

**ACHIEVEMENT FIRST BUSHWICK
CHARTER SCHOOL**

FINANCIAL STATEMENTS

JUNE 30, 2010

(With Comparative Totals for June 30, 2009)

ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

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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, 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 Bushwick 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 27, 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 27, 2010

ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30,	2010	2009
Assets:		
Cash	\$ 1,485,603	\$ 1,090,124
Grant and other receivables	349,012	278,785
Prepaid expenses and other assets	11,450	28,072
Due from related schools	61,566	-
Property and equipment, net	556,502	364,295
Total Assets	\$ 2,464,133	\$ 1,761,276
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	\$ 283,163	\$ 166,835
Accrued salary and other payroll related expenses	456,193	291,142
Due to related schools	7,929	1,354
Due to Achievement First, Inc.	158,513	-
Due to New York City Department of Education	11,397	3,372
Total Liabilities	917,195	462,703
Net assets		
Unrestricted - Operating	177,034	862,947
Board-designated reserve	1,369,904	435,626
Total Net Assets	1,546,938	1,298,573
Total Liabilities and Net Assets	\$ 2,464,133	\$ 1,761,276

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

ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

(with comparative totals for June 30, 2009)

	2010	2009
Operating revenue:		
State and local per pupil operating revenue	\$ 8,154,520	\$ 6,348,455
Government grants and contracts	923,603	713,528
Student meal fees	212	17,075
Total operating revenue	9,078,335	7,079,058
Expenses:		
Program services	7,964,869	5,768,951
Management and general	880,324	774,853
Fundraising	65,236	50,750
Total operating expenses	8,910,429	6,594,554
Surplus from school operations	167,906	484,504
Support and other income:		
Contributions and other grants	22,344	2,347
Interest and other income	58,115	71,525
Total support and other income	80,459	73,872
Change in net assets	248,365	558,376
Net assets – beginning of year	1,298,573	740,197
Net assets – end of year	\$ 1,546,938	\$ 1,298,573

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

ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2010 (with comparative totals for June 30, 2009)

	Program Services	Management and General	Fundraising	Total 2010	2009
Salaries and wages	\$ 4,539,557	\$ 448,967	\$ -	\$ 4,988,524	\$ 3,950,760
Payroll taxes and employee benefits	898,345	88,847	-	987,192	750,288
Accounting	-	16,855	-	16,855	23,526
Legal	-	66,273	-	66,273	-
After-school academic program	34,446	-	-	34,446	1,100
Classroom supplies and instructional materials	551,755	-	-	551,755	482,528
Furniture and equipment - non-capitalized	59,884	57,535	-	117,419	36,416
Insurance	24,587	2,432	-	27,019	22,559
Interest and bank charges	-	399	-	399	-
Management fees	502,319	84,807	65,236	652,362	507,495
Office expense	174,220	26,033	-	200,253	124,343
Parent activities	8,710	-	-	8,710	1,672
Postage and delivery	7,272	1,818	-	9,090	2,736
Printing and copying	27,093	6,773	-	33,866	26,026
Professional fees	184,325	-	-	184,325	-
Rent - building permit fees	65,174	6,446	-	71,620	49,823
Repairs and maintenance	123,754	12,239	-	135,993	13,534
Staff professional development	127,615	-	-	127,615	54,773
Student field trips and incentive programs	73,413	-	-	73,413	41,686
Student food services	128,019	-	-	129,019	69,873
Student transportation	67,228	-	-	67,228	61,333
Student uniforms	6,441	-	-	6,441	-
Technology infrastructure and software	43,038	2,265	-	45,303	7,227
Telephone and internet	152,715	15,104	-	167,819	151,216
Depreciation and amortization	163,959	40,990	-	204,949	200,293
Bad debt expense	-	2,541	-	2,541	15,347
Total expenses	\$ 7,964,869	\$ 880,324	\$ 65,236	\$ 8,910,429	\$ 6,594,554

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

ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

STATEMENT OF CASH FLOWS

For the Year Ended June 30,	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 248,365	\$ 558,376
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	204,949	200,293
Bad debt expense	2,541	15,347
Changes in operating assets and liabilities:		
(Increase) decrease in assets		
Grant and other receivables	(72,768)	(128,026)
Prepaid expenses and other assets	16,622	(11,162)
Due from related schools	(61,566)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	116,329	9,081
Accrued salary and other payroll related expenses	165,052	13,726
Due to related schools	6,575	-
Due to Achievement First, Inc.	158,513	(3,093)
Due to New York City Department of Education	8,025	-
Net cash provided by operating activities	792,637	654,542
Cash flows from investing activities:		
Purchase of property and equipment	(397,158)	(260,018)
Net cash used in investing activities	(397,158)	(260,018)
Net increase in cash	395,479	394,524
Cash - beginning of year	1,090,124	695,600
Cash - end of year	\$ 1,485,603	\$ 1,090,124

Supplementary Disclosure of Cash Flow Information:

Cash paid during the year for interest	\$ -	\$ 367
Cash paid during the year for income taxes	\$ -	-

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

ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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. The School is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Today the School serves students from low income households in Brooklyn, New York.

In fiscal year 2010, the School operated classes for students in kindergarten through seventh 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.

ACHIEVEMENT FIRST BUSHWICK 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 \$349,012 and \$278,785 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 receivable 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.

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 years ended June 30, 2010 and 2009.

Planned Maintenance

Costs related to planned major maintenance are expensed as incurred.

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.

ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 be 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 2007.

ACHIEVEMENT FIRST BUSHWICK 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 I.S. 383, a New York City public school located at 1300 Greene Street, Brooklyn, New York. The Agreement commenced on July 1, 2007 at a cost of \$1 per year. In addition, the School entered into a second agreement with the NYCDOE for dedicated and shared space at P.S. 137, a New York City public school located at 125 Covert Street, Brooklyn, New York. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the years ended June 30, 2010 and 2009, the School incurred overtime permit fees of \$71,620 and \$49,823, which are 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 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 years ended June 30, 2010 and 2009, the School incurred management fees of \$652,362 and \$507,495, which are included in the accompanying statement of functional expenses.

For the fiscal years ended June 30, 2010 and 2009, the amount due to Achievement First, Inc. was \$158,513 and \$-, respectively.

The School periodically borrows employees from other Achievement First schools. In 2010, the School expensed \$39,336 in payroll for the shared employees it borrowed from other schools.

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

Achievement First East New York Charter School	\$	7,929
Total	\$	7,929

For the fiscal year ended June 30, 2010 the following amounts were due from other schools:

Achievement First Crown Heights Charter School	\$	183
Achievement First Brownsville Charter School		40,356
Achievement First Endeavor Charter School		20,507
Achievement First Apollo		520
Total	\$	61,566

ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2010

5. PROPERTY AND EQUIPMENT:

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

	2010	2009	Estimated Useful Lives
Furniture and fixtures	\$ 251,920	\$ 156,353	5 years
Computers and hardware	200,922	149,269	3 years
Waterford computers and hardware	180,898	180,898	5 years
Equipment	132,969	69,346	3 years
Software	97,125	76,826	5 years
Instruments	55,242	52,383	5 years
Leasehold improvements	255,567	92,410	5 years
	1,174,643	777,485	
Less: accumulated depreciation and amortization	(618,141)	(413,190)	
	\$ 556,502	\$ 364,295	

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 was \$204,949 and \$200,293, respectively.

6. LINE OF CREDIT:

The School has a revolving line of credit agreement with a financial institution where it can borrow up to \$50,000. 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 auditors' report date, the School did not draw on the line and accordingly, does not have an outstanding balance. The line of credit is set to expire April 30, 2011, but is expected to be renewed on an annual basis.

7. COMMITMENTS AND CONTINGENCIES:

In fiscal year end June 30, 2010, the School leased photocopier and telephone equipment under noncancelable leases which expired in June 2010. The School subsequently purchased the telephone equipment and entered into a new noncancelable photocopier lease which will expire in July 2013. Future minimum lease payments are as follows:

June 30,	
2011	\$ 2,124
2012	2,124
2013	177
Total	\$ 4,425

ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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- 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. Pension expense for the years ended June 30, 2010 and 2009 was \$126,943 and \$72,243, respectfully, and is included in payroll taxes and employee benefits on the 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, 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.
- 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 \$1,400,000 as of June 30, 2010. The FDIC has temporarily increased the limit to \$250,000 through December 31, 2013.
 - B. The School received approximately 90% of its total revenue from per pupil funding from New York City Department of Education.
 - C. Approximately 92% of the School's grant and other receivables consist of two 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 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, 2010, and have issued our report thereon dated October 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 27, 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.

ERELL

New York, NY
October 27, 2010

Achievement First Bushwick Charter School

Communication With Those Charged With Governance

OCTOBER 26, 2010



October 26, 2010

Member of CPAAmerica International

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, 2010 and are prepared to issue our report thereon dated October 27, 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 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 April 15, 2010.

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. 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 estimate affecting the financial statements was:

Allowance for Doubtful Accounts:

As of June 30, 2010, the School recorded grants and other receivables of \$349,012. 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 auditors' report date.

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 Disclosure 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. 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 19 audit adjustments (including 3 reclassifying entries) that increased net assets by approximately \$142,000. Prior year there were 9 audit adjustments (including 4 reclassifying entries) that decreased net assets by approximately \$7,000. Current year's most significant adjustments were as follows:

1. To increase net assets by approximately \$280,000 to correct federal grant income.
2. To increase net assets by approximately \$127,000 by capitalizing approximately \$145,000 of fixed assets and to record approximately \$18,000 of depreciation expense.
3. To decrease net assets by approximately \$120,000 to record the pension accrual.
4. To decrease net assets by approximately \$53,000 to record the bonus accrual.
5. To decrease net assets by approximately \$43,000 by expensing approximately \$52,000 of classroom books that were erroneously capitalized and reversing approximately \$8,000 of depreciation expense related to those books.
6. To decrease net assets by approximately \$29,000 to record the summer bus accrual.

7. To increase net assets by approximately \$24,000 to correct E-rate income.

Proposed and Uncorrected:

There were 4 audit adjustments that collectively would have increased net assets by approximately \$54,000:

1. To increase net assets by approximately \$271,000 to reverse the July 2010 teachers' payroll and other payroll related expenses accrual.
2. To increase net assets by approximately \$63,000 to reverse summer-school students' transportation cost.
3. To decrease net assets by approximately \$234,000 to reverse the July 2009 teachers' salary and other payroll related expenses accrual proposed adjustment from prior fiscal year.
4. To decrease net assets by approximately \$51,000 to reverse 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 27, 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.

***Credit Cards:**

The School's Fiscal Policies and Procedures manual require that receipts for all credit card charges be maintained by the Regional Director of Operations. Of the 3 credit card statements tested, we noted several credit card transactions were missing receipts. Our testing also revealed that the same credit card statements were not stamped with either the receipt date or the payment date.

***Review of Payroll:**

Our testing of employees' payroll records revealed one instance where the employee's salary per offer letter was inconsistent with the actual salary being paid. Our procedures also revealed of one instance where the most updated offer letter was not maintained in the employee's file.

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 salaries has been recorded. We recommend that management consider reversing the accrual.

Personnel File Testing:

School's Policies and Procedures require various forms to be maintained in each employee's personnel file. Our testing of the personnel files revealed the following:

- Six instances of missing fingerprint clearance confirmations
- Seven instances of missing ID's
- Three instances of missing benefit forms
- Five instances of missing 403(b) acknowledgements
- Sixteen instances of missing resumes
- Three instances of missing offer letters
- Seven instances of missing *Laptop Usage Agreement*

Cash Disbursement Testing:

Among other documents, the School's Fiscal Policies and Procedures manual require that all invoices be stamped "Paid" upon payment and be maintained as part of the "sandwich" package. Our testing of disbursements revealed the following:

- Three instances of invoices that could not be found.
- Five instances of invoices that were missing the "Paid" stamp.
- Two instances of invoices that did not contain proper approval.
- One instance of copy of cancelled check unable to be provided
- Four instances where sales tax was included

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.

***School Facility Lease Agreement**

Through conversations with the Senior Director of Finance, we have been informed that a formal written agreement between Achievement First Bushwick 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 Bushwick 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 stylized and connected, with a cursive-like flow.

ERE LLP



Achievement First

October 27, 2010

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 2009-10 financial statements:

Cash Reporting

We will ensure that all bank accounts are reconciled timely.

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 Review

We will review our payroll procedures with the Directors of School Operations to ensure that the salaries being paid are consistent with offer letters.

Payroll Reconciliation

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

Cash Disbursements

We will follow up with the Director of School Operations to ensure that proper policies are being followed.

School Facility Use Agreement

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

KW James Slater
New Haven, CT 06513
Tel: 203 329 4100 Fax: 203 329 4121



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Brooklyn, NY 11203
T 718 624 2505 F 718 622 3588

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.

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.