

**Achievement First Brownsville Charter School**

**Financial Statements  
and Independent Auditor's Report**

**June 30, 2014**

# Achievement First Brownsville Charter School

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## Independent Auditor's Report

To the Board of Trustees  
Achievement First Brownsville Charter School

### Report on the Financial Statements

We have audited the accompanying financial statements of Achievement First Brownsville Charter School, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *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, 2014, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Report on Summarized Comparative Information*

The financial statements of Achievement First Brownsville Charter School as of June 30, 2013, were audited by other auditors whose report dated October 31, 2013, expressed an unmodified opinion on those financial statements.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014 on our consideration of Achievement First Brownsville Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Achievement First Brownsville Charter School's internal control over financial reporting and compliance.



Farmington, Connecticut  
October 30, 2014

**Achievement First Brownsville Charter School**

**Statement of Financial Position  
June 30, 2014  
(With Comparative Totals for 2013)**

	2014	2013
<u>Assets</u>		
Cash	\$ 318,477	\$ 644,820
Restricted cash	75,000	75,000
Grants receivable	624,432	283,133
Due from NYC Department of Education	26,820	2,651
Due from related party	33,401	-
Due from other schools	1,940	6,143
Prepaid expenses and other assets	16,950	80,986
Property and equipment, net	264,505	313,769
Total assets	\$ 1,361,525	\$ 1,406,502
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 66,765	\$ 76,718
Accrued salary and other payroll related expenses	174,005	162,825
Due to related party	-	210,097
Due to other schools	95,270	10,404
Total liabilities	336,040	460,044
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	339,505	313,769
Board designated	685,980	632,689
Total net assets	1,025,485	946,458
Total liabilities and net assets	\$ 1,361,525	\$ 1,406,502

See Notes to Financial Statements.

**Achievement First Brownsville Charter School**

**Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2014  
(With Comparative Totals for 2013)**

	2014	2013
Operating revenue:		
State and local per pupil operating revenue	\$ 8,185,837	\$ 6,971,721
Federal, state and local grants	767,730	681,248
Special education revenue	735,318	211,431
Total operating revenue	9,688,885	7,864,400
Expenses:		
Program services	7,995,032	6,761,149
General and administrative	1,369,010	1,074,041
Fundraising	249,286	88,508
Total expenses	9,613,328	7,923,698
Surplus (deficit) on school operations from government funding	75,557	(59,298)
Support and other revenue:		
Contributions	3,000	50,000
Interest income and other income	470	6,326
Total support and other revenue	3,470	56,326
Change in net assets	79,027	(2,972)
Net assets, beginning of year	946,458	949,430
Net assets, end of year	\$ 1,025,485	\$ 946,458

See Notes to Financial Statements.

**Achievement First Brownsville Charter School**

**Statement of Functional Expenses  
Year Ended June 30, 2014  
(With Comparative Totals for 2013)**

	2014				2013
	Program Services	General and Administrative	Fundraising	Total	Total
Salaries and wages	\$ 4,560,389	\$ 908,395	\$ -	\$ 5,468,784	\$ 4,548,388
Payroll taxes and employee benefits	988,491	196,900	-	1,185,391	1,046,529
Professional fees	-	35,183	-	35,183	38,769
After school/tutoring program	66,899	-	-	66,899	134,499
Classroom supplies and instructional materials	380,363	-	-	380,363	284,800
Furniture and equipment - noncapitalizable	110,259	21,963	-	132,222	66,920
Insurance	28,453	5,668	-	34,121	29,627
Management fee	934,824	62,322	249,286	1,246,432	885,080
Office expense	224,864	64,083	-	288,947	226,368
Parent activities	15,101	-	-	15,101	5,249
Postage and delivery	4,601	1,150	-	5,751	6,027
Printing and photocopying	44,744	11,186	-	55,930	57,031
Repairs and maintenance	29,256	5,827	-	35,083	69,067
Special education contracted services	8,197	-	-	8,197	8,970
Staff professional development	116,280	-	-	116,280	81,961
Student field trips and incentive programs	57,083	-	-	57,083	36,039
Student food services	53,707	-	-	53,707	46,722
Student transportation	8,300	-	-	8,300	12,876
Student uniforms	2,988	-	-	2,988	2,252
Technology infrastructure and software	189,590	22,342	-	211,932	104,153
Telephone and internet	81,575	16,249	-	97,824	114,509
Depreciation	89,068	17,742	-	106,810	117,862
	<u>\$ 7,995,032</u>	<u>\$ 1,369,010</u>	<u>\$ 249,286</u>	<u>\$ 9,613,328</u>	<u>\$ 7,923,698</u>

See Notes to Financial Statements.

**Achievement First Brownsville Charter School**

**Statement of Cash Flows  
Year Ended June 30, 2014  
(With Comparative Totals for 2013)**

	2014	2013
Operating activities:		
Change in net assets	\$ 79,027	\$ (2,972)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	106,810	117,862
Changes in operating assets and liabilities:		
Grants receivable	(341,299)	21,103
Due from NYC Department of Education	(24,169)	(2,651)
Due from related party	(33,401)	-
Due from other schools	4,203	1,083
Prepaid expenses and other assets	64,036	(56,898)
Accounts payable and accrued expenses	(9,953)	25,907
Accrued salary and other payroll related expenses	11,180	29,392
Due to related party	(210,097)	4,626
Due to other schools	84,866	-
Due to Achievement First, Inc.	-	(140,820)
Due to NYC Department of Education	-	(2,259)
Net cash used in operating activities	(268,797)	(5,627)
Investing activities:		
Purchase of property and equipment	(57,546)	(201,470)
Net cash used in investing activities	(57,546)	(201,470)
Net decrease in cash	(326,343)	(207,097)
Cash - beginning of year	644,820	851,917
Cash - end of year	\$ 318,477	\$ 644,820

See Notes to Financial Statements.



# Achievement First Brownsville Charter School

## Notes to Financial Statements June 30, 2014

### Note 1 - Nature of operations

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 charter valid for a term of five years and renewable upon expiration. On January 22, 2013, the Board of Regents renewed the charter through June 30, 2018. Today the School serves students from low income households in Brooklyn, New York. The School is currently in the process of undergoing their charter renewal.

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and under the corresponding provision of the New York State tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC.

During the year ended June 30, 2014, the School added the sixth grade. As of June 30, 2014, the School operated classes for students in kindergarten to sixth grades. The School shares space with a New York City public school and is not responsible for rent, utilities, custodial services, maintenance, or school safety. Approximately 60,000 feet of square footage is allocated to the School.

### Note 2 - Summary of significant accounting policies

#### Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets resulting from contributions and other inflows of assets whose use by the School are 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 and changes in net assets. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

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

# Achievement First Brownsville Charter School

## Notes to Financial Statements June 30, 2014

During the fiscal year ended June 30, 2009, the Board of Trustees (the "Board") enacted a Board Designated Reserve Policy (the "Reserve") 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 current year's current assets against the current year's current liabilities and reducing that difference by any assets whose use is contractually limited. The Reserve at June 30, 2014 was \$685,980.

### **Statement of cash flows**

For purposes of reporting cash flows, the School considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2014.

### **Restricted cash**

The School designated \$75,000 as restricted cash, which is held aside for contingency purposes as required by the New York City Department of Education (NYCDOE). At June 30, 2014, a separate escrow account had not been established for this reserve.

### **Grant and other receivables**

Grants receivable represent unconditional promises to give. Grants receivable that are expected to be collected within one year, and recorded at net realizable value, are \$624,432 at June 30, 2014. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2014. Such estimate is based on management's assessments of the creditworthiness of its donors, the aging of its receivables as well as current economic conditions and historical information.

### **Revenue recognition**

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. Receivables are recognized to the extent costs have been incurred, but not reimbursed.

Revenue from the state and local governments 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 Brownsville Charter School

### Notes to Financial Statements June 30, 2014

Contributions are recognized by the School when a donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor, but whose restrictions are met in the same period, are reported as increases to unrestricted net assets. All other donor-restricted contributions are reported as increases to temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The School receives a substantial portion of its support and revenue from the New York City Department of Education ("NYCDOE"). If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

#### **Donated goods and services**

The School occasionally receives contributed goods and services. Such goods and services are only recorded as in-kind contributions at their fair value, provided it meets the criteria for recognition. Such criteria includes contributions of services that (i) create or enhance non-financial assets or those that require specialized skills, (ii) are provided by individuals possessing those skills and (iii) would typically need to be purchased if not provided by donation, and are recorded at their fair value in the period received.

Contributed services received from Board Members and volunteers are not recorded in the financial statements since these services do not meet the criteria for recognition as contributed services.

The School does not record any in-kind contributions and related costs with respect to dedicated and shared space provided to it by the NYCDOE as the premises are temporary in nature, is excess shared space whereby a fair value cannot be determined and is industry practice.

#### **Property and equipment**

Property and equipment are stated at cost. The School has established a \$1,000 threshold above which assets are capitalized. 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.

Depreciation is provided on a straight-line basis over the estimated useful lives as follows:

Facility improvements	5 - 15 years
Furniture and fixtures	5 years
Computers and hardware	3 years
Software	3 years

## **Achievement First Brownsville Charter School**

### **Notes to Financial Statements June 30, 2014**

#### **Long-lived assets**

The School recognizes an impairment loss when the carrying amount of a long-lived asset exceeds its fair value. In the event that facts and circumstance indicate that the carrying amounts of long-lived assets may be impaired, an evaluation of recoverability would be performed. The evaluation process consists of comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down is required. If the review indicates that the asset will not be recoverable, the carrying value of the asset would be reduced to its estimated realizable value. There was no impairment loss recognized for the year ended June 30, 2014.

#### **Functional allocation of expenses**

Expenses that can be 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.

#### **Income taxes**

The School is classified by the Internal Revenue Service as exempt from income tax under Section 501(a) of the Internal Revenue Code as a public education academy described in Section 501(c)(3).

The School has no unrecognized tax benefits at June 30, 2014. The School's Federal income tax returns prior to fiscal year 2010 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the School would recognize interest and penalties associated with tax matters as part of general and administrative expenses in the statement of activities and changes in net assets and include accrued interest and penalties in accrued expenses in the statement of financial position. The School did not recognize any interest or penalties associated with tax matters for the year ended June 30, 2014.

#### **Prior year summarized information**

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

#### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Achievement First Brownsville Charter School**

**Notes to Financial Statements  
June 30, 2014**

**Concentrations of credit risk**

The School maintains cash and cash equivalent balances in several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. From time to time, the School's balances may exceed these limits. At June 30, 2014, the School's uninsured bank balances totaled \$246,297. The School limits its credit risk by selecting financial institutions considered to be highly creditworthy.

**Reclassifications**

Certain reclassifications have been made to the 2013 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

**Subsequent events**

Management has reviewed subsequent events through October 30, 2014, which is the date the financial statements were approved and available for issuance.

**Note 3 - Concentrations**

The School received approximately 85% of its total revenue from per pupil funding from the NYCDOE during the year ended June 30, 2014.

The School's grants and other receivables consist of one major grantor at June 30, 2014.

The School's accounts payable consist of one major vendor at June 30, 2014.

**Note 4 - Agreement for school facility**

The School has entered into a verbal agreement, (the "Agreement") with the NYCDOE for dedicated and share 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 fair value of the rent has not been included in the accompanying financial statements as the premises are temporary in nature, the Agreement is non-binding, is excess shared space whereby a fair value cannot be determined, and is industry practice.

**Note 5 - Property and equipment**

The following is a summary of property and equipment at June 30, 2014:

Furniture and fixtures	\$	309,078
Computers and servers		303,125
Software		29,644
Facility improvements		<u>255,982</u>
		897,829
Less accumulated depreciation		<u>633,324</u>
	\$	<u>264,505</u>

**Achievement First Brownsville Charter School**

**Notes to Financial Statements  
June 30, 2014**

**Note 6 - Related party transactions**

The School entered into an Academic and Business Services Agreement ("the Agreement") with Achievement First, Inc. ("AF"), a not-for-profit organization dedicated to helping start and run charters. This Agreement provides management and other administrative support services to the School.

Pursuant to the terms of the Agreement, the School pays a service fee equivalent to 10% of all public revenues received by the School during the school year. Public revenues include all sources of revenue from a public source, but specifically exclude in-kind contributions such as student transportation and food services, start-up funding, funding for student meals, and funding for competitive public grants. The Agreement expires on June 30, 2015. The Agreement also incorporates additional services provided to the School by AF. These services include bookkeeping, facilities acquisition and management, special education delivery support, data analysis management support, and tutoring program support. The School is to pay AF an ancillary services fee that is mutually negotiated by the School and AF. For the year ended June 30, 2014, the School incurred management and ancillary service fees of \$1,246,432, which is included in the accompanying statement of functional expenses.

At June 30, 2014, the amount due from AF was \$33,401.

**Note 7 - Due to/from other schools**

Throughout the school year, the School may share staff with another school and occasionally purchase equipment from another school. These costs are included on the statement of financial position and consist of the following as of June 30, 2014:

<u>Due from other schools</u>	
AF Endeavor	\$ <u>1,940</u>
 <u>Due to other schools</u>	
AF Bridgeport	\$ 2,146
AF Bushwick	84,766
AF Aspire	100
AF Crown Heights	1,972
AF East New York	<u>6,286</u>
	 <u>\$ 95,270</u>

**Achievement First Brownsville Charter School**

**Notes to Financial Statements  
June 30, 2014**

**Note 8 - Due to NYC Department of Education**

The NYCDOE paid the School per-pupil grant funds in six installments, based on estimates from the School. At the end of each fiscal year, the NYCDOE reconciles the total amount paid against the full-time-equivalent enrollment for the year and determines if an overpayment or underpayment has been made. As of June 30, 2014, a cumulative underpayment totaling \$26,820 had not been made. An adjustment for this amount will be reflected in the succeeding year's third payment.

**Note 9 - Operating leases**

The School leases office equipment under non-cancelable operating lease agreements expiring August 2016. The future minimum payments are as follows:

<u>June 30,</u>	
2015	\$ 5,855
2016	<u>1,464</u>
	<u>\$ 7,319</u>

The lease expense for the year ended June 30, 2014 was \$5,855.

**Note 10 - Pension plan**

The School has 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 upon employment. Those employees who have completed at least 1 full year of service are also eligible for employer contributions. 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 is not vested until the employee's third year, when they become fully vested. For the year ended June 30, 2014, pension expense for the School was \$98,229, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

**Note 11 - 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 help protect it 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.