ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010

(With Comparative Totals for 2009)

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL
TABLE OF CONTENTS
June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Achievement First East New York Charter School

We have audited the accompanying statement of financial position of Achievement First East New York Charter School (the "School") as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year ended June 30, 2010. 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 East New York 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 26, 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 26, 2010

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30,	**2010**	**2009**
Assets:		
Cash and cash equivalents	$ 2,349,644	$ 1,655,054
Cash - restricted	25,390	25,310
Grant and other receivables	302,070	251,108
Prepaid expenses and other assets	790	20,671
Due from Achievement First, Inc.	32,812	295
Due from other schools	13,110	-
Property and equipment, net	155,930	226,501
Total Assets	**$ 2,879,746**	**$ 2,178,939**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$ 87,671	$ 82,117
Accrued salary and other payroll related expenses	379,565	224,182
Due to NYC Department of Education	40,291	25,145
Total Liabilities	507,527	331,444
Net assets:		
Unrestricted		
Operating	43,854	1,114,814
Board-designated reserve	2,198,365	732,681
Temporarily restricted	130,000	-
Total Net Assets	2,372,219	1,847,495
Total Liabilities and Net Assets	**$ 2,879,746**	**$ 2,178,939**

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

ACHIEVEMENT FIRST EAST NEW YORK 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	$ 6,305,490	$ -	$ 6,305,490	$ 5,200,559
Government grants and contracts	727,656	-	727,656	463,154
Student meal fees	-	-	-	1,979
Total operating revenue	7,033,146	-	7,033,146	5,665,692
Expenses:				
Program services	5,853,833	-	5,853,833	4,217,391
Management and general	739,727	-	739,727	511,254
Fundraising	50,487	-	50,487	41,682
Total operating expenses	6,644,047	-	6,644,047	4,770,327
Surplus from school operations	389,099	-	389,099	895,365
Support and other income:				
Contributions and other grants	500	130,000	130,500	-
Other income	5,125	-	5,125	55,286
Total support and other income	5,625	130,000	135,625	55,286
Change in net assets	394,724	130,000	524,724	950,651
Net assets – beginning of year	1,847,495	-	1,847,495	896,844
Net assets – end of year	**$ 2,242,219**	**$ 130,000**	**$ 2,372,219**	**$ 1,847,495**

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

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

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

	Program Services	Management and General	Fund Raising	2010	2009
Salaries and wages	$ 3,556,419	$ 385,855	$ -	$ 3,942,274	$ 3,034,803
Payroll taxes and employee benefits	728,938	81,739	-	810,677	556,700
Professional fees	64,857	21,195	-	86,052	-
Accounting fees	-	23,728	-	23,728	20,541
After-school academic program	3,239	-	-	3,239	138
Classroom supplies and instructional materials	319,444	-	-	319,444	233,342
Furniture and fixtures - non-capitalizable	44,934	11,233	-	56,167	10,277
Insurance	17,692	1,980	-	19,672	16,256
Bank service charge	-	998	-	998	87
Uniforms	529	-	-	529	-
Management fees	388,746	65,632	50,487	504,865	416,816
Office expense	164,137	57,811	-	221,948	131,159
Parent activities	1,024	-	-	1,024	1,726
Postage and delivery	5,104	1,276	-	6,380	1,979
Printing and photocopying	10,460	2,614	-	13,074	20,915
Rent - building permit fees	11,265	1,261	-	12,526	56
Repairs and maintenance	22,465	2,514	-	24,979	4,787
Staff professional development	60,331	-	-	60,331	27,774
Student field trips and incentive programs	53,702	-	-	53,702	20,641
Student food services	48,809	-	-	48,809	10,889
Student transportation	31,254	-	-	31,254	38,250
Technology infrastructure and software	79,470	33,134	-	112,604	4,031
Telephone and internet	152,300	16,934	-	169,234	100,136
Depreciation and amortization	88,714	22,179	-	110,893	118,690
Bad debt expense	-	9,644	-	9,644	334
Total expenses	**$ 5,853,833**	**$ 739,727**	**$ 50,487**	**$ 6,644,047**	**$ 4,770,327**

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

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

STATEMENT OF CASH FLOWS

For the Year Ended June 30,	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 524,724	$ 950,651
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	110,893	118,690
Bad debt expense	9,644	334
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Cash - restricted	(80)	(149)
Grant and other receivables	(60,606)	44,346
Prepaid expenses and other assets	19,881	(20,671)
Due from Achievement First, Inc.	(32,517)	17,507
Due from other Schools	(13,110)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	5,554	(33,234)
Accrued salary and other payroll related expenses	155,383	(70,952)
Due to NYC Department of Education	15,146	23,702
Net cash provided by operating activities	**734,912**	**1,030,224**
Cash flows from investing activities:		
Purchase of property and equipment	(40,322)	(202,724)
Payments on long term lease obligation	-	(3,465)
Net cash used in investing activities	**(40,322)**	**(206,189)**
Net increase in cash	694,590	824,035
Cash - beginning of year	1,655,054	831,019
Cash - end of year	**$ 2,349,644**	**$ 1,655,054**

Supplemental Disclosures of Cash Flow Information:

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 East New York 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, renewable 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 to fifth 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 and cash equivalents
The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. In addition, an escrow account of $25,390 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 $302,070 and $251,108 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. Leasehold 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 have been allocated by function 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 P.S. 13, a New York City public school located at 557 Pennsylvania Avenue, Brooklyn, New York. The Agreement commenced on July 1, 2005 at a cost of $1 per year. This facility houses the elementary academy (grades kindergarten through four). In addition, the school has entered into a similar verbal agreement for dedicated and shared space at P.S. 65, a New York City public school located at 158 Richmond Street, Brooklyn, New York. The agreement commenced on July 1, 2009. This facility houses the middle academy (currently grade five, to expand to grades five to eight.) 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 2009, the School incurred overtime permit fees of $12,526 and $56, 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 auditors' date the agreement is in the process of being revised. For the fiscal years ended June 30, 2010 and 2009, the School incurred management fees of $504,865 and $416,816, which is included in the accompanying statement of functional expenses.

For the fiscal years ended June 30, 2010 and 2009 the amount due from Achievement First, Inc. was $32,812 and $295, respectively.

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 from:

Achievement First Crown Heights Charter School	$	4,352
Achievement First Bushwick Charter School		7,929
Achievement First Apollo Charter School		829
Total	$	13,110

5. PROPERTY AND EQUIPMENT:

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

		2010		2009	Estimated Useful Lives
Furniture and fixtures	$	112,177	$	112,177	5 years
Computer hardware and software		445,868		441,868	3 years
Office equipment		82,908		50,521	3 years
Leasehold improvements		59,965		58,560	3-4 years
Musical instruments		2,529		-	
		703,447		663,126	
Less: accumulated depreciation and amortization		(547,517)		(436,625)	
	$	155,930	$	226,501	

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 were $110,893 and $118,690, respectively.

6. 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	$ 130,000	$ -
	$ 130,000	$ -

7. LINE OF CREDIT:

The School entered into an agreement with a bank whereby it is permitted to borrow up to $50,000 under a secured line of credit. 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. There was no outstanding balance on the line of credit at June 30, 2010 and auditors' report date.

8. COMMITMENTS AND CONTINGENCIES:

The School leases office equipment under non-cancelable operating lease agreement expiring August 2013. The future minimum payments are as follows:

June 30,		
2011	$	9,032
2012		9,032
2013		9,032
2014		1,505
Total	$	28,601

9. 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 $94,964 and $60,656, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

10. 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.

11. 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 $2,173,000 as of June 30, 2010. The FDIC has temporarily increased the limit to $250,000 through December 31, 2013.

B. The School received approximately 90% of its total revenue from per pupil funding from New York City Department of Education.

C. The School's grant and other receivables consist of three major grantors.

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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 East New York Charter School

We have audited the financial statements of Achievement First East New York Charter School (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 26, 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. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. 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 in internal control to be significant deficiency:

- During our testing of personnel records, we noted that there were instances of missing documentation. We recommend for the School to re-evaluate the supervisory review and monitoring of the School's records and documentation to ensure compliance with the School's written policies and procedures.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described above.

We noted certain matters that we reported to management of the School in a separate letter dated October 26, 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 26, 2010

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To the Board of Trustees
Achievement First East New York Charter School

In planning and performing our audit of the financial statements of Achievement First East New York Charter School (the "School") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Achievement First East New York Charter School's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control 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 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. 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 in internal control to be significant deficiency:

- During our testing of personnel records, we noted that there were instances of missing documentation. We recommend for the School to re-evaluate the supervisory review and monitoring of the School's records and documentation to ensure compliance with the School's written policies and procedures.

This communication is intended solely for the information and use of Board of Trustees, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

ERE LLP

New York, NY
October 26, 2010

Achievement First East New York Charter School

Communication With Those Charged With Governance

OCTOBER 26, 2010

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October 26, 2010

To the Audit Committee
Achievement First East New York Charter School

We have audited the financial statements of Achievement First East New York Charter School (the "School") for the year ended June 30, 2010 and are prepared to issue our report thereon dated October 26, 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 September 20, 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 East New York 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 East New York 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 East New York 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 estimates affecting the financial statements were:

Allowance for Doubtful Accounts:
As of June 30, 2010, the School recorded grant and other receivables of $302,070. 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 the 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.

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 14 audit adjustments (including 3 reclassifying entry) that increased net assets by approximately $120,000. Last year there were 9 audit adjustments (including 4 reclassifying entries) that decreased net assets by approximately $12,000. This year's most significant adjustments were as follows:

1. To increase net assets by approximately $258,000 to correct government funding.
2. To decrease net assets by approximately $95,000 to record for the pension accrual.
3. To increase net assets by approximately $44,000 to correct E-rate income.
4. To decrease net assets by approximately $40,000 to correct overpayment received for general and special education per pupil funding.
5. To decrease net assets by approximately $35,000 to accrue for additional expenses.

Proposed and Uncorrected:

There were two audit adjustments that collectively would have increased net assets by approximately $43,000:

1. To increase net assets by approximately $213,000 to reverse July 2010 teachers' salary and other payroll related expenses accrual.
2. To decrease net assets by approximately $170,000 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 26, 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:**

The company credit card has a credit line of $20,000 and an aggregate cash advance line of $4,000. (In the prior year this threshold was $20,000.) These high lines may expose the School to potential risks. Accordingly, we recommend that management consider reducing the credit line and eliminating the cash advance feature.

Review of Payroll:

Our testing of employees' payroll records revealed 12 instances where the employee's salary per offer letter was inconsistent with the actual salary being paid. 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 (See Separate Letter):

School's Policies and Procedures require various forms to be maintained in each employee's personnel file. Our testing of the personnel files revealed the following:

- Seventeen instances of missing certification documentation
- Six instance of missing election to enroll/not enroll in the retirement saving plan
- Six instances of missing resumes
- Five instances of missing fingerprint clearance forms
- One I-9 missing
- One W-4 missing
- One instances of missing offer letter/job descriptions
- Five instances of missing *Laptop Usage Policy* agreement
- One instance of missing *Credit Card Usage Policy* agreement
- Thirty one instances of missing *Cell Phone Usage Policy* agreement
- One instance of missing a copy of identification
- Five instances of missing benefit forms

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.

Investment Policy:

Currently, the School has money invested in certain bank savings accounts; interest earned on these savings accounts is minimal. While clearly there generally exists an excess of cash balances, there are currently no plans in place that could take advantage of this situation. We suggest that the School's management and/or the Board review its investing policy.

***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 East New York 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

October 26, 2010

To Whom It May Concern:

The following are the responses of the management of Achievement First East New York 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 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.

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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.