

2010

Audit

044328

EDUCATIONAL SERVICES



**Edward
W. Brooke**
CHARTER SCHOOL

AND
THE BROOKE SCHOOL FOUNDATION, INC.

COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

**EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.**

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JUNE 30, 2010 AND 2009**

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2010
AUDIT

044328

**UNQUALIFIED OPINION ON COMBINED GENERAL PURPOSE
FINANCIAL STATEMENTS - GOVERNMENTAL ENTITY**

Independent Auditor's Report

To the Board of Trustees of
Edward W. Brooke Charter School and
The Brooke School Foundation, Inc.:

We have audited the accompanying combined statements of net assets of Edward W. Brooke Charter School (a Massachusetts charter school) (the School) and The Brooke School Foundation, Inc. (a Massachusetts corporation, not for profit) (the Foundation) as of June 30, 2010 and 2009, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined general purpose financial statements are the responsibility of the School's and the Foundation's management. Our responsibility is to express an opinion on these combined general purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and those 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 combined general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined general purpose financial statements referred to above present fairly, in all material respects, the combined financial position of Edward W. Brooke Charter School and The Brooke School Foundation, Inc. as of June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2010, on our consideration of the School's and the Foundation'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 on internal control over financial reporting and 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.

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To the Board of Trustees of
Edward W. Brooke Charter School and
The Brooke School Foundation, Inc.
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The management's discussion and analysis on pages 2 through 4 are not a required part of the basic combined general purpose financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Alexander, Aronson, Finning & Co, PC

Wellesley, Massachusetts
October 28, 2010

**EDWARD W. BROOKE CHARTER SCHOOL AND
 THE BROOKE SCHOOL FOUNDATION, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2010**

Our discussion and analysis of the Edward W. Brooke Charter School's (the School) financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the School's combined general purpose financial statements, which begin on page 5.

The School as a Whole

The School received its charter on April 1, 2001, to operate as a public charter school in the Commonwealth of Massachusetts. The charter is awarded in five-year increments and is subject to renewal at the discretion of the Commonwealth of Massachusetts Board of Education. Although the charter was received in April 2001, the School admitted students beginning in August, 2002. During fiscal year 2010, the School operated kindergarten through grade eight with an approximate enrollment of 433 students, comprised of 298 elementary and 135 middle school students. The School is operating at capacity as of the beginning of the 2010-2011 academic year.

On June 1, 2007, the Commonwealth of Massachusetts approved and issued the School's second charter for the period of July 1, 2007 through June 30, 2012.

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the School discretely presents financial information of The Brooke School Foundation, Inc. (the Foundation), a closely related nonprofit organization, in its combined general purpose financial statements. GASB defines component units as legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship to a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Foundation acts primarily as a fundraising organization to supplement the resources of the School. Although the School does not control the timing or amounts of receipts from the Foundation, the majority of the resources or incomes thereon that it holds are restricted to the activities of the School. Because these restricted resources can only be used by or for the benefit of the School, the Foundation is considered a component unit of the School and is discretely presented in the School's combined general purpose financial statements.

Using This Annual Report

This annual report consists of a series of financial statements. In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement – Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), the School is considered a special purpose government entity that engages in only business type activities. The financial activity of the School is recorded in an enterprise fund within the proprietary fund group.

In accordance with GASB No. 34, the School issues a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the financial activities of the School, as a whole. This annual report also contains notes to the combined general purpose financial statements which provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

**EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010
(Continued)**

Budgetary Highlights

The School's budget is approved by the Board of Trustees annually. The budgeted expenses for fiscal year 2010 were \$ 5,733,774 compared to actual expenses of \$6,250,258, resulting in a difference of \$516,484. This difference was primarily due to the operating budget not including in-kind transportation of \$600,000.

School's Financial Activities

The majority of the School's funding is received from the Commonwealth of Massachusetts Department of Education and is based on a standard rate per pupil. During the fiscal year ended June 30, 2010, the School had approximately 433 students and received \$5,388,001 in per pupil funding, which represents 76% of the School's operating revenue. In addition, the School received various federal grants which totaled \$815,814.

Other Financial Factors

During 2010, the School received a forgiveness of debt related to the note payable acquired with the building. The total amount forgiven is \$274,901 and is included in general revenue for the School.

Contacting the School's Financial Management

This financial report is designed to provide the reader with a general overview of the School's finances and to show the accountability for the funds received. If you have questions about this report or need additional financial information, contact Mr. Scott Knox, Chief Operating Officer at the Edward W. Brooke Charter School.

**EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.**

**COMBINED STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

ASSETS	2010			2009		
	ENTERPRISE FUND SCHOOL	COMPONENT UNIT FOUNDATION	(Memorandum Only) TOTAL	ENTERPRISE FUND SCHOOL	COMPONENT UNIT FOUNDATION	(Memorandum Only) TOTAL
CURRENT ASSETS:						
Cash	\$ 3,117,081	\$ 137,062	\$ 3,254,143	\$ 1,723,894	\$ 171,650	\$ 1,895,544
Accounts receivable	32,565	-	32,565	164,006	-	164,006
Prepaid expenses	20,968	-	20,968	42,127	-	42,127
Due from Foundation	242,469	-	242,469	129,471	-	129,471
Total current assets	3,413,083	137,062	3,550,145	2,059,498	171,650	2,231,148
RESTRICTED DEPOSITS	-	4,677,306	4,677,306	-	4,586,122	4,586,122
DEFERRED FINANCING COSTS, net	521,269	70,800	592,069	541,492	82,600	624,092
FIXED ASSETS, net	9,508,988	-	9,508,988	9,394,434	-	9,394,434
Total assets	<u>\$ 13,443,340</u>	<u>\$ 4,885,168</u>	<u>\$ 18,328,508</u>	<u>\$ 11,995,424</u>	<u>\$ 4,840,372</u>	<u>\$ 16,835,796</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable	\$ 116,453	\$ -	\$ 116,453	\$ 44,478	\$ -	\$ 44,478
Accrued expenses	253,489	500	253,989	253,584	-	253,584
Current portion of accrued interest	-	-	-	16,580	-	16,580
Deferred revenue	8,091	-	8,091	-	-	-
Due to School	-	242,469	242,469	-	129,471	129,471
Total current liabilities	378,033	242,969	621,002	314,642	129,471	444,113
NOTE PAYABLE	6,114,824	-	6,114,824	6,220,382	-	6,220,382
ACCRUED INTEREST, net of current portion	-	230,027	230,027	-	173,109	173,109
BONDS PAYABLE, net of discount	-	3,338,614	3,338,614	-	3,296,092	3,296,092
Total liabilities	6,492,857	3,811,610	10,304,467	6,535,024	3,598,672	10,133,696
NET ASSETS:						
Unrestricted -						
Operating	3,035,050	1,073,558	4,108,608	1,761,436	1,241,700	3,003,136
Invested in capital	3,915,433	-	3,915,433	3,698,964	-	3,698,964
Total net assets	6,950,483	1,073,558	8,024,041	5,460,400	1,241,700	6,702,100
Total liabilities and net assets	<u>\$ 13,443,340</u>	<u>\$ 4,885,168</u>	<u>\$ 18,328,508</u>	<u>\$ 11,995,424</u>	<u>\$ 4,840,372</u>	<u>\$ 16,835,796</u>

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

EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	ENTERPRISE	COMPONENT	(Memorandum Only)	ENTERPRISE	COMPONENT	(Memorandum Only)
	FUND	UNIT		FUND	UNIT	
	SCHOOL	FOUNDATION	TOTAL	SCHOOL	FOUNDATION	TOTAL
OPERATING REVENUE:						
Per-pupil tuition	\$ 5,388,001	\$ -	\$ 5,388,001	\$ 4,910,958	\$ -	\$ 4,910,958
Grants - government	815,814	-	815,814	634,034	-	634,034
In-kind transportation	600,000	-	600,000	388,719	-	388,719
Student meals	260,740	-	260,740	221,334	-	221,334
Program fees	56,243	-	56,243	68,315	-	68,315
Rental income	15,488	-	15,488	13,700	-	13,700
Grants - program restricted	-	-	-	16,528	-	16,528
Total operating revenue	<u>7,136,286</u>	<u>-</u>	<u>7,136,286</u>	<u>6,253,588</u>	<u>-</u>	<u>6,253,588</u>
OPERATING EXPENSES:						
Personnel and related costs -						
Salaries	3,289,059	-	3,289,059	3,261,216	-	3,261,216
Payroll taxes and employee benefits	358,163	-	358,163	317,851	-	317,851
Recruitment and staff development	11,122	-	11,122	16,994	-	16,994
Total personnel and related costs	<u>3,658,344</u>	<u>-</u>	<u>3,658,344</u>	<u>3,596,061</u>	<u>-</u>	<u>3,596,061</u>
Direct student costs -						
In-kind transportation	600,000	-	600,000	388,719	-	388,719
Food	263,968	-	263,968	235,044	-	235,044
Educational program expense	118,715	-	118,715	128,388	-	128,388
Transportation and travel	108,477	-	108,477	80,434	-	80,434
Special educational services	73,860	-	73,860	27,327	-	27,327
Student activities	15,026	-	15,026	25,654	-	25,654
Total direct student costs	<u>1,180,046</u>	<u>-</u>	<u>1,180,046</u>	<u>885,566</u>	<u>-</u>	<u>885,566</u>
Occupancy -						
Interest	452,763	65,564	518,327	473,636	61,840	535,476
Facility maintenance	199,084	112	199,196	163,165	-	163,165
Utilities	102,266	-	102,266	102,522	-	102,522
Insurance	23,913	-	23,913	21,678	-	21,678
Total occupancy	<u>778,026</u>	<u>65,676</u>	<u>843,702</u>	<u>761,001</u>	<u>61,840</u>	<u>822,841</u>
Other operating costs -						
Minor equipment	118,221	-	118,221	77,337	-	77,337
Supplies	115,636	-	115,636	107,436	-	107,436
Professional fees	60,480	-	60,480	53,133	-	53,133
Dues and subscriptions	19,465	-	19,465	15,723	-	15,723
Scholarships	-	17,800	17,800	-	17,300	17,300
Postage and printing	15,108	-	15,108	17,782	-	17,782
Miscellaneous	3,299	1,470	4,769	6,622	1,406	8,028
Total other operating costs	<u>332,209</u>	<u>19,270</u>	<u>351,479</u>	<u>278,033</u>	<u>18,706</u>	<u>296,739</u>
Depreciation and amortization -						
Depreciation	281,410	-	281,410	269,582	-	269,582
Amortization	20,223	45,676	65,899	20,442	45,676	66,118
Total depreciation and amortization	<u>301,633</u>	<u>45,676</u>	<u>347,309</u>	<u>290,024</u>	<u>45,676</u>	<u>335,700</u>
Total operating expenses	<u>6,250,258</u>	<u>130,622</u>	<u>6,380,880</u>	<u>5,810,685</u>	<u>126,222</u>	<u>5,936,907</u>
Changes in net assets from operations	<u>886,028</u>	<u>(130,622)</u>	<u>755,406</u>	<u>442,903</u>	<u>(126,222)</u>	<u>316,681</u>
GENERAL REVENUE (EXPENSES):						
Forgiveness of loan principal and interest	274,901	-	274,901	820,474	-	820,474
Grants and contributions	30,385	134,196	164,581	144,063	172,732	316,795
Interest income	-	95,388	95,388	-	265,975	265,975
Other income	31,565	100	31,665	62,055	885	62,940
Intercompany grants - capital	180,000	(180,000)	-	-	-	-
Intercompany grants - operating	87,204	(87,204)	-	467,524	(467,524)	-
Total general revenue (expenses)	<u>604,055</u>	<u>(37,520)</u>	<u>566,535</u>	<u>1,494,116</u>	<u>(27,932)</u>	<u>1,466,184</u>
Changes in unrestricted net assets	<u>1,490,083</u>	<u>(168,142)</u>	<u>1,321,941</u>	<u>1,937,019</u>	<u>(154,154)</u>	<u>1,782,865</u>
PROGRAM RESTRICTED NET ASSETS -						
Net assets released from restrictions	-	-	-	(16,528)	-	(16,528)
Changes in net assets	<u>1,490,083</u>	<u>(168,142)</u>	<u>1,321,941</u>	<u>1,920,491</u>	<u>(154,154)</u>	<u>1,766,337</u>
NET ASSETS, beginning of year	<u>5,460,400</u>	<u>1,241,700</u>	<u>6,702,100</u>	<u>3,539,909</u>	<u>1,395,854</u>	<u>4,935,763</u>
NET ASSETS, end of year	<u>\$ 6,950,483</u>	<u>\$ 1,073,558</u>	<u>\$ 8,024,041</u>	<u>\$ 5,460,400</u>	<u>\$ 1,241,700</u>	<u>\$ 6,702,100</u>

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

EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	ENTERPRISE	COMPONENT	(Memorandum	ENTERPRISE	COMPONENT	(Memorandum
	FUND	UNIT	Only)	FUND	UNIT	Only)
	SCHOOL	FOUNDATION	TOTAL	SCHOOL	FOUNDATION	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from tuition	\$ 5,388,001	\$ -	\$ 5,388,001	\$ 4,910,958	\$ -	\$ 4,910,958
Receipts from government grants	945,055	-	945,055	480,355	-	480,355
Receipts from the Foundation	154,206	-	154,206	454,524	-	454,524
Receipts from other sources	396,621	229,684	626,305	516,567	439,592	956,159
Payments to the School	-	(154,206)	(154,206)	-	(454,524)	(454,524)
Payments to employees	(3,665,653)	-	(3,665,653)	(3,587,013)	-	(3,587,013)
Payments to suppliers and vendors	(1,429,079)	(18,882)	(1,447,961)	(1,388,387)	(19,969)	(1,408,356)
Net cash provided by (used in) operating activities	1,789,151	56,596	1,845,747	1,387,004	(34,901)	1,352,103
CASH FLOWS FROM INVESTING ACTIVITIES:						
Acquisition of fixed assets	(395,964)	-	(395,964)	(484,304)	-	(484,304)
Decrease in restricted deposits	-	(91,184)	(91,184)	-	206,551	206,551
Net cash provided by (used in) investing activities	(395,964)	(91,184)	(487,148)	(484,304)	206,551	(277,753)
CASH FLOWS FROM FINANCING ACTIVITIES -						
Principal payments on note payable to a bank	-	-	-	(175,000)	-	(175,000)
NET INCREASE (DECREASE) IN CASH	1,393,187	(34,588)	1,358,599	727,700	171,650	899,350
CASH, beginning of year	1,723,894	171,650	1,895,544	996,194	-	996,194
CASH, end of year	\$ 3,117,081	\$ 137,062	\$ 3,254,143	\$ 1,723,894	\$ 171,650	\$ 1,895,544
CASH FLOWS FROM OPERATING ACTIVITIES:						
Changes in net assets	\$ 1,490,083	\$(168,142)	\$ 1,321,941	\$ 1,920,491	\$(154,154)	\$ 1,766,337
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:						
Forgiveness of loan principal and interest	(274,901)	-	(274,901)	(820,474)	-	(820,474)
Amortization	20,223	45,676	65,899	20,442	45,676	66,118
Depreciation	281,410	-	281,410	269,582	-	269,582
Accrued interest forgiven	169,343	-	169,343	195,412	-	195,412
Accrual of imputed interest on bonds payable	-	8,646	8,646	-	8,646	8,646
Changes in operating assets and liabilities -						
Accounts receivable	131,441	-	131,441	(146,579)	-	(146,579)
Prepaid expenses	21,159	-	21,159	(10,849)	-	(10,849)
Due from Foundation/due to School	(112,998)	112,998	-	(13,000)	13,000	-
Accounts payable	71,975	-	71,975	(20,693)	(1,263)	(21,956)
Accrued expenses	(95)	500	405	14,448	-	14,448
Deferred revenue	8,091	-	8,091	-	-	-
Accrued interest	(16,580)	56,918	40,338	(21,776)	53,194	31,418
Net cash provided by (used in) operating activities	\$ 1,789,151	\$ 56,596	\$ 1,845,747	\$ 1,387,004	\$ (34,901)	\$ 1,352,103

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

**EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.**

**NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**

OPERATIONS AND NONPROFIT STATUS

Edward W. Brooke Charter School (the School) was granted a charter by the Commonwealth of Massachusetts under Chapter 71, Section 89 of the General Laws of Massachusetts effective April 1, 2001, for a five-year period which ended June 30, 2007. During 2007, the School's charter was extended for an additional five years through June 30, 2012. The School's charter is subject to renewal every five years by the Commonwealth of Massachusetts Department of Elementary and Secondary Education (DESE). During fiscal year 2010, the School operated kindergarten through grade 8, operating at capacity, serving approximately 430 students. During fiscal year 2009, the School operated kindergarten through grade 3 and grade 5 through grade 8, serving approximately 390 students. As a state chartered organization, the School is not subject to Federal or state income taxes. Donors may deduct contributions to the School within Internal Revenue Code (IRC) regulations.

The Brooke School Foundation, Inc. (the Foundation) was formed on June 18, 2002, to benefit and support, financially, the functions of the School. The Foundation solicits, receives, and administers funds for the operation and maintenance of the School. The Foundation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the IRC. Donors may deduct contributions made to the Foundation within the requirements of the IRC. The Foundation is also exempt from state income taxes.

The School and the Foundation each appoint their respective Boards of Trustees. The Foundation's activities consist of raising funds on behalf of the School. Due to this factor, the financial statements of the School and the Foundation are presented on a combined basis (see below).

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - GASB Standards

The accompanying combined general purpose financial statements were prepared on the accrual basis. Since the School is a quasi-public corporation, its accounting policies and financial statement presentation is governed by standards issued by the Governmental Accounting Standards Board (GASB). The School follows GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." GASB Statement No. 34 outlines financial reporting requirements for state and local governments. The School is considered a special purpose government organization that conducts only business-type activities within the meaning of GASB Statement No. 34 and, therefore, only has enterprise funds within its proprietary fund.

Consistent with the provisions of GASB Statement Nos. 14 and 39, the Foundation is "discretely" presented in these combined general purpose financial statements as a component unit of the School. The "Memorandum Only Total" is presented in accordance with GASB Statement Number 14. This represents the combined totals of the School and the Foundation without the elimination of inter-agency balances and transactions.

EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.

NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the School has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

Classification of Net Assets

Operating Net Assets - Represent the portion of expendable funds that are used to support the operations, including funds for which the donor-imposed restrictions have been met in accordance with funding agreements.

Invested in Capital Net Assets - Represents the net book value of fixed assets and other resources restricted for capital, net of related debt.

Program Restricted Net Assets - Includes all funds contributed by donors to fund specific programs which have not been spent for the specific program as of the end of the fiscal year.

Revenue Recognition

Per-pupil tuition and grant revenue are recorded as services are provided and costs are incurred. The Commonwealth of Massachusetts, Executive Office of Administration and Finance, calculates per-pupil tuition reimbursement which is paid to the School by the DESE.

Unrestricted grants and contributions are recorded when they are received or unconditionally committed. Gifts of cash and other assets are recorded as restricted program funds if they are received or unconditionally committed with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reported in the combined statements of revenues, expenses and changes in net assets as a transfer between funds.

Rental and all other income is recorded when earned.

Fixed Assets and Depreciation

Fixed assets are recorded at cost, if purchased, or fair market value at the time of donation. Renewals and betterments are capitalized while repair and maintenance are charged to expense as they are incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and building improvements	15 - 40 years
Furniture and equipment	3 - 7 years

**EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.**

**NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets and Depreciation (Continued)

The School purchases classroom supplies, which include textbooks, literature and other materials to carry on educational activities. These purchases are expensed in the year of acquisition.

The building is pledged as security for the bonds and note payable described in Notes 7 and 9.

Deferred Financing Costs

Deferred financing costs represent legal fees and closing costs associated with the various debt agreements. These costs are being amortized over the life of the debt (fifteen to thirty years).

Amortization expense for the School for the years ended June 30, 2010 and 2009, was \$20,223 and \$20,442, respectively. Amortization expense for the Foundation for the years ended June 30, 2010 and 2009, was \$11,800, and is included in amortization on the accompanying combined statements of revenues, expenses and changes in net assets. Accumulated amortization at June 30, 2010 and 2009, was \$91,989 and \$71,766, respectively, for the School and \$47,200 and \$35,400, respectively, for the Foundation.

Estimates

The preparation of combined general purpose financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the combined general purpose financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

In-Kind Goods and Services

The City of Boston provides in-kind transportation to the School for transporting certain students as required by law. These services are reflected in the accompanying combined general purpose financial statements based upon the estimated value assigned by management.

The School and the Foundation also receive donated services from a variety of volunteers. No amounts have been recognized in the accompanying combined general purpose financial statements, since these services do not meet the criteria for recording in accordance with accounting principles generally accepted in the United States of America.

**EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.**

**NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(Continued)**

(2) FIXED ASSETS

Fixed assets consist of the following at June 30:

<u>SCHOOL</u>	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Balance June 30, 2010</u>
Fixed assets:					
Land	\$1,264,116	\$ -	\$ 1,264,116	\$ -	\$ 1,264,116
Building	5,852,245	-	5,852,245	-	5,852,245
Building improvements	2,313,278	459,785	2,773,063	376,738	3,149,801
Furniture and equipment	388,716	24,519	413,235	19,226	432,461
Total fixed assets	<u>9,818,355</u>	<u>484,304</u>	<u>10,302,659</u>	<u>395,964</u>	<u>10,698,623</u>
Less - accumulated depreciation:					
Building	378,076	146,240	524,316	146,306	670,622
Building improvements	60,613	64,226	124,839	74,036	198,875
Furniture and equipment	199,954	59,116	259,070	61,068	320,138
Total accumulated depreciation	<u>638,643</u>	<u>269,582</u>	<u>908,225</u>	<u>281,410</u>	<u>1,189,635</u>
Fixed assets, net	<u>\$9,179,712</u>	<u>\$214,722</u>	<u>\$ 9,394,434</u>	<u>\$114,554</u>	<u>\$ 9,508,988</u>

(3) FUNDING AND CONCENTRATIONS

The School receives significant funding from the Commonwealth of Massachusetts and various Federal agencies for its tuition and grant revenue. This funding is subject to audit by the appropriate governmental agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the School as of June 30, 2010 and 2009, or on the changes in its net assets for the years then ended. For the years ended June 30, 2010 and 2009, the School received approximately 87% and 89%, respectively, of its total operating revenue from the Commonwealth of Massachusetts.

(4) CONCENTRATION OF CREDIT RISK

The School and the Foundation maintain their cash balances, including restricted deposits, in various banks and financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures balances up to certain amounts. At certain times during the year, cash balances exceed the insured amounts. The School and Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

As required by GASB Statement No. 40, "Deposits and Invested Risk Disclosures", the following represents a summary of deposits at June 30, 2010 and 2009:

	<u>2010</u>		<u>2009</u>	
	<u>School</u>	<u>Foundation</u>	<u>School</u>	<u>Foundation</u>
Fully insured	\$ 250,000	\$ 387,062	\$ 250,000	\$ 421,650
Uncollateralized	<u>2,867,081</u>	<u>4,427,306</u>	<u>1,473,894</u>	<u>4,336,122</u>
	<u>\$3,117,081</u>	<u>\$4,814,368</u>	<u>\$1,723,894</u>	<u>\$4,757,772</u>

**EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.**

**NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(Continued)**

(5) LEASE COMMITMENTS

On December 28, 2005, the School and the Foundation entered into a ninety-nine year lease agreement in which the School leases land and a building from the Foundation. The lease expires December 28, 2104, with no right to extend or renew the lease. During 2006, the School made the required initial payment of \$6,960,000, using loan proceeds from a note payable (see Note 9), upon the execution of the lease. Thereafter, the annual rental payment is \$1 per year. In accordance with accounting principles generally accepted in the United States of America, the lease meets the criteria of a "capital" lease on the School's combined general purpose financial statements. Accordingly, the \$6,960,000 has been capitalized and included in fixed assets as building and land (see Note 2) on the School's combined general purpose financial statements. The School is responsible for all costs and expenses relating to the use, occupancy, operation, maintenance and repairs, and maintenance of insurance on the premises.

The School leases a copier and postage meter under operating lease agreements which require monthly payments of \$3,393 and \$71, respectively. The copier lease expires in September, 2015, and the postage meter expires in August, 2011.

Future minimum payments under these leases for the next five years are as follows:

2011	\$41,568
2012	\$40,858
2013	\$40,716
2014	\$40,716
2015	\$10,179

(6) RETIREMENT PLANS

The School's teaching staff and certain administrators participate individually in the Massachusetts Teacher Retirement System (MTRS). The School is not legally required to contribute to MTRS. All full-time teaching staff and administrators are covered by and must participate in MTRS. The teachers and the School are exempt from Federal social security taxes for these employees. Benefits vest fully after 10 years of full-time employment. An employee may receive retirement benefits after 20 years of service or 10 years of service having attained the age of 55. Covered employees are required by state statute to contribute 8% to 11% of their salaries, depending on their date of hire, and an additional 2% of their salary in excess of \$30,000, to the plan. The Commonwealth is required to make actuarially determined contributions to maintain the financial integrity of the retirement system. The School contributed \$17,932 and \$3,004 to MTRS for the years ended June 30, 2010 and 2009, respectively, as required by certain government grants.

The School also sponsors a defined contribution retirement plan (the Plan) covering all eligible employees under IRC Section 403(b). The School does not contribute to this plan.

EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.

NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(Continued)

(7) BONDS PAYABLE

Bonds payable consists of the following at June 30, 2010 and 2009:

Qualified Zone Academy Revenue Bond

On December 1, 2004, the Foundation and the School jointly entered into agreements with Massachusetts Department Finance Agency (MDFA) and a trust company in connection with the issuance of \$3,000,000 of MDFA Qualified Zone Academy Revenue Bonds (QZAB), Series 2004. Under these agreements, the Foundation had access to \$2,457,990 of bond proceeds, which were used for renovations of the School's building and other operating and capital costs. The bond proceeds were net of a discount of \$542,010. This discount is being amortized over the life of the bond. During the years ended June 30, 2010 and 2009, \$33,876 of the discount has been amortized.

The loan bears no stated interest. Interest expense of \$8,646 was imputed and added to loan principal as of June 30, 2010 and 2009. The combined discount amortization and imputed interest is at an effective rate of 1.15%.

Principal payments may be made through bond redemptions, the amount of which increases annually from \$2,610,000 on December 30, 2004, to \$3,140,000 on December 30, 2020. The bond is secured by a subordinated mortgage on the building and cross collateralized by the capital appreciation bond.

The bond agreement has certain financial covenants which the School and the Foundation were in compliance with as of June 30, 2010 and 2009.

Capital Appreciation Bond

On December 28, 2005, the Foundation and the School jointly entered into a loan agreement with MDFA. The loan is financed by the issuance of a capital appreciation bond with an original principal balance of \$640,000. The proceeds were used to refinance debt that was originally obtained to purchase the building. The loan bears interest at 7% and interest expense for the years ended June 30, 2010 and 2009, was \$56,918 and \$53,194, respectively. Accrued interest was \$230,027 and \$173,109 at June 30, 2010 and 2009, respectively. The bond matures on December 1, 2040, and will have a maturity value of \$6,337,503. No payments are due until maturity. The bond is secured by a subordinated mortgage on the School's building and cross collateralized with the QZAB bond.

**EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.**

**NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(Continued)**

(7) BONDS PAYABLE (Continued)

Bonds payable consists of the following at June 30:

	<u>2010</u>	<u>2009</u>
QZAB:		
Bond issuance	\$3,000,000	\$3,000,000
Bond discount	<u>(542,010)</u>	<u>(542,010)</u>
Net proceeds	2,457,990	2,457,990
Accumulated amortization of bond discount	189,704	155,828
Accumulated accrual of imputed interest	<u>50,920</u>	<u>42,274</u>
Total QZAB payable	2,698,614	2,656,092
Capital appreciation bond payable	<u>640,000</u>	<u>640,000</u>
Total bonds payable	<u>\$3,338,614</u>	<u>\$3,296,092</u>

(8) NOTE PAYABLE TO A BANK

The School has a line of credit agreement with a bank, which allows borrowings up to \$325,000 at June 30, 2010 and 2009. Borrowings are due on demand and interest is payable monthly at the bank's prime rate (3.25% at June 30, 2010 and 2009), plus 1%. This line of credit is secured by the School's operating cash account and is guaranteed by the Foundation. There was no outstanding balance under this agreement at June 30, 2010 and 2009. The note is renewed annually by the bank.

(9) NOTE PAYABLE

The School has a \$7,647,500 note payable to NCBDC CDE 6, LLC (a Delaware limited liability company) (the LLC). This note bears interest at a fixed rate of 7.25% per annum through December, 2013 (the conversion date). Thereafter, the note will bear interest at a variable rate, which will be reset to agree to the corresponding change in the London Interbank Offered Rate (LIBOR) rate, through December, 2035, maturity date. Interest only is due in quarterly installments of \$50,000 beginning December, 2005, through December 27, 2007. Beginning December 28, 2007, interest only is due in quarterly installments of \$75,000 through the conversion date. There is a balloon payment of \$2,914,963 due and payable on the conversion date. Thereafter, interest only is due in twenty-two annual installments through the maturity date. The note may be prepaid in whole or in part at any time after the conversion date provided the School provides the LLC a thirty (30) day written notice of prepayment. During fiscal years 2010 and 2009, the School made four quarterly payments totaling \$300,000. Accrued interest was \$16,580 at June 30, 2009. This note is guaranteed by the Foundation and is secured by a first mortgage on the School's building and an assignment of leases and rents. During fiscal years 2010 and 2009, the LLC forgave a portion of the debt totaling \$274,901 (\$105,558 principal and \$169,343 of deferred interest) and \$820,474 (\$625,062 principal and \$195,412 of deferred interest), respectively, which is reflected as loan forgiveness in the accompanying combined statements of revenues, expenses, and changes in net assets.

The note payable agreement contains various covenants with which the School must comply. The School was in compliance with these covenants at June 30, 2010 and 2009.

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**EDWARD W. BROOKE CHARTER SCHOOL AND
THE BROOKE SCHOOL FOUNDATION, INC.**

**NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(Continued).**

(10) RESTRICTED DEPOSITS

Pursuant to the QZAB bond payable agreement (see Note 7), the Foundation is required to maintain debt service and collateral and project fund accounts. These accounts are held by the bond's trustees. The debt service and collateral accounts are to be used for payment of principal and redemption price on the bond. The project fund account is used for payment or reimbursement of eligible renovation costs relating to the School's building and other eligible costs as defined in the bond agreement. The funds in these accounts consist of cash and government backed money funds, mutual funds and government bonds.

Pursuant to the capital appreciation bond payable agreement (see Note 7), the Foundation is required to established a cash reserve and put option collateral accounts. The cash reserve is pledged as collateral for payment default under the School's note payable agreement (see Note 9). The cash reserve and put option collateral accounts were originally funded by \$350,000 and \$686,000, respectively, and the funds are invested in seven year certificates of deposit maturing December, 2012. The put option collateral account is pledged as collateral for the put option agreement between the Foundation and bonds' owner.

Restricted deposits consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Collateral account	\$3,355,122	\$3,323,100
Put option collateral	859,431	817,475
Cash reserve	438,485	417,079
Debt service	24,268	24,264
Project fund	-	4,204
	<u>\$4,677,306</u>	<u>\$4,586,122</u>

(11) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are comprised of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Accrued salaries	63%	80%
Payables to vendors	37	20
	<u>100%</u>	<u>100%</u>



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**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 of
Edward W. Brooke Charter School and
The Brooke School Foundation, Inc.:

We have audited the accompanying combined general purpose financial statements of Edward W. Brooke Charter School and The Brooke School Foundation, Inc. (collectively, the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's combined general purpose financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees of
Edward W. Brooke Charter School and
The Brooke School Foundation, Inc.
Page II

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's combined general purpose 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 instances 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 questioned costs as item 10-01.

We noted certain matters that we reported to management of the School in a separate letter dated October 28, 2010.

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, others within the School, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alexander, Brown, Finning & Co., PC

Wellesley, Massachusetts
October 28, 2010