

**ACHIEVEMENT FIRST BROWNSVILLE
CHARTER SCHOOL**

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Achievement First Brownsville Charter School

We have audited the accompanying statements of financial position of Achievement First Brownsville Charter School (the "School") as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Achievement First Brownsville Charter School as of June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As further discussed in Note 13 to the financial statements, certain errors resulting in an understatement of net income for the year ended June 30, 2010 were discovered by management of Achievement First Brownsville Charter School during the current year. Accordingly, the 2010 financial statements have been restated to correct these errors.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011 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.

MBAF-ERE CPAs, LLC

New York, NY
October 27, 2011

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

June 30,	2011	2010 (as restated)
Assets:		
Cash	\$ 899,678	\$ 707,494
Grant and other receivables	287,892	387,297
Prepaid expenses	22,489	-
Due from related schools	7,226	1,218
Due from New York City Department of Education	75,114	10,851
Property and equipment, net	225,716	228,651
Total Assets	\$ 1,518,115	\$ 1,335,511
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	\$ 53,141	\$ 99,393
Accrued salaries and other payroll related expenses	117,430	223,734
Due to related schools	-	40,356
Due to Achievement First, Inc.	336,059	166,472
Total Liabilities	506,630	529,955
Net assets:		
Unrestricted		
Operating	225,716	228,651
Board-designated reserve	785,769	576,905
Total Unrestricted	1,011,485	805,556
Total Net Assets	1,011,485	805,556
Total Liabilities and Net Assets	\$ 1,518,115	\$ 1,335,511

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

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

STATEMENTS OF ACTIVITIES

For the Years Ended June 30,	2011	2010 (as restated)
Operating revenue:		
State and local per pupil operating revenue	\$ 4,651,551	\$ 3,093,059
Government grants and contracts	367,400	637,096
Student meal fees	-	2,975
Total operating revenue	5,018,951	3,733,130
Expenses:		
Program services	4,268,237	3,092,490
Management and general	572,966	424,956
Fundraising	32,789	30,728
Total operating expenses	4,873,992	3,548,174
Surplus from school operations	144,959	184,956
Support and other revenue:		
Foundation grants	150	150,000
In-kind revenue	37,023	-
Interest and other income	23,797	3,512
Total support and other revenue:	60,970	153,512
Change in net assets - unrestricted	205,929	338,468
Net assets - unrestricted – beginning of year	805,556	467,088
Net assets - unrestricted – end of year	\$ 1,011,485	\$ 805,556

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

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,526,789	\$ 272,445	\$ -	\$ 2,799,234
Payroll taxes and employee benefits	511,423	50,755	-	562,178
Accounting	-	42,972	-	42,972
Legal	1,361	340	-	1,701
Professional fees	36,565	12,704	-	49,269
Classroom supplies and instructional materials	227,633	-	-	227,633
Furniture and equipment - non-capitalized	35,321	30,243	-	65,564
Insurance	10,866	1,172	-	12,038
Interest and bank service charges	-	137	-	137
Management fees and ancillary services fee	413,783	95,438	32,789	542,010
Office expense	100,570	23,692	-	124,262
Parent activities	177	-	-	177
Postage and delivery	1,338	334	-	1,672
Printing and photocopying	27,224	6,806	-	34,030
Repairs and maintenance	9,519	1,026	-	10,545
After school academic	4,764	-	-	4,764
Special education contracted services	607	-	-	607
Staff professional development	49,422	-	-	49,422
Student field trips and incentive programs	25,385	-	-	25,385
Student food services	38,869	-	-	38,869
Student transportation	95	-	-	95
Student uniforms	516	-	-	516
Technology and infrastructure	51,749	644	-	52,393
Telephone and internet	62,710	6,762	-	69,472
In-kind expense	35,023	2,000	-	37,023
Depreciation and amortization	96,528	24,133	-	120,661
Bad debt expense	-	1,363	-	1,363
Total expenses	\$ 4,268,237	\$ 572,966	\$ 32,789	\$ 4,873,992

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

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2010

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,851,756	\$ 158,461	\$ -	\$ 2,010,217
Payroll taxes and employee benefits	364,396	70,291	-	434,687
Accounting	-	43,288	-	43,288
Legal	-	77	-	77
Professional fees	-	45,826	-	45,826
Classroom supplies and instructional materials	237,364	-	-	237,364
Furniture and equipment - non-capitalized	29,848	20,599	-	50,447
Insurance	7,744	854	-	8,598
Interest and bank service charges	-	1,000	-	1,000
Management fees and ancillary services fee	236,605	39,947	30,728	307,280
Office expense	66,605	11,754	-	78,359
Parent activities	1,262	-	-	1,262
Postage and delivery	1,726	432	-	2,158
Printing and photocopying	5,118	3,699	-	8,817
Repairs and maintenance	680	-	-	680
After school academic	1,280	-	-	1,280
Staff professional development	62,770	-	-	62,770
Student field trips and incentive programs	8,602	-	-	8,602
Student food services	21,792	-	-	21,792
Student transportation	30,600	-	-	30,600
Student uniforms	867	-	-	867
Technology and infrastructure	22,241	1,420	-	23,661
Telephone and internet	57,606	6,401	-	64,007
Depreciation and amortization	83,628	20,907	-	104,535
Total expenses	\$ 3,092,490	\$ 424,956	\$ 30,728	\$ 3,548,174

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

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	2011	2010 (as restated)
Cash flows from operating activities:		
Change in net assets	\$ 205,929	\$ 338,468
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	120,661	104,535
Bad debt expense	1,363	-
Changes in operating assets and liabilities:		
Grant and other receivables	98,042	(12,455)
Prepaid expenses	(22,489)	-
Due from related schools	(6,008)	(180)
Due from New York City Department of Education	(64,263)	12,480
Accounts payable and accrued expenses	(46,252)	(110,513)
Accrued salaries and other payroll related expenses	(106,304)	136,988
Due to related schools	(40,356)	40,356
Due to Achievement First, Inc.	169,587	166,472
Net cash provided by operating activities	309,910	676,151
Cash flows from investing activities:		
Purchase of property and equipment	(117,726)	(31,956)
Net cash used in investing activities	(117,726)	(31,956)
Net increase in cash	192,184	644,195
Cash - beginning of year	707,494	63,299
Cash - end of year	\$ 899,678	\$ 707,494

Supplementary Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest	\$ -	\$ 500
Income taxes	\$ -	-

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

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

1. NATURE OF THE ORGANIZATION:

Achievement First Brownsville Charter School (the "School") was incorporated to focus on strengthening the academic and character skills needed for all students to excel in top-tier colleges, to achieve success in a competitive world, and to serve as the next generation of leaders in their communities. On January 15, 2008, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration (on July 28, 2008, the charter was revised). Today the School serves students from low income households in Brooklyn, New York.

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and under the corresponding provisions 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) and qualifies for deductible contributions as provided in section 170(b)(1) (A)(ii).

During the fiscal year ended June 30, 2011, the School added the third grade. As of June 30, 2011, the School operated classes for students in kindergarten to third grade.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

These classes are defined as follows:

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

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

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

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

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

only with the approval of the Board. The reserve is calculated by netting the current fiscal year's current assets against the current fiscal year's current liabilities and reducing that difference by any assets whose use is contractually limited. The Reserve for the years ended June 30, 2011 and 2010 were \$785,769 and \$576,905, respectively

Cash

Cash consists of one checking account and one savings account.

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 \$287,892 and \$387,297 for the fiscal years ended June 30, 2011 and June 30, 2010, respectively. The School has determined that no allowance for uncollectible accounts for grant and other receivables is necessary as of June 30, 2011 and 2010. Such estimate is based on management's assessments of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions and historical information.

During the year ended June 30, 2009, the School was the beneficiary of a conditional pledge receivable. The total amount of the grant was \$418,820 of which \$175,000 was unconditional and the remaining \$243,820 was contingent on the School meeting various programmatic and economic milestones pursuant to the grant agreement. As of the years ended June 30, 2011 and 2010, these milestones were not met and accordingly, the \$243,820 in contributions was not recognized.

The carrying value of grant 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, 2011 and 2010.

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. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. 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.

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, 2011 and 2010.

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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.

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 statements of financial position.

Donated Goods and Services

The School receives contributed goods in the form of textbooks and pro-bono legal services that are an integral part of its operations. Such goods and services are only recorded as contributions in-kind, at their fair value, provided they meet the criteria for recognition. Included in in-kind contributions are donated services totaling \$10,000 and \$0, respectively, and donated textbooks totaling \$27,023 and \$0, respectively, for the years ended June 30, 2011 and 2010.

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 based upon benefits received.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through October 27, 2011 which is the date the financial statements were available to be issued.

Income Taxes

The School follows the 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.

Should there be interest on underpayments of income tax, the School would classify it as "Interest Expense." The School would classify penalties in connection with underpayments of tax as "Other Expense."

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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.

The School files informational returns in the United States federal and New York State jurisdictions. The School is subject to U.S. federal, state, or local income tax examinations by tax authorities for all fiscal years in which the School filed informational returns.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3. AGREEMENT FOR SCHOOL FACILITY:

The School has entered into a verbal agreement, (the "Agreement"), with the New York City Department of Education ("NYCDOE") for dedicated and shared space at Brooklyn Collegiate School, a facility located at 2021 Bergen Street, Brooklyn, New York. The Agreement commenced on July 1, 2008 at a cost of \$1 per year. In accordance with industry standards, this amount has not been recorded. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the fiscal years ended June 30, 2011 and June 30, 2010, the School incurred no overtime permit fees.

4. STUDENT MEALS AND TRANSPORTATION:

The NYCDOE provides free lunches and transportation directly to a majority of the School's students.

5. RELATED PARTY TRANSACTIONS:

The School entered into an Academic and Business Services Agreement (the "Agreement") with Achievement First, Inc. ("Achievement First"), a not-for-profit organization dedicated to helping start and run charter schools. This Agreement provides management and other administrative support services to the School. This agreement was amended in November 2010.

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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 initial term of this Agreement is for 5 years ending on June 30, 2015. In fiscal year ended 2010, the School paid a service fee equivalent to 10% of per-pupil revenues. The Agreement was also modified to incorporate additional services provided to the School by Achievement First. These services included bookkeeping, facilities acquisition and management, special education delivery support, data analysis management support, and tutoring program support. The School is to pay Achievement First an Ancillary Services Fee that is mutually negotiated by the School and Achievement First. For the fiscal years ended June 30, 2011 and June 30, 2010, the School incurred management and ancillary service fees of \$542,010 and \$307,280, respectively, which is included in the accompanying statement of functional expenses.

For the fiscal years ended June 30, 2011 and June 30, 2010, the amounts due to Achievement First, Inc. were \$336,059 and \$166,472, respectively.

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 at:

June 30,	2011	2010
Achievement First Bushwick Charter School	\$ -	\$ 40,356
Total due to other school	\$ -	\$ 40,356

The following amounts were due from other schools consist of the following at:

June 30,	2011	2010
Achievement First Apollo	\$ 1,830	\$ 1,218
Achievement First Bushwick Charter School	2,375	-
Achievement First Endeavor Charter School	3,021	-
Total due from other schools	\$ 7,226	\$ 1,218

6. DUE TO NEW YORK CITY 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 the 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, 2011 and 2010, an underpayment totaling \$75,114 and \$10,851, respectively, had been made. An adjustment for this amount will be reflected in the succeeding year's fourth payment.

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

7. PROPERTY AND EQUIPMENT:

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

	2011	2010	Estimated Useful Lives
Furniture and fixtures	\$ 159,713	\$ 97,904	5 years
Computers and servers	222,838	192,091	3 years
Software	29,644	26,724	5 years
Leasehold improvements	112,577	90,327	5 years
	524,772	407,046	
Less: accumulated depreciation and amortization	(299,056)	(178,395)	
	\$ 225,716	\$ 228,651	

Depreciation and amortization expense for the years ended June 30, 2011 and 2010 were \$120,661 and \$104,535, respectively.

8. LINE OF CREDIT:

The School has a revolving line of credit agreement with a financial institution where it can borrow up to \$200,000. The line of credit carries an interest rate at the bank's prime rate plus one percent (4.25% as of June 30, 2011 and 2010) and is secured by the School's business assets. During the years ended June 30, 2011 and 2010, the School did not draw on the line of credit. The line of credit is to expire April 30, 2012, but is expected to be renewed on an annual basis.

9. COMMITMENTS:

The School leases telecommunications equipment and copiers under non-cancelable operating leases. Future minimum lease payments are as follows:

June 30,	
2012	\$ 10,450
2013	5,855
2014	5,855
2015	5,855
2016	1,464
Total	\$ 29,479

- 10. RETIREMENT PLAN:** Effective September 1, 2009, the School adopted a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan either the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 4% of an employee's salary, up to a maximum match of \$2,500 per year per employee. The School contribution does not become vested until its third year when it becomes fully vested. Included in payroll taxes and employee benefits of \$562,178 and \$434,687 in the accompanying statements of functional expenses is pension expense of \$77,567 and \$61,045 for the years ended June 30, 2011 and 2010, respectively.

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011 and 2010

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 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.

12. CONCENTRATIONS:

- A. Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) of \$250,000.
- B. The School received approximately 92% and 85% of its total revenue from per pupil funding from the NYCDOE during the fiscal years ended June 30, 2011 and 2010, respectively.
- C. Approximately 88% of the School's grant and other receivables consist of two major grantors as of June 30, 2011. Approximately 94% of the School's grant and other receivables consist of three major grantors as of June 30, 2010.
- D. Approximately 47% of the School's accounts payable consist of two major vendors as of June 30, 2011.

13. PRIOR PERIOD ADJUSTMENT:

The School has restated its previously issued 2010 financial statements to reflect a correction of an error which underreported grant income of \$240,514. The net effect of the prior period adjustment resulted in an increase of prior year net assets by \$240,514.

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing
Standards***

To the Board of Trustees
Achievement First Brownsville Charter School

We have audited the financial statements of Achievement First Brownsville Charter School (the "School") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2011. 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 Achievement First Brownsville Charter 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 Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses; 2011-01, 2011-02 and 2011-03.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying schedule of findings and responses to be a significant deficiency; 2011-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Achievement First Brownsville Charter 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-01 and 2011-02.

We noted certain matters that we reported to management of Achievement First Brownsville Charter School in a separate letter dated October 27, 2011.

Achievement First Brownsville Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Achievement First Brownsville Charter School's response and, accordingly, we express no opinion on it.

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.

MBAT-ERE CPAs, LLC

New York, NY
October 27, 2011

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2011

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness (es) identified?

√ yes no

Significant deficiency (ies) identified that are not
considered to be material weaknesses?

√ yes none noted

Noncompliance material to financial statements noted?

√ yes no

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND REPOSSES

June 30, 2011

Section II - Financial Statement Findings

- **Findings: 2011-01**

Criteria and condition: The School must be in compliance with certain provisions of laws, regulations, contracts, and grant agreements. According to the University of the State of New York resolution governing the charter renewal of the School from January 15, 2008 through January 14, 2013, the School is required to ensure that all employees are properly fingerprinted for the fiscal year ending June 30, 2011.

Context: In the sample of 45 personnel files, 1 out of the 45 employees had no fingerprint clearance confirmations on file.

Cause: Ineffective management monitoring of policies and procedures.

Effect: The School is not in compliance with local laws and could have its charter revoked.

Recommendations: In order to avoid charter revocation the School should ensure that all employees are fingerprinted prior to hiring and that clearance confirmations are properly kept on file.

- **Findings: 2011-02**

Criteria and condition: The School must be in compliance with certain provisions of laws, regulations, contracts, and grant agreements. The Office of Management and Budget (OMB) requires not-for-profit entities that expend more than \$500,000 a year in federal funds to be subject to an A-133 audit.

Context: Federal revenue recorded in the current fiscal year that should have been recorded in the prior fiscal year resulted in the discovery that the School expended in excess of \$500,000 of federal funds in the fiscal year ended June 30, 2010. The School was subject to an A-133 audit for the fiscal year ended June 30, 2010, but did not obtain one.

Cause: Ineffective management review of revenue and expenditures.

Effect: The School recorded revenue in the current fiscal year. This error required a prior period adjustment to the audited financial statements. In addition, an A-133 compliance audit may be required for the fiscal year ended June 30, 2010 by the School's oversight agency. There is always a risk that funding could be suspended or frozen due to noncompliance.

Recommendations: We recommend for the School to institute internal controls that would ensure that revenues earned are properly recorded and federal expenditures are properly tracked.

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND REPOSSES

June 30, 2011

Section II - Financial Statement Findings

- **Findings: 2011-03**

Criteria and condition: The School must be in compliance with internal policies and procedures. Management is required to reconcile and review bank statements on a monthly basis and properly record transactions.

Context: The year-end bank reconciliation included significant reconciling items consisting of payroll related expenses.

Cause: Ineffective management monitoring of policies and procedures.

Effect: The School is not in compliance with internal policies and procedures and its financial statements could be misleading or incorrect.

Recommendations: We recommend for the School to carefully review all reconciling items on the bank reconciliation to ensure that all reconciling items are being recorded timely in compliance with accounting principles generally accepted in the United States of America.

- **Findings: 2011-04**

Criteria and condition: The School must be in compliance with internal policies and procedures. Management is required to reconcile and review revenues received for the fiscal year ending June 30, 2011.

Context: Unrecorded revenue and receivable as of the year end.

Cause: Ineffective management monitoring of policies and procedures.

Effect: The School could improperly record revenue.

Recommendations: We recommend for the School to perform a reconciliation on a monthly basis to determine revenues earned are timely and properly recorded.

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND REPOSES

June 30, 2011

Views of responsible officials and planned corrective action:

- **Findings: 2011-01 (Fingerprinting clearance confirmations)**

We agree with this finding and note that, of the 45 records tested, one was found to have a fingerprint clearance confirmation missing from the file. We believe that this was not due to a lack of staff being cleared but was a clerical error. It is clear to us in this situation that the staff at the School who are responsible for maintaining personnel records understand the requirement that all staff be fingerprinted prior to hiring and that clearance confirmations must be kept properly on file.

Planned Corrective Action:

While we believe this finding was due to a clerical error, we will reinforce procedures with staff responsible for maintaining personnel records. We will also conduct more rigorous audits of personnel records; such an audit is being conducted the week of October 24, 2011, and particular emphasis is being placed on compliance with fingerprint clearance confirmation and documentation.

- **Findings: 2011-02: (Federal revenue recorded in incorrect fiscal year)**

We acknowledge that this was an oversight. We endeavor to follow all requirements for local, federal and state grant funding.

Planned Corrective Action:

As part of the Finance Team restructuring implemented in the summer of 2011, there is one individual now responsible for tracking and recording all revenue; additionally a position has been created for a revenue accountant and will be filled prior to the end of the fiscal year. With these changes we expect enhanced monitoring and effectiveness in the revenue management of the School.

- **Findings: 2011-03 (Bank reconciliations)**

Management agrees with the finding that bank reconciliations were not performed timely and payroll-related expenses were included in reconciliation items.

Planned Corrective Action:

The Finance Team at Achievement First, Inc., which is responsible for conducting monthly closings and bank reconciliations for the School, will consistently follow a monthly closing calendar which includes performing bank reconciliations no later than 10 days after the bank statement closing date. Additionally, the team will redesign its internal processes to ensure that they always meet this deadline. Finally, a quarterly internal audit will be conducted to ensure that all processes are being completed correctly and on a timely basis. The findings of these internal audits will be conveyed to senior management.

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND REPONSES

June 30, 2011

- **Findings: 2011-04 (Unrecorded revenue/receivable)**

Management agrees with this finding that unrecorded revenue and receivable as of year-end was included as a reconciling item on the bank reconciliation.

Planned Corrective Action:

As with the response to Findings 2011-03, the Finance Team at Achievement First, Inc. will institute practices to ensure revenue is recorded as it is received or pledged. The team has also been restructured in the summer of 2011 and a senior staff member has been tasked with overseeing revenue and grants management. Another staff member will work to ensure proper recording and coding of grants. The team has also instituted monthly revenue reconciliations with the team responsible for fundraising for the School; this reconciliation will help ensure that revenue is being recorded in the accounting system correctly.

ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL

SCHEDULE OF PRIOR AUDIT FINDINGS June 30, 2011

Section II - Financial Statement Findings

There were no prior audit findings