

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2007

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(A Not-For-Profit Corporation)  
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JUNE 30, 2007

CONTENTS

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS'	1
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES	3
STATEMENT OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5 – 10
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	11
SCHEDULE OF FUNCTIONAL EXPENSES	12

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REPORT OF INDEPENDENT AUDITORS'

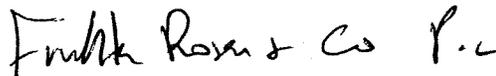
TO THE BOARD OF DIRECTORS  
NEW HEIGHTS ACADEMY CHARTER SCHOOL

We have audited the accompanying statement of financial position of New Heights Academy Charter School (a not-for-profit corporation) as of June 30, 2007, and the related statements of activities, and cash flows for the period April 15, 2005 (inception) to June 30, 2007. These financial statements are the responsibility of the New Heights Academy Charter School 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 New Heights Academy Charter School as of June 30, 2007, and the changes in its net assets and its cash flows for the period April 15, 2005 (inception) to June 30, 2007, 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 17, 2007 on our consideration of New Heights Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 17, 2007

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2007

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,755
Grants receivable	356,113
Prepaid expenses	<u>42,789</u>
Total current assets	400,657

Property and equipment, net of accumulated Depreciation and amortization of \$26,237	884,039
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Other Assets

Security Deposits	117,722
Prepaid expenses	<u>32,221</u>
Total other assets	149,943

TOTAL ASSETS	<u>\$ 1,434,639</u>
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LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 272,262
Accrued payroll and payroll taxes	106,248
Current portion of note payable	82,155
Refundable advances	15,000
Accrued interest payable	<u>2,003</u>
Total Current Liabilities	477,668

Note payable	206,426
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Unrestricted net assets	<u>750,545</u>
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TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u>\$ 1,434,639</u>
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The accompanying notes are an integral part of these financial statements.

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE PERIOD APRIL 15, 2005 (INCEPTION) TO JUNE 30, 2007

Revenue and support:	
State and local per pupil operating Revenue	\$ 2,166,630
Federal grants	258,026
State and city grants	531,238
Contributions and grants	77,275
Donated services	25,000
Interest income	10,066
Total revenue and support	<u>3,068,235</u>
Expenses:	
Program services	
Regular education	1,856,838
Special education	220,420
Other programs	38,178
Management and general	190,712
Fundraising	11,542
Total expenses	<u>2,317,690</u>
Changes in unrestricted net assets	750,545
Unrestricted net assets – beginning of period	<u>-</u>
Unrestricted net assets - end of period	<u>\$ 750,545</u>

Accompanying notes are an integral part of these financial statements.

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD APRIL 15, 2005 (INCEPTION) TO JUNE 30, 2007

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase in net assets	\$ 750,545
Adjustments to reconcile change in net assets provided by operating activities:	
Depreciation and amortization	26,237
Changes in certain assets and liabilities:	
(Increase) in grants receivable	(356,113)
(Increase) in prepaid expense	(75,011)
(Increase) in security deposits	(117,722)
Increase in accounts payable and accrued expenses	153,014
Increase in accrued payroll and payroll taxes	106,248
Increase in refundable advances	15,000
Increase in accrued interest payable	<u>2,003</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>504,201</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	(642,799)
Increase in construction in progress	<u>(148,227)</u>
<b>NET CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>	<b>(791,026)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from note payable	350,000
Principal payments of note payable	<u>(61,420)</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>288,580</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,755</b>
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD</b>	<b><u>          -</u></b>
<b>CASH AND CASH EQUIVALENTS – END OF PERIOD</b>	<b><u><u>\$ 1,755</u></u></b>

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

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

New Heights Academy Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on April 15, 2005 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on April 15, 2005 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School provides a college preparatory education for students in Washington Heights and Inwood neighborhoods of Upper Manhattan. The School's academically rigorous curriculum will ensure that all students set and meet post secondary education and career goals. Simultaneously, the School's nurturing environment of small class sizes and a focus on character education will ensure that our students develop a strong self-identify conducive to leading responsible lives as citizens in our global society. Classes commenced in Washington Heights, New York, in September 2006 and the School presently provides education to approximately 190 students in grades fifth and ninth.

Food and Transportation Services

The New York City Departments of Education provides free lunches and transportation directly to a majority of the School's students. Such costs are not included in these financial statements. The School covers the cost of lunches for children not entitled to the free lunches.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

Basis of Presentation

Financial statement presentation follows the requirements of Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets classifications are described as follows:

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. 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 and changes in net assets, as net assets released from restrictions

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School has no temporarily or permanently restricted net assets.

Revenue and support

Contributions are recognized when the donor makes a Promise to Give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the school's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local governments that are based on the number of students enrolled is recorded when services are performed. Other federal and state funds are recorded when expenditures are incurred and billable to the government agency.

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. No depreciation is recorded on construction-in-progress until property and equipment is placed into service. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	5 years
Furniture and Fixtures	7 years
Leasehold Improvements	Useful life on related lease

Concentration of Credit Risk

The School places its cash in what it believes to be credit-worthy financial institutions. However, cash balances may exceed FDIC insured levels at various times during the year.

Refundable Advances

The school records grant revenue as a refundable advance until it is expended for the purpose of the grant, at which time it is recognized as revenue.

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consisted of federal and city entitlements and grants. The School anticipates the receivable being collected before December 2007.

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2007:

Equipment	\$ 30,003
Furniture and fixture	58,683
Leasehold improvements	554,113
Construction-in-progress (a)	<u>267,477</u>
	910,276
Less: accumulated depreciation and amortization	<u>26,237</u>
	<u>\$ 884,039</u>

Depreciation and amortization expense was \$26,237 for the period April 15, 2005 (inception) to June 30, 2007.

The School has contracted with several contractors for planning, design and construction of additional classroom and administrative facilities to accommodate the growth for the 2007 – 2008 school year. At June 30, 2007, construction in progress consisted of leasehold improvements and architect fees. Construction commenced in May 2007 for Phase II of the project and construction costs totaled approximately \$670,000 through August 2007 when the project was completed (see commitments – Note 9).

NOTE 4 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 5 - FUNCTIONAL ALLOCATION OF EXPENSE

The cost of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 6 - DONATED SERVICES

Donated services are recognized as contributions in accordance with SFAS No. 116, "Accounts for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School.

One individual has provided interior design services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the period April 15, 2005 (inception) to June 30, 2007, the value of such donated services amounted to approximately \$25,000.

NOTE 7 - RETIREMENT PLAN

The organization maintains a pension plan qualified under Internal Revenue Code 401(k), for the benefit of its eligible employees. Under the plan, the School will match employee contributions up to 3% of annual compensation. Employee match for the period April 15, 2005 (inception) to June 30, 2007 amounted to \$16,599.

NOTE 8 - NOTE PAYABLE

On March 29, 2006 the School entered into a \$350,000 promissory note payable to the Non-Profit Finance Fund. The note matures July 1, 2010 and is payable in monthly installments of principal plus interest at 8.50%. The proceeds were used to finance the School's capital projects and operations. The note is collateralized by the School's accounts receivable.

Note payable at June 30, 2007	\$ 288,581
Less current portion	<u>82,155</u>
Long term note payable	<u>\$ 206,426</u>

Following are maturities of the note payable:

Year ending June 30, 2008	\$ 82,155
2009	94,547
2010	102,904
2011	<u>8,975</u>
	<u>\$ 288,581</u>

NEW HEIGHTS ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 9 - COMMITMENTS

Operating lease

The School is obligated under various non-cancelable operating leases for office and classroom space expiring at various dates through August 31, 2010. Rent expense under the operating lease for the period April 15, 2005 to June 30, 2007 amounted to \$506,750.

Future minimum lease payments are as follows:

Year ending June 30, 2008	\$ 808,400
2009	1,109,247
2010	1,250,564
2011	<u>212,192</u>
	<u>\$ 3,380,403</u>

Total future minimum lease payments have not been reduced by \$110,000 of a sublease rental to be received in the future under a non-cancelable sublease expiring May 31, 2008. Minimum lease payments to be received for the year ended June 30, 2008 amounted to \$110,000.

The School has the option to extend the term of the current space and lease additional space in the building by giving the landlord written notice on or before February 28, 2008. The term of these options commence September 1, 2010 and expire September 1, 2025. Future minimum lease payments under these options amounted to \$35,332,786.

Facility development

During the year ended June 30, 2007, the School entered into agreements with a contractor and an architect to construct additional space in the building. Total remaining commitments for this project amounted to approximately \$400,000 as of June 30, 2007.

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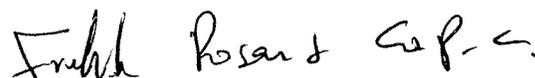
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INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION

TO THE BOARD OF DIRECTORS  
NEW HEIGHTS ACADEMY CHARTER SCHOOL

Our report on our audit of the basic financial statements of New Heights Academy Charter School (a not-for-profit corporation) for June 30, 2007, appears on Page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.



FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 17, 2007

(A Non-Profit Corporation)  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE PERIOD APRIL 15, 2005 (INCEPTION) TO JUNE 30, 2007**

	Program Services					Management and General	Fundraising and Special Events	Total
	Regular Education	Special Education	Other Educational Supplemental	Program Services	Total			
Salaries	\$ 756,265	\$ 69,845	\$ 31,335	\$ 857,445	\$ 100,000	\$ 5,000	\$ 962,445	
Employee benefits and payroll taxes	150,393	13,890	6,231	170,514	19,886	994	191,394	
Auditing/accounting fees	-	-	-	-	14,500	-	14,500	
Professional fees	22,000	2,750	-	24,750	250	-	25,000	
Consultants - educational	59,010	7,170	-	66,180	-	4,575	70,755	
Consultants - management and finance	-	-	-	-	13,038	-	13,038	
Consultants - technology	18,035	-	-	18,035	-	-	18,035	
Consultants - startup functions	14,547	278	-	14,825	-	-	14,825	
Contracted services - temps	2,561	33,302	-	35,863	-	-	35,863	
Field trips	2,128	263	-	2,391	-	-	2,391	
Insurance	1,371	169	-	1,540	23,860	-	25,400	
Interest	27,551	2,950	-	30,501	-	-	30,501	
Janitorial	29,053	3,632	-	32,685	330	-	33,015	
Lease - equipment	1,979	245	-	2,224	-	-	2,224	
Rent and utilities	494,474	61,809	-	556,283	6,008	-	562,291	
Security	19,354	2,392	-	21,746	-	-	21,746	
Legal	-	-	-	-	6,586	-	6,586	
Maintenance and Repairs	21,531	2,691	-	24,222	245	-	24,467	
Miscellaneous	11,537	776	55	12,368	2,550	973	15,891	
Office expense	4,448	550	-	4,998	-	-	4,998	
Postage/printing/copying	8,090	800	-	8,890	884	-	9,774	
Staff development	46,964	160	-	47,124	709	-	47,833	
Student Recruiting and marketing	1,658	-	-	1,658	-	-	1,658	
Student testing	4,298	531	-	4,829	-	-	4,829	
Educational supplies and materials	80,339	9,682	557	90,578	1,557	-	92,135	
Telephone	2,278	264	-	2,542	309	-	2,851	
Textbooks	48,905	6,045	-	54,950	-	-	54,950	
Loan fees	1,832	226	-	2,058	-	-	2,058	
Depreciation and amortization	26,237	-	-	26,237	-	-	26,237	
<b>Total</b>	<b>\$ 1,856,838</b>	<b>\$ 220,420</b>	<b>\$ 38,178</b>	<b>\$ 2,115,436</b>	<b>\$ 190,712</b>	<b>\$ 11,542</b>	<b>\$ 2,317,690</b>	