ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2008

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL
TABLE OF CONTENTS
June 30, 2008

ERE
accountants & advisors

ERE LLP
440 Park Avenue South
New York, NY 10016-8012
Tel: 212.576.1400
Fax: 212.576.1414
www.ere-cpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Achievement First Endeavor Charter School

We have audited the accompanying statement of financial position of Achievement First Endeavor Charter School (the "School") as of June 30, 2008, 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.

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 Endeavor Charter School as of June 30, 2008 and the changes in its net assets and its cash flows for the year ended June 30, 2008, 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 16, 2008 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 16, 2008

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30, 2008

Assets:		
Cash and cash equivalents	$	162,599
Grants and other receivables		1,473,100
Lease acquisition costs		1,628,516
Due from Achievement First, Inc.		77,481
Property and equipment, net		159,862
Total Assets	**$**	**3,501,558**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$	137,821
Accrued salary and other payroll related expenses		152,616
Line of credit		200,000
Total Liabilities		490,437
Net assets - unrestricted		3,011,121
Total Liabilities and Net Assets	**$**	**3,501,558**

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

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

Operating revenue:	
State and local per pupil operating revenue	$ 1,843,907
Government grants and contracts	362,848
Student meal fees	2,826
Total operating revenue	2,209,581
Expenses:	
Program services	1,982,011
Management and general	310,357
Fund raising	14,004
Total operating expenses	2,306,372
Surplus from school operations	(96,791)
Support and other revenue	
Foundation grants	2,483,783
Corporate grants	50,000
Individual grants	110,000
Interest income	2,596
Other income	200
Total support and other Income	2,646,579
Change in net assets	2,549,788
Net assets - unrestricted – beginning of year	461,333
Net assets - unrestricted – end of year	**$ 3,011,121**

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

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2008

	Program Services	Management and General	Fund Raising	Total
Salaries and wages	$ 1,149,716	$ 171,797	-	$ 1,321,513
Payroll taxes and employee benefits	214,381	32,032	-	246,413
Accounting fees	-	16,270	-	16,270
After-school academic program	5,634	-	-	5,634
Classroom supplies and instructional materials	179,824	-	-	179,824
Furnitures and fixutres - non-capitalizable	5,982	894	-	6,876
Insurance	8,234	1,230	-	9,464
Interest and bank service charge	-	11,638	-	11,638
Management fees	113,277	19,832	14,004	147,113
Office expense	56,150	16,772	-	72,922
Parent activities	1,100	-	-	1,100
Postage and delivery	1,703	426	-	2,129
Printing and photocopying	9,496	2,374	-	11,870
Rent - building permit fees	8,700	1,300	-	10,000
Repairs and maintenance	878	131	-	1,009
Special education contracted services	6,640	-	-	6,640
Staff professional development	6,148	-	-	6,148
Student field trips and incentive programs	36,130	-	-	36,130
Student food services	24,192	-	-	24,192
Student transportation	12,000	-	-	12,000
Student uniforms	222	-	-	222
Technology infrastructure and software	24,394	3,645	-	28,039
Telephone and internet	58,907	8,802	-	67,709
Depreciation and amortization	58,303	8,538	-	66,841
Bad debt expense	-	14,676	-	14,676
Total expenses	**$ 1,982,011**	**$ 310,357**	**$ 14,004**	**$ 2,306,372**

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

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2008

Cash flows from operating activities:	
Change in net assets	$ 2,549,788
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	66,841
Bad debt expense	14,676
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Increase in grants and other receivables	(1,287,932)
Increase in due from Achievement First, Inc.	(72,081)
Increase (decrease) in liabilities:	
Decrease in accounts payable and accrued expenses	(5,521)
Increase in accrued salaries and other payroll related expenses	62,376
Net cash provided by operating activities	1,328,147
Cash flows from investing activities:	
Purchase of property and equipment	(104,412)
Payments on the lease acquisition costs	(370,283)
Net cash used in investing activities	(474,695)
Cash flows from financing activities	
Proceeds from line of credit	200,000
Principal payments on line of credit	(50,000)
Principal payments on the facility loan	(889,638)
Net cash used in financing activities	(739,638)
Net increase in cash and cash equivalents	113,814
Cash and cash equivalents - beginning of year	48,785
Cash and cash equivalents - end of year	**$ 162,599**
Supplementary information:	
Cash paid for interest	**$ 49,469**

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

1. NATURE OF THE ORGANIZATION:

Achievement First Endeavor Charter School (the "School"), was incorporated to focus on strengthening the academic and character skills needed for all students to excel in top-tier colleges, to achieve success in a competitive world, and to serve as the next generation of leaders in their communities. On January 10, 2006, 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. The School is pending a tax-exempt status under Section 501(c) (3) of the Internal Revenue Code. Today the School serves students from low income households in Brooklyn, New York.

In fiscal year 2008, the School operated classes for students in fifth and sixth grades.

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 are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. 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.

Cash and Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Contribution and Other Receivables

Contribution and other receivables represent unconditional promises to give. At June 30, 2008, the School had $1,473,100 of contribution and other receivables that are expected to be collected within one year and recorded at net realizable value. The School has determined that no allowance for uncollectible accounts for contribution receivable is necessary as of June 30, 2008. 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 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 expenses 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, 2008.

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 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.

3. AGREEMENT FOR SCHOOL FACILITY:

The School has entered into a "Facility Share Use Agreement" (the "Agreement") with the New York City Department of Education for dedicated and shared space at P.S. 157, a New York City public school located at 800 Kent Street, Brooklyn, New York. The Agreement commenced on July 1, 2006 at a cost of $1 per year and expires on June 30, 2009. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the year ended June 30, 2008, the School incurred overtime permit fees of $10,000, 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, 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, 2011. For the year ended June 30, 2008, the School incurred management fees of $147,113, which is included in the accompanying statement of functional expenses.

As of June 30, 2008 the amount due from Achievement First, Inc. was $77,481.

5. LEASE ACQUISITION COSTS:

During 2006, the School entered into an agreement with a construction management company, Civic Builders, to sublease a building which is in the process of being constructed. In addition, the New York City Department of Education ("NYCDOE") through the New York State Construction Authority ("NYSCA") has agreed to help finance the development and construction of the building, provided that the Civic Builders and the School collectively contribute 20% of the costs of the construction. As part of the leasing acquisition costs, the School is expected to pay 10% of the acquisition and construction costs of the building over the construction period which is expected to end in 2009. These costs are estimated to be approximately $4,000,000. Upon completion of the construction of the building, NYSCA will lease the building to Civic Builders for a thirty year term. Civic Builders will in turn sublease the building to the School for the same period, at an annual lease of $1 plus operation costs. Included in lease acquisition cost of $1,628,516 is capitalized interest of $85,683 as of June 30, 2008.

6. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following as of June 30, 2008:

			Estimated Useful Lives
Furniture and fixtures	$	29,733	5 years
Computers and hardware		68,830	3 years
Musical instruments		64,283	5 years
Equipment		56,672	3 years
Software		17,162	3 years
Leasehold improvements		23,596	5 years
		260,276	
Less: accumulated depreciation and amortization		(100,414)	
	$	159,862	

Depreciation and amortization expense for the year ended June 30, 2008 was $66,841.

7. FACILITY LOAN:

In December 2006, the School entered into a loan agreement with Achievement First, Inc., its management company, for $1,100,000. The purpose of the loan was to finance the acquisition and construction costs of a new building (see Note 5 above). The loan has a maturity date of December 31, 2007 and bears non-compoundable interest at a rate of JP Morgan Chase Bank's prime plus one percent (8.25%). As of June 30, 2008, the School paid off the facility loan to Achievement First, Inc. Interest expense for the year ended June 30, 2008 amounted to $37,864, of which the entire amount has been capitalized.

8. LINE OF CREDIT:

The School has a revolving line of credit agreement with Bank of America in which it can borrow up to $300,000. The line of credit carries an interest rate of The Bank's prime plus one percent (6%) and is secured by the School's equipment and receivables. As of June 30, 2008, the School had an outstanding balance of $200,000. Total interest expense as of June 30, 2008 was $11,605 and is included in debt service and bank service charge in the accompanying statement of functional expenses.

9. COMMITMENTS AND CONTINGENCIES:

The Organization leases telecommunication equipment and copiers under a non-cancelable operating lease which will expire in 2009. Future minimum lease payments are as follows:

June 30,		
2009	$	27,093
2010		5,655
Total	$	32,748

10. PENSION PLAN: Effective September 1, 2006, the School adopted a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the plan 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. As of June 30, 2008, pension expense for the School is $15,499, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

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

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School. The accompanying financial statements make no provision for the possible disallowance or refund

12. CONCENTRATIONS:

A. Financial instruments that potentially subject the school to a concentration of credit risk include cash accounts at major financial institution that exceeded the FDIC limits by approximately $62,000 as of June 30, 2008.

B. The School received approximately 38% of its total revenue from per pupil funding from New York City Department of Education.

accountants & advisors

ERE LLP
440 Park Avenue South
New York, NY 10016-8012
Tel: 212.576.1400
Fax: 212.576.1414
www.ere-cpa.com

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 Endeavor Charter School

We have audited the financial statements of Achievement First Endeavor Charter School (the "School") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 16, 2008. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identity 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 16, 2008.

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 16, 2008