

Achievement First Bushwick Charter School

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

June 30, 2014

Achievement First Bushwick Charter School

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Independent Auditor's Report

To the Board of Trustees
Achievement First Bushwick Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Achievement First Bushwick 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 Bushwick 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 Bushwick 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 31, 2014 on our consideration of Achievement First Bushwick 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 Bushwick Charter School's internal control over financial reporting and compliance.



Farmington, Connecticut
October 31, 2014

Achievement First Bushwick Charter School

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

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Cash	\$ 910,103	\$ 2,226,394
Restricted cash	75,000	75,000
Grants and other receivables	910,954	469,008
Prepaid expenses and other assets	-	4,366
Due from other schools	99,482	3,856
Due from related parties	261,092	28,955
Property and equipment, net	451,670	638,790
 Total assets	 <u>\$ 2,708,301</u>	 <u>\$ 3,446,369</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 96,607	\$ 196,841
Accrued salary and other payroll related expenses	216,384	225,788
Due to other schools	248,434	340,765
Due to New York City Department of Education	12,479	21,918
 Total liabilities	 <u>573,904</u>	 <u>785,312</u>
 Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	526,670	638,790
Board designated	1,607,727	2,022,267
 Total net assets	 <u>2,134,397</u>	 <u>2,661,057</u>
 Total liabilities and net assets	 <u>\$ 2,708,301</u>	 <u>\$ 3,446,369</u>

See Notes to Financial Statements.

Achievement First Bushwick Charter School

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

	<u>2014</u>	<u>2013</u>
Operating revenue:		
State and local per pupil operating revenue	\$ 12,555,072	\$ 11,431,788
Federal, state and local grants	780,350	1,019,810
Special education revenue	<u>1,725,959</u>	<u>1,249,263</u>
Total operating revenue	<u>15,061,381</u>	<u>13,700,861</u>
Expenses:		
Program services	13,297,144	11,845,849
General and administrative	1,924,454	1,535,133
Fundraising	<u>370,075</u>	<u>148,074</u>
Total expenses	<u>15,591,673</u>	<u>13,529,056</u>
Surplus (deficit) on school operations from government funding	<u>(530,292)</u>	<u>171,805</u>
Support and other revenue:		
Contributions	200	436
Interest income	<u>3,432</u>	<u>3,160</u>
Total support and other revenue	<u>3,632</u>	<u>3,596</u>
Change in net assets	(526,660)	175,401
Net assets, beginning of year	<u>2,661,057</u>	<u>2,485,656</u>
Net assets, end of year	<u><u>\$ 2,134,397</u></u>	<u><u>\$ 2,661,057</u></u>

See Notes to Financial Statements.

Achievement First Bushwick 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	\$ 7,815,374	\$ 1,132,577	\$ -	\$ 8,947,951	\$ 7,913,206
Payroll taxes and employee benefits	1,612,720	233,710	-	1,846,430	1,720,214
After school academic	51,691	-	-	51,691	53,129
Classroom supplies and instructional materials	340,148	-	-	340,148	401,292
Furniture and equipment - non-capitalized	127,543	18,483	-	146,026	92,855
Insurance	50,929	7,381	-	58,310	58,998
Interest and bank service charges	-	2,614	-	2,614	898
Management and ancillary services fees	1,387,782	92,519	370,075	1,850,376	1,480,744
Office expenses	345,190	138,737	-	483,927	448,316
Parent activities	7,255	-	-	7,255	3,902
Postage and delivery	17,249	4,312	-	21,561	14,073
Printing and photocopying	167,243	41,811	-	209,054	96,819
Professional fees	-	108,831	-	108,831	66,637
Rent - building permit	157,564	22,834	-	180,398	76,136
Repairs and maintenance	183,967	26,660	-	210,627	176,999
Staff professional development	112,304	-	-	112,304	84,655
Student field trips and incentive programs	173,793	-	-	173,793	102,831
Student food services	129,550	-	-	129,550	104,034
Student transportation	730	-	-	730	61,836
Student uniforms	1,734	-	-	1,734	-
Technology and infrastructure	272,319	44,416	-	316,735	258,116
Telephone and internet	119,240	17,280	-	136,520	126,525
Depreciation and amortization	222,819	32,289	-	255,108	186,841
	<u>\$ 13,297,144</u>	<u>\$ 1,924,454</u>	<u>\$ 370,075</u>	<u>\$ 15,591,673</u>	<u>\$ 13,529,056</u>

See Notes to Financial Statements.

Achievement First Bushwick Charter School

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

	2014	2013
Operating activities:		
Change in net assets	\$ (526,660)	\$ 175,401
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	255,108	186,841
Changes in operating assets and liabilities:		
Grants and other receivables	(441,946)	160,660
Prepaid expenses and other assets	4,366	112,692
Due from other schools	(95,626)	(2,533)
Due from related parties	(232,137)	(28,955)
Due from New York City Department of Education	-	24,085
Accounts payable and accrued expenses	(100,234)	(202,724)
Accrued salaries and other payroll related expenses	(9,404)	(18,942)
Due to other schools	(92,331)	(175,421)
Due to related parties	-	(180,674)
Due to New York City Department of Education	(9,439)	21,919
	(1,248,303)	72,349
Net cash provided by (used in) operating activities		
Investing activities:		
Purchase of property and equipment	(67,988)	(398,727)
	(67,988)	(398,727)
Net cash used in investing activities		
Net decrease in cash	(1,316,291)	(326,378)
Cash, beginning of year	2,226,394	2,552,772
Cash, end of year	\$ 910,103	\$ 2,226,394

See Notes to Financial Statements.

Achievement First Bushwick Charter School

Notes to Financial Statements June 30, 2014

Note 1 - Nature of operations

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. 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. In January 2014, the Board of Regents approved a three year charter renewal for the School.

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and under the corresponding provisions of the New York State tax laws. The School's primary source of income is government funding. 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). Today the School serves students from low income households in Brooklyn, New York.

During the year ended June 30, 2014, the School operated classes for students in kindergarten through ninth 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. 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 Bushwick Charter School

Notes to Financial Statements June 30, 2014

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 \$1,607,727.

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 has designated \$75,000 to be set 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.

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 \$910,954 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.

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 NYCDOE. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

Achievement First Bushwick Charter School

Notes to Financial Statements June 30, 2014

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. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives or lease terms as follows:

Leasehold improvements	15 years
Furniture and fixtures	5 years
Computers and hardware	3 years
Musical instruments	5 years
Equipment	3 years
Software	5 years

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 were no impairment losses recognized for the year ended June 30, 2014.

Achievement First Bushwick Charter School

Notes to Financial Statements 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 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.

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 \$983,505. The School limits its credit risk by selecting financial institutions considered to be highly creditworthy.

Achievement First Bushwick Charter School

Notes to Financial Statements June 30, 2014

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 31, 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.

Note 4 - Agreement for school facility

The School has entered into a verbal agreement with the NYCDOE for dedicated and shared space as P.S. 383, a New York City public school located at 1300 Greene Street, Brooklyn, New York. This agreement commenced on July 1, 2007 at a cost of \$1 per year. In accordance with industry standards, the fair value of the rent has not been recorded. 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 cost for services provided beyond the regular opening hours. For the year ended June 30, 2014, the School incurred overtime permit fees of \$180,398, which are included in the accompanying statement of functional expenses.

Note 5 - Property and equipment

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

Furniture and fixtures	\$ 272,424
Computers and hardware	605,700
Equipment	312,914
Software	104,654
Instruments	55,242
Leasehold improvements	<u>545,612</u>
	1,896,546
Less accumulated depreciation and amortization	<u>(1,444,876)</u>
	<u>\$ 451,670</u>

Achievement First Bushwick 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, 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 Schools 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 contribution such as student transportation and food services, start-up funding, funding for student meals, and funding for competitive public grants. The initial term of the Agreement is for 5 years ending on June 30, 2015. During the year ended June 30, 2014, the School paid a service fee equivalent to 8% of per-pupil revenues. The Agreement was also modified to incorporate additional services provided to the School by AF, Inc. 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, Inc. an ancillary services fee that is mutually negotiated by the School and AF, Inc. For the year ended June 30, 2014, the School incurred management and ancillary services fees of \$1,850,376, respectively, which is included in the accompanying statement of functional expenses.

Note 7 - Due to/from other schools

The following amounts were due from related schools and consist of the following at June 30, 2014:

Achievement First Apollo	\$ 919
Achievement First Crown Heights	12,368
Achievement First Brownsville	84,766
Achievement First Aspire	396
Achievement First Elm City	1,033
	<u>\$ 99,482</u>

The following amounts were due to related schools and consist of the following at June 30, 2014:

Achievement First East New York	\$ 245,870
Achievement First Endeavor	<u>2,564</u>
	<u>\$ 248,434</u>

Achievement First Bushwick 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 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, an overpayment totaling \$12,479 had been made. An adjustment for this amount will be reflected in the succeeding year's fourth payment.

Note 9 - Operating leases

The School leases office equipment under non-cancelable operating lease agreements expiring June 2015. The future minimum payments amount to \$21,023. The lease expense for the year ended June 30, 2014 was \$26,342.

Note 10 - 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 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 \$137,796, 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; actions by employees and parents and natural disasters. The School maintains commercial insurance to protect itself from these 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.