ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010

(With Comparative Totals for 2009)

	Page
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11
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*	12-13

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Achievement First Crown Heights Charter School

We have audited the accompanying statement of financial position of Achievement First Crown Heights Charter School (the "School") as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2009 financial statements and, in our report dated October 23, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ERE LLP

New York, NY
October 27, 2010

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30,	2010	2009
Assets:		
Cash	$ 3,078,094	$ 1,869,459
Cash - restricted	25,084	25,004
Grant and other receivables	441,746	425,458
Prepaid expenses and other assets	5,090	29,320
Due from Achievement First, Inc.	-	399
Due from NYC Department of Education	-	63,428
Property and equipment, net	243,265	359,239
Total Assets	**$ 3,793,279**	**$ 2,772,307**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$ 131,629	$ 372,809
Accrued salary and other payroll related expenses	616,986	457,967
Due to Achievement First, Inc.	31,913	-
Due to related schools	14,535	-
Due to NYC Department of Education	24,159	-
Total Liabilities	819,222	830,776
Net Assets:		
Unrestricted - operating	880,093	1,404,855
Board-designated reserve	2,048,964	536,676
Total Unrestricted	2,929,057	1,941,531
Temporarily restricted	45,000	-
Total Net Assets	2,974,057	1,941,531
Total Liabilities and Net Assets	**$ 3,793,279**	**$ 2,772,307**

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

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010 (with comparative totals for 2009)	Unrestricted	Temporarily Restricted	2010	2009
Operating revenue:				
State and local per pupil operating revenue	$ 10,126,113	$ -	$ 10,126,113	$ 9,221,857
Government grants and contracts	1,490,038	-	1,490,038	1,101,567
Student meal fees	-	-	-	5,327
Total operating revenue	11,616,151	-	11,616,151	10,328,751
Expenses:				
Program services	9,634,912	-	9,634,912	8,516,113
Management and general	1,017,873	-	1,017,873	788,062
Fundraising	81,101	-	81,101	73,887
Total operating expenses	10,733,886	-	10,733,886	9,378,062
Surplus from school operations	882,265	-	882,265	950,689
Support and other income:				
Contributions and other grants	1,000	45,000	46,000	55,276
Interest and other income	104,261	-	104,261	27,838
Total support and other income	105,261	45,000	150,261	83,114
Change in net assets	987,526	45,000	1,032,526	1,033,803
Net assets – beginning of year	1,941,531	-	1,941,531	907,728
Net assets – end of year	**$ 2,929,057**	**$ 45,000**	**$ 2,974,057**	**$ 1,941,531**

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

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

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

	Program Services	Management and General	Fundraising	2010	2009
Salaries and wages	$ 5,907,476	$ 558,718	$ -	$ 6,466,194	$ 5,722,279
Payroll taxes and employee benefits	1,172,126	105,445	-	1,277,571	1,043,749
Accounting fees	-	35,302	-	35,302	21,776
After-school academic program	14,137	-	-	14,137	7,045
Classroom supplies and instructional materials	452,773	-	-	452,773	524,816
Furniture and equipment - non-capitalizable	32,978	8,244	-	41,222	32,355
Insurance	26,275	2,569	-	28,844	26,101
Bank service charges	-	426	-	426	13
Legal	184	46	-	230	-
Professional fees	239,511	38,019	-	277,530	-
Management fee	624,475	105,430	81,101	811,006	738,865
Office expense	178,142	53,977	-	232,119	184,743
Parent activities	2,334	-	-	2,334	2,024
Postage and delivery	9,878	2,469	-	12,347	18,852
Printing and photocopying	24,830	6,208	-	31,038	29,803
Rent - building permit fees	86,145	8,424	-	94,569	207,417
Repairs and maintenance	2,450	240	-	2,690	-
Staff professional development	77,599	-	-	77,599	73,502
Student field trips and incentive programs	142,346	-	-	142,346	208,382
Student food services	103,365	-	-	103,365	83,557
Student transportation	75,361	-	-	75,361	61,280
Student uniforms	4,477	-	-	4,477	1,022
Technology infrastructure and software	81,061	33,795	-	114,856	(640)
Telephone and internet	229,604	21,715	-	251,319	188,890
Depreciation and amortization	147,385	36,846	-	184,231	201,116
Bad debt expense	-	-	-	-	1,115
Total expenses	**$ 9,634,912**	**$ 1,017,873**	**$ 81,101**	**$ 10,733,886**	**$ 9,378,062**

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

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

STATEMENT OF CASH FLOWS

For the Year Ended June 30,	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 1,032,526	$ 1,033,803
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	184,231	201,116
Bad debt expense	-	1,115
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
(Increase) decrease in cash - restricted	(80)	524
Increase in grants and other receivables	(16,288)	(70,613)
Decrease (increase) in prepaid expenses and other assets	24,230	(16,153)
Decrease in due from Achievement First, Inc.	399	10,762
Decrease in due from NYC Department of Education	63,428	70,303
Increase (decrease) in liabilities:		
(Decrease) increase in accounts payable and accrued expenses	(241,180)	93,014
Increase (decrease) in accrued salaries and payroll related expenses	159,021	(36,680)
Increase in due to Achievement First, Inc.	31,913	-
Increase in due to related schools	14,535	-
Increase in due to NYC Department of Education	24,159	-
Net cash provided by operating activities	**1,276,894**	**1,287,191**
Cash flows from investing activities:		
Purchase of property and equipment	(68,259)	(210,561)
Net cash used in investing activities	**(68,259)**	**(210,561)**
Cash flows from financing activities		
Payments towards long term lease obligations	-	(4,270)
Net cash used by financing activities	-	(4,270)
Net increase in cash and cash equivalents - unrestricted	1,208,635	1,072,360
Cash - unrestricted - beginning of year	1,869,459	797,099
Cash - unrestricted - end of year	**$ 3,078,094**	**$ 1,869,459**

Supplemental Disclosures of Cash Flow Information:

	2010	2009
Cash paid during the year for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

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

1. NATURE OF THE ORGANIZATION:

Achievement First Crown Heights 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 March 15, 2005, 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 March 15, 2010 the charter was subsequently renewed for another five year term, renewabled upon expiration. The School is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Today the School serves students from low income households in Brooklyn, New York. The School's primary sources of income are per pupil and other government funding.

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

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation
The School's financial statements have been prepared on the accrual basis of accounting.

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

These classes are defined as follows:

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

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

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

During the fiscal year ended June 30, 2009, the Board of Trustees enacted a Board Designated Reserve Policy in which unrestricted net assets are set aside to be used only with the approval of the Board. The reserve is calculated by netting the prior year's current assets against the prior year's current liabilities and reducing that difference by any assets whose use is contractually limited.

Cash

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. An escrow account of $25,084 is held aside for contingency purposes as required by the New York City Department of Education.

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 $441,746 and $425,458 for the fiscal years ended June 30, 2010 and June 30, 2009, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2010. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

The carrying value of the grants and other receivables approximates fair value. Management reviews those receivables due in more than one year for impairment and none was determined as of June 30, 2010 and 2009.

The School evaluates the collectability of the meal fee receivables and employs the direct write-off method which approximates U.S. Generally Accepted Accounting Principles.

Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a $1,000 threshold above which assets are capitalized. Site improvements are amortized over the shorter of the life of the asset or the life of the lease. Property and equipment acquired with certain government contract funds is recorded as an expense pursuant to the terms of the contract in which the government funding source retains ownership of the property.

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 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 statement of financial position.

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.

Use of Estimates

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

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through the auditors' report date and date of issuance. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

Comparative Financial Information

The June 30, 2010 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2009 are presented. As a result, the June 30, 2009 comparative 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 June 30, 2009 information should be read in conjunction with the School's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

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.

Implementation of New Accounting Pronouncements

Effective December 15, 2009, the School adopted a new accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of this change in accounting principle was immaterial.

The School is under regular audit by tax authorities. The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts filed. Management believes that its nonprofit status would be sustained upon examination.

With few exceptions, the School is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for fiscal years before 2007.

3. AGREEMENT FOR SCHOOL FACILITY: The School has entered into a verbal agreement, ("the Agreement"), with the New York City Department of Education for dedicated and shared space at the Mahalia Jackson Building, a New York City school located at 790 East New York Avenue, Brooklyn, New York. The Agreement commenced on July 1, 2005 at a cost of $1 per year. 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, 2010 and June 30, 2009, the School incurred overtime permit fees of $94,569 and $207,417, respectively, which is included in the accompanying statement of functional expenses.

4. RELATED PARTY TRANSACTIONS: The School entered into an Academic and Business Services Agreement (the "Agreement") with Achievement First Inc., a not-for-profit organization dedicated to helping start and run charter schools. This Agreement provides management and other administrative support services to the School. Pursuant to the terms of the Agreement, the School shall pay a service fee equivalent to 8% of the average number of students enrolled during the school year, times the approved per pupil operating expense for the upcoming year. The initial term of this Agreement is for 5 years ending on June 30, 2010, as of the date of the auditors' report the agreement is in process of being revised. For the fiscal years ended June 30, 2010 and June 30, 2009, the School incurred management fees of $811,006 and $738,865, respectively, which is included in the accompanying statement of functional expenses.

For the fiscal year ended June 30, 2010 the amount due to Achievement First, Inc. was $31,913 and for the fiscal year ended June 30, 2009 the amount due from Achievement First, Inc. was $-.

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

Amistad Academy, Inc.	$	10,000
Achievement First East New York Charter School		4,352
Achievement First Bushwick Charter School		183
Total	$	14,535

5. PROPERTY AND EQUIPMENT:

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

		2010		2009	Estimated Useful Life
Furniture and fixtures	$	209,161	$	209,161	5 years
Computer hardware and software		573,741		573,741	3 years
Equipment		148,172		79,913	3 years
Instruments		36,300		36,300	3 years
Site improvements		112,044		112,044	3-4 years
		1,079,418		1,011,159	
Less: accumulated depreciation and amortization		(836,153)		(651,920)	
	$	243,265	$	359,239	

Depreciation and amortization expense for the years ended June 30, 2010 and June 30, 2009 was $184,231 and $201,116, respectively.

6. LINE OF CREDIT:

The School entered into a revolving line of credit agreement with a bank whereby it is permitted to borrow up to a maximum of $50,000. The agreement expires April 30, 2011, but is expected to be renewed on an annual basis. Interest is payable on any outstanding balance at the bank's prime rate plus one percent (4.25% as of June 30, 2010) and is secured by the School's working capital. There was no outstanding balance on the line of credit at June 30, 2010 and as of the date of the auditors' report.

7. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are purpose or time restricted and consist of the following at June 30:

		2010		2009
Time restricted:				
Year ending June 30, 2011	$	45,000	$	-
	$	45,000	$	-

8. PENSION PLAN:

Effective September 1, 2006, the School adopted a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the plan either the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 4% of an employee's salary, up to a maximum match of $2,500 per year per employee. The School contribution does not become vested until its third year when it becomes fully vested. For the fiscal years ended June 30, 2010 and June 30, 2009, pension expense for the School is $160,428 and $123,240, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

9. RISK MANAGEMENT:

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to protect itself from such risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

10. CONCENTRATIONS:

A. Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at major financial institutions that exceeded the FDIC limits by approximately $2,853,000 as of June 30, 2010. The FDIC has temporarily increased the limit to $250,000 through December 31, 2013.

B. The School received approximately 87% of its total revenue from per pupil funding from New York City Department of Education.

C. The School's grants and other receivables consist of approximately 90% from two major grantors.

11. SUBSEQUENT EVENT:

In September 2010, the high school moved to a new facility, located at 1485 Pacific Street, Brooklyn NY ("1485 Pacific"), which is owned by the New York City Department of Education. The construction of 1485 Pacific was funded by the Robin Hood Foundation, a philanthropic foundation, in order to house high schools managed by Achievement First Inc. and Uncommon Schools Inc., both of which are nonprofit charter management organizations. The New York City Department of Education leases 1485 Pacific to RH Pacific-Atlantic, LLC, who in turn subleases the property to Achievement First Inc. and Uncommon Schools, Inc. who in turn sub-sublease the property to Achievement First Crown Heights Charter School.

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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
Achievement First Crown Heights Charter School

We have audited the financial statements of Achievement First Crown Heights Charter School (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the School in a separate letter dated October 27, 2010.

This report is intended solely for the information and use of the audit committee, board of trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

ERE LLP

New York, NY
October 27, 2010

Achievement First Crown Heights Charter School

Communication With Those Charged With Governance

OCTOBER 27, 2010

accountants & advisors

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October 27, 2010

To the Audit Committee
Achievement First Crown Heights Charter School

We have audited the financial statements of Achievement First Crown Heights Charter School (the "School") for the year ended June 30, 2010 and are prepared to issue our report thereon dated October 27, 2010. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

A. Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter May 17, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Achievement First Crown Heights Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on April 15, 2010.

C. Auditor Independence:

We affirm that ERE LLP is independent with respect to Achievement First Crown Heights Charter School.

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Achievement First Crown Heights Charter School are described in Note 2 to the financial statements. As described therein, the School elected to implement the application of an accounting pronouncement pertaining to accounting for uncertain tax positions. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Allowance for Doubtful Accounts:

As of June 30, 2010, Achievement First Crown Heights Charter School recorded grant and other receivables of $441,746. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's grantors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the Regional Director of Finance for New York Schools and an analysis of the nature of the receivables, we concur with management's conclusion that even though there were no subsequent collections on receivables as of auditors' report date.

Functional Statement Allocation:

Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Depreciation:

Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

E-rate Receivable:

Management's estimate of e-rate receivable is based on a calculation which allows 90% of qualified costs to be reimbursed from the Federal Government via the Universal Service Administrative Company. We evaluated the qualified cost and the calculation used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Related Party Transactions in Note 4 to the financial statements which describes the management agreement with Achievement First, Inc.

The disclosure of Risk Management in Note 9 to the financial statements which describes various risks to which the School is exposed.

The disclosure of Subsequent Event in Note 11 to the financial statements which describes the high school moving to a new location, and shares space with Uncommon Schools Inc.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Except as made known to you, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

There were 9 audit adjustments (including 5 reclassifying entry) that decreased net assets by approximately $30,000. Last year there were 7 audit adjustments (including 1 reclassifying entry) that increased net assets by approximately $62,000. This year's most significant adjustments were as follows:

1. To decrease net assets by approximately $80,000 to correct general per pupil funding.
2. To increase net assets by approximately $55,000 to correct special education per pupil funding.
3. To decrease net assets by approximately $22,000 to correct accrued expenses.
4. To increase net asset by approximately $12,000 to record E-rate revenue.
5. To increase net assets by approximately $5,000 to capitalize approximately $6,000 of additional fixed assets and record corresponding depreciation of approximately $1,000.

Proposed and Uncorrected:

There were 3 audit adjustments that collectively would have increased net assets by approximately $72,000:

1. To increase net assets by approximately $364,000 to reverse the July 2010 teachers' salary and other payroll related expenses accrual.

2. To increase net assets by approximately $41,000 to reverse summer school students' transportation cost.

3. To decrease net assets by approximately $333,000 to reverse the July 2009 teachers' salary and other payroll related expenses accrual proposed adjustment from prior fiscal year.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 27, 2010.

J. Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

K. Other Audit Findings or Issues:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR ENHANCING OPERATING EFFICIENCY

Please note: Comments with an asterisk (*) were communicated in the prior fiscal year.

Credit Cards:

Sound internal controls dictate that upon the termination of an employee with credit card privileges that the individual be removed as a cardholder. It has come out attention that a former Director of Operations was not removed from the School's credit card account. On October 8, 2010 we were notified that the individual was removed as a cardholder. In an effort to mitigate any potential exposure, we strongly recommend that an individual whose card privileges have ended be removed immediately from the account. We also recommend for a periodic review of all the School's credit card holders to ensure only those employees with credit card privileges are listed on the account.

Review of Payroll:

Our testing of employees' payroll records revealed two instances where the employee's salary per offer letter was inconsistent with the actual salary being paid (one instance the employee was paid $1,663 more than the offer letter and the second instance the employee was paid $0.50 more per hour than the offer letter). We encourage that management adheres to its policies and procedures and review payroll information on a bi-monthly basis before it is submitted to the payroll processing company.

Payroll Reconciliation:

Sound internal controls mandate that a reconciliation be performed between IRS Form 941 *Employers Quarterly Federal Tax Return* and the School's general ledger. We noted that during the fiscal year ended June 30, 2010 reconciliations were not performed timely. Accordingly, we strongly recommend that not only should a reconciliation be prepared, but such a reconciliation be performed on quarterly basis. This process will highlight any discrepancies in either the Form 941 or the School's books and records.

***Payroll:**

U.S. Generally Accepted Accounting Principles ("US GAAP") limits only those expenditures that were incurred during the fiscal year to be accrued as of the fiscal year end. As of June 30, 2010, an accrual for the July 2010 teachers' salary has been recorded. We recommend that management consider reversing the accrual.

Personnel File Testing:

The School's policies and procedures require various forms/documents to be maintained in each employee's personnel file. Our testing of the personnel files revealed the following:

- Four instances of missing certification documentation
- One instance of missing election to enroll/not enroll in the retirement saving plan
- Two instances of missing resumes
- Nine instances of missing *Laptop Usage Policy* agreement
- One instance of missing *Credit Card Usage Policy* agreement
- Two instances of missing *Cell Phone Usage Policy* agreement

Escrow Policy:

Each charter school authorizer has its own escrow policy requirements (these funds are to be used in the event of termination of the Charter, whether prematurely or at the end of 5 years). Accordingly, we recommend for the School to review the current authorizer's escrow compliance policy and to establish an escrow account.

***Write-offs:**

Through various conversations with the School's staff, there does not appear to be a formal written policy pertaining to the write-off of receivables. Accordingly, we recommend that the School adopt a written policy regarding the processing of write-off of receivables. Management has informed us that a thorough review of the School's fiscal policies and procedures is substantially complete, and that a write-off policy has been added. It is expected that the Board of Trustees will adopt the revised policies at the November 2010 meeting.

Internal Control Review:

The School's recent financial management changes, which consisted of centralizing accounting function by AF Network Support, present an opportunity for the School to update all of its written internal control policies and procedures. Performing a review of current policies and procedures can also greatly assist the Board in fully understanding day-to-day activities as well as disclosing any potential current inefficiency. Management has notified us that such a review has been completed, and a revised policies and procedures manual is substantially complete, with the expectation that the Board of Trustees will adopt it in November 2010.

Board Minutes:

Minutes for all Board meetings were prepared and available for our examination. While documentation of Board approval of the meeting were present in the minutes, it is recommended under good Board governance policies that upon such approval a Board official sign a copy of the minutes and the signed copy be filed with the School's records.

***School Facility Lease Agreement:**

Through conversations with the Regional Director of Finance of Connecticut Schools, we have been informed that a formal written agreement between the School and the New York City Department of Education does not exist. We recommend that the School periodically re-explore the risks of such a relationship.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of Achievement First Crown Heights Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

ERE LLP

ERE LLP

Achievement First

October 27, 2010

To Whom It May Concern:

The following are the responses of the management of Achievement First Crown Heights Charter School to the findings and recommendations made by ERE LLP as part of the audit of the school's FY 2009-10 financial statements:

Credit Cards
Management will continue to work with the Directors of School Operations and Regional Directors of Operations to ensure that credit card policies are being followed, that bills are paid timely and that expenses are entered promptly. In the matter of the cash advance feature, use of this is prohibited by the school. The school has attempted repeatedly to have this feature removed from the card; despite assurance from VISA customer service that it had been removed it continued to be active. We have subsequently cancelled these cards and replaced them with cards without the cash advance feature.

Write-offs:
A comprehensive review and updating of the Fiscal Policies and Procedures manual was conducted during July-August 2010. It is our expectation that the new policies will be adopted by the Boards of Trustees at the November 2010 board meetings.

Payroll (July Salary Accrual)
This is the schools' approved fiscal policy since the school year is budgeted August-July. We continued to do this in FY 2010.

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

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

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

Personnel Files:
When the auditors conducted preliminary field test work in May 2010 we became aware of the personnel file deficiencies. We subsequently conducted internal personnel file audits and have given additional training and clarification to Directors of School Operations on maintaining personnel files. We also conducted rigorous checks of the paperwork presented by all new hires at the start of the school year in September 2011. We will also follow up with another personnel file audit to ensure compliance with our policies.

Internal Control Review
A comprehensive review and updating of the Fiscal Policies and Procedures manual was conducted during July-August 2010. It is our expectation that the new policies will be adopted by the Boards of Trustees at the November 2010 board meetings.

NYC Department of Education Escrow Policy
We agree with this recommendation and will undertake a review of all authorizers' escrow policies during Fiscal Year 2011.

Board Minutes
We agree with this recommendation and will institute it starting with the November 2010 board meetings.

Investment Policy
We agree with this recommendation and will investigate alternatives to present to the Boards during Fiscal Year 2011.