of the cash advance feature, use of this is prohibited by the school. The school has attempted repeatedly to have this feature removed from the card; despite assurance from VISA customer service that it had been removed it continued to be active. We have subsequently cancelled these cards and replaced them with cards without the cash advance feature.

## **Write-offs:**

A comprehensive review and updating of the Fiscal Policies and Procedures manual was conducted during July-August 2010. It is our expectation that the new policies will be adopted by the Boards of Trustees at the November 2010 board meetings.

## **Payroll (July Salary Accrual)**

This is the schools' approved fiscal policy since the school year is budgeted August-July. We continued to do this in FY 2010.

## **Payroll Reconciliation**

We agree with this recommendation and will institute it starting in FY 2011.

## **School Facility Use Agreement**

We continue to work with the New York City Department of Education to secure written agreements.

## **Personnel Files:**

When the auditors conducted preliminary field test work in May 2010 we became aware of the personnel file deficiencies. We subsequently conducted internal personnel file audits and have given additional training and clarification to Directors of School Operations on maintaining personnel files. We also conducted rigorous checks of the paperwork presented by all new hires at the start of the school year in September 2011. We will also follow up with another personnel file audit to ensure compliance with our policies.

## **Internal Control Review**

A comprehensive review and updating of the Fiscal Policies and Procedures manual was conducted during July-August 2010. It is our expectation that the new policies will be adopted by the Boards of Trustees at the November 2010 board meetings.

## **NYC Department of Education Escrow Policy**

We agree with this recommendation and will undertake a review of all authorizers' escrow policies during Fiscal Year 2011.

403 Jones Street  
New Haven, CT 06513  
T 203 773-4325 F 203 773-3221



510 Waverly Avenue  
Brooklyn, NY 11238  
T 718 623 2690 F 718 623 3998



**Board Minutes**

We agree with this recommendation and will institute it starting with the November 2010 board meetings.

**Investment Policy**

We agree with this recommendation and will investigate alternatives to present to the Boards during Fiscal Year 2011.