# ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

## FINANCIAL STATEMENTS

## JUNE 30, 2009

## (With Comparative Totals for 2008)

# ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL
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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, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended June 30, 2009. 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 2008 financial statements and, in our report dated October 16, 2008, 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 Endeavor Charter School as of June 30, 2009 and the changes in its net assets and its cash flows for the year ended June 30, 2009, 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 23, 2009 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 23, 2009

# ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION

| As of June 30, | 2009 | 2008 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 612,738 | $ 162,599 |
| Grants and other receivables | 120,389 | 1,473,100 |
| Lease acquisition costs | 5,555,756 | 1,628,516 |
| Due from Achievement First, Inc. | 51,213 | 77,481 |
| Property and equipment, net | 163,915 | 159,862 |
| **Total Assets** | **$ 6,504,011** | **$ 3,501,558** |
| Liabilities and Net Assets: | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $ 827,701 | 137,821 |
| Accrued salary and other payroll related expenses | 149,320 | 152,616 |
| Line of credit | 300,000 | 200,000 |
| Total Liabilities | 1,277,021 | 490,437 |
| Net assets - unrestricted | | |
| Unrestricted | | |
| Operating | 5,171,421 | 3,011,121 |
| Board-designated reserve | 55,569 | - |
| Total Net Assets | 5,226,990 | 3,011,121 |
| **Total Liabilities and Net Assets** | **$ 6,504,011** | **$ 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, | 2009 | 2008 |
|---|---|---|
| Operating revenue: | | |
| State and local per pupil operating revenue | $ 3,154,438 | $ 1,843,907 |
| Government grants and contracts | 342,270 | 362,848 |
| Student meal fees | - | 2,826 |
| Total operating revenue | 3,496,708 | 2,209,581 |
| Expenses: | | |
| Program services | 3,046,405 | 1,982,011 |
| Management and general | 398,768 | 310,357 |
| Fund raising | 25,132 | 14,004 |
| Total operating expenses | 3,470,305 | 2,306,372 |
| Surplus (deficit) from school operations | 26,403 | (96,791) |
| Support and other revenue | | |
| Foundation grants | 2,081,125 | 2,483,783 |
| Corporate grants | 50,000 | 50,000 |
| Individual grants | 53,835 | 110,000 |
| Interest income | 4,506 | 2,596 |
| Other income | - | 200 |
| Total support and other income | 2,189,466 | 2,646,579 |
| Change in net assets | 2,215,869 | 2,549,788 |
| Net assets - unrestricted – beginning of year | 3,011,121 | 461,333 |
| **Net assets - unrestricted – end of year** | **$ 5,226,990** | **$ 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 | 2009 | 2008 |
|---|---|---|---|---|---|
| Salaries and wages | $ 1,867,536 | $ 233,385 | $ - | $ 2,100,921 | $ 1,321,513 |
| Payroll taxes and employee benefits | 317,254 | 39,647 | - | 356,901 | 246,413 |
| Accounting fees | - | 20,415 | - | 20,415 | 16,270 |
| After-school academic program | 7,483 | - | - | 7,483 | 5,634 |
| Classroom supplies and instructional materials | 176,808 | - | - | 176,808 | 179,824 |
| Furnitures and fixutres - non-capitalizable | 20,406 | 2,550 | - | 22,956 | 6,876 |
| Insurance | 10,910 | 1,363 | - | 12,273 | 9,464 |
| Interest and bank service charges | - | 4,113 | - | 4,113 | 11,638 |
| Management fees | 193,520 | 32,672 | 25,132 | 251,324 | 147,113 |
| Office expense | 61,618 | 16,529 | - | 78,147 | 72,922 |
| Parent activities | 1,169 | - | - | 1,169 | 1,100 |
| Postage and delivery | 2,229 | 557 | - | 2,786 | 2,129 |
| Printing and photocopying | 29,078 | 7,270 | - | 36,348 | 11,870 |
| Rent - building permit fees | 24,954 | 3,118 | - | 28,072 | 10,000 |
| Repairs and maintenance | 145 | 18 | - | 163 | 1,009 |
| Special education contracted services | 11,243 | - | - | 11,243 | 6,640 |
| Staff professional development | 18,977 | - | - | 18,977 | 6,148 |
| Student field trips and incentive programs | 69,269 | - | - | 69,269 | 36,130 |
| Student food services | 34,937 | - | - | 34,937 | 24,192 |
| Student transportation | 27,736 | - | - | 27,736 | 12,000 |
| Student uniforms | 1,072 | - | - | 1,072 | 222 |
| Technology infrastructure and software | 19,217 | 2,055 | - | 21,272 | 28,039 |
| Telephone and internet | 70,326 | 8,789 | - | 79,115 | 67,709 |
| Depreciation and amortization | 80,518 | 10,062 | - | 90,580 | 66,841 |
| Bad debt expense | - | 16,225 | - | 16,225 | 14,676 |
| **Total expenses** | **$ 3,046,405** | **$ 398,768** | **$ 25,132** | **$ 3,470,305** | **$ 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, | 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 2,215,869 | $ 2,549,788 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 90,580 | 66,841 |
| Bad debt expense | 16,225 | 14,676 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Decrease (increase) in grants and other receivables | 1,375,333 | (1,287,932) |
| Decrease (increase) in due from Achievement First, Inc. | 26,268 | (72,081) |
| Increase (decrease) in liabilities: | | |
| Increase (decrease) in accounts payable and accrued expenses | 651,034 | (5,521) |
| (Decrease) increase in accrued salaries and other payroll related expenses | (3,296) | 62,376 |
| **Net cash provided by operating activities** | 4,372,013 | 1,328,147 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (94,634) | (104,412) |
| Payments on the lease acquisition costs | (3,927,240) | (370,283) |
| **Net cash used in investing activities** | (4,021,874) | (474,695) |
| Cash flows from financing activities | | |
| Proceeds from line of credit | 599,642 | 200,000 |
| Principal payments on line of credit | (499,642) | (50,000) |
| Principal payments on the facility loan | - | (889,638) |
| **Net cash provided by (used in) financing activities** | 100,000 | (739,638) |
| Net increase in cash and cash equivalents | 450,139 | 113,814 |
| **Cash and cash equivalents - beginning of year** | 162,599 | 48,785 |
| **Cash and cash equivalents - end of year** | **$ 612,738** | **$ 162,599** |
| **Supplementary information:** | | |
| Cash paid for interest | **$ 4,103** | **$ 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 2009, the School operated classes for students in fifth, sixth, and seventh 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.

During the fiscal year ended June 30, 2009, the Board of Trustees enacted a Board Designated Reserve Policy in which unrestricted net assets is 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. Cash equivalents consist of one checking and one savings account.

Grants and Other Receivables
Grants and other receivables represent unconditional promises to give. Grants and other receivables that are expected to be collected within one year and recorded at net realizable value are $120,389 and $1,473,100 for the fiscal years ended June 30, 2009 and June 30, 2008, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2009. 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, 2009.

Planned Maintenance
Costs related to planned major maintenance are expensed as incurred Planned maintenance activities are accounted for in accordance with FSP AUG AIR-1.

Revenue Recognition
Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable.

Use of Estimates

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

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through October 23, 2009. 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, 2009 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, 2008 are presented. As a result, the June 30, 2008 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, 2008 information should be read in conjunction with the School's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Implementation of New Accounting Pronouncements

Management has elected to defer the application of FAS FIN 48, *Accounting for Uncertain Tax Positions in accordance with FSP FIN 48-3*. FSP FIN 48-3 defers the effective date for FIN 48 for certain private companies until fiscal years beginning after December 15, 2008. The Company will continue to follow FAS 5, *Accounting for Contingencies*, until it adopts FIN 48.

The current and deferred tax provisions in the financial statements include consideration of uncertain tax positions in accordance with FAS FIN 48, *Accounting for Uncertain Tax Positions.*

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 2006.

**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 Agreement is being continued by the Department of Education on a verbal basis and may be renegotiated, if needed, during FY 2010. 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, 2009 and June 30, 2008, the School incurred overtime permit fees of $28,072 and $10,000, 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, 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 fiscal years ended June 30, 2009 and June 30, 2008, the School incurred management fees of $251,324 and $147,113, respectively, which is included in the accompanying statement of functional expenses.

For the fiscal years ended June 30, 2009 and June 30, 2008 the amount due from Achievement First, Inc. was $51,213 and $77,481, respectively.

**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 $5,100,000. 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 costs of $5,555,756 and $1,628,516 is capitalized interest of $85,683 as of June 30, 2009 and June 30, 2008, respectively.

**6. PROPERTY AND EQUIPMENT:**

Property and equipment consist of the following as of June 30, 2009:

| | | 2009 | | 2008 | Estimated Useful Lives |
|---|---|---|---|---|---|
| Furniture and fixtures | $ | 38,000 | $ | 29,733 | 5 years |
| Computer hardware and software | | 97,507 | | 68,830 | 3 years |
| Musical Instruments | | 76,347 | | 64,283 | 5 years |
| Equipment | | 69,530 | | 56,672 | 3 years |
| Software | | 21,431 | | 17,162 | 3 years |
| Leasehold improvements | | 52,095 | | 23,596 | 5 years |
| | | 354,910 | | 260,276 | |
| Less: accumulated depreciation and amortization | | (190,995) | | (100,414) | |
| | $ | 163,915 | $ | 159,862 | |

Depreciation and amortization expense for the years ended June 30, 2009 and June 30, 2008 was $90,580 and $66,841, respectively.

**7. LINE OF CREDIT:**

The School has a revolving line of credit agreement with a financial institution 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 (4.25% as of June 30, 2009). As of June 30, 2009, the School had an outstanding balance of $300,000. Total interest expense as of June 30, 2009 was $4,103 and is included in interest and bank service charges in the accompanying statement of functional expenses.

**8. COMMITMENTS AND CONTINGENCIES:**

The School 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, | | |
|---|---|---|
| 2010 | $ | 8,531 |
| 2011 | | 2,876 |
| 2012 | | 479 |
| Total | $ | 11,886 |

**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, 2009 and June 30, 2008, pension expense for the School is $21,212 and $15,499, 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. 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 a major financial institution that exceeded the Federal Deposit Insurance Corporation (FDIC) limits by approximately $363,000 as of June 30, 2009. The FDIC has temporarily increased the limit to $250,000 through December 31, 2013. The School's bank participates in the FDIC's Transaction Account Guarantee Program, in which 100% of all funds kept in non-interest bearing checking accounts are provided full coverage. The School's board agreed to move all but $250,000 of the school's funds to the checking account in order to take advantage of this coverage. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until December 31, 2009.

B. The School received approximately 55% of its total revenue from per pupil funding from New York City Department of Education.

C. The School's grants and other receivables consist of two major grantors.

D. The School's accounts payable and accrued expenses consist of one major vendor.

**12. SUBSEQUENT EVENTS:**

Subsequent to year end the School entered into a revolving line of credit with Achievement First, Inc., its management company, in which it can borrow up to $2,000,000. The purpose of the revolving line of credit is to finance the acquisition and construction costs of a new building (see Note 5 above). The loan has a maturity date of June 2012 and bears non-compoundable interest at a rate of 6%.

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, 2009, and have issued our report thereon dated October 23, 2009. 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 23, 2009.

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 23, 2009

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

To the Board of Trustees
Achievement First Endeavor Charter School

In planning and performing our audit of the financial statements of Achievement First Endeavor Charter School (the "School") as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Achievement First Endeavor 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

- Supervisory review and approval of credit card transactions are not consistently being performed and documented.

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 entity's internal control. We believe that the following deficiency constitutes material weakness.

- The School did not correct the significant deficiencies in internal control noted during the prior audit which results in a material weakness.

This communication is intended solely for the information and use of The 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.

E&E LLP

New York, NY
October 23, 2009

# Achievement First Endeavor Charter School

## *Communication With Those Charged With Governance*

*OCTOBER 26, 2009*

ERE
accountants & advisors

October 26, 2009

To the Audit Committee
Achievement First Endeavor Charter School

We have audited the financial statements of Achievement First Endeavor Charter School (the "School") for the year ended June 30, 2009 and are prepared to issue our report thereon dated October 23, 2009. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

**REQUIRED COMMUNICATIONS**

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

As stated in our engagement letter May 27, 2009, 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 Endeavor 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 March 25, 2009.

**C. Auditor Independence:**

We affirm that ERE LLP is independent with respect to Achievement First Endeavor 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 Endeavor Charter School are described in Note 2 to the financial statements. Management has elected to defer the application of FAS FIN 48, *Accounting for Uncertain Tax Positions in accordance with FSP FIN 48-3*. FSP FIN 48-3 defers the effective date for FIN 48 for certain private companies until fiscal years beginning after December 15, 2008. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

## E. Accounting Estimates Used in the Financial Statements:

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

### Allowance for Doubtful Accounts:

As of June 30, 2009, Achievement First Endeavor Charter School recorded grants and other receivables of $120,389. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with Achievement First, Inc.'s Director of Finance, we concur with management's conclusion.

### 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.

### 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.

**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 10 to the financial statements which describes various risks to which the School is exposed.

The disclosure of Subsequent Events in Note 12 to the financial statements which describes revolving line of credit between the School and Achievement First, Inc.

**G. Corrected and Uncorrected Misstatements:**

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

**Proposed and Corrected:**

There were 19 audit adjustments (including 1 reclassifying entry) that decreased net assets by approximately $8,000. Last year there were 11 audit adjustments that increased net assets by approximately $12,500. The most significant adjustments were as follows:

1. To record approximately $19,000 of New York State Textbook Law (NYSTL) in-kind grant, this had no effect on net assets.

2. To decrease net assets by approximately $15,000 to correct activity relating to credit card expenses not properly recorded during the year.

3. To increase net assets by approximately $5,000 to correct pledges and grants receivable.

**Proposed and Uncorrected:**

There were 2 audit adjustments that would have increased net assets by approximately $128,000:

1. To increase net assets by approximately $108,000 to reverse the July 2009 teachers' payroll accrual.

2. To increase net assets by approximately $20,000 to reverse the summer school student transportation accrual.

## 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 23, 2009.

## 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 (See separate letter):**

Our audit of credit card charges revealed the following:

- The description of the business purposes was not documented on the receipts or the monthly credit card statements. We recommend that all credit card receipts or statements include a brief description about the nature of the charge and how it relates to the School's activities. There were a substantial amount of credit card transactions without any supporting documentation.

- Months elapsed before credit card transactions were entered into Quickbooks. Accordingly, we recommend that precautions be taken to record all activity timely.

- The School credit card has a credit line of $20,000 per person and an aggregate cash advance line of $4,000. Even though the board had approved to revoke the cash advance feature, the feature was still present as of June 30, 2009. 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.

- Out of three credit card statements we tested, two were charged late fees and interest was incurred. We recommend that all credit card statements be paid in a timely manner so finance charges, late fees, and interest can be avoided.

***E-Rate Receivable:**

During the audit, we noted that the E-Rate funds from the prior year were collected by Achievement First, Inc. but not forwarded to the School as of June 30, 2009. Even though this receivable was confirmed by Achievement First, Inc., we recommend all funds belonging to the School held by outside parties be transferred over to the School in a timely manner to avoid potential cash flow hardships.

***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. We have noted that an adjustment was made at the end of the year to write off receivables pledges and grants. Accordingly, we recommend that the School adopt a written policy regarding the processing of write-off of receivables.

***Fixed Assets:**

Organizations that purchase fixed assets should consider tagging those significant assets. As of the date of this letter, the School has not tagged the fixed assets.

***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, 2009, an accrual for the July 2009 salaries has been recorded. We recommend that management consider reversing the accrual.

**Review of Payroll:**

During our testing we noted that procedures for periodic review and approval of payroll and changes to payroll did not exist. We recommend that a periodic review and approval process be implemented to provide for better control in this sensitive area. Some one other than the one charged with the payroll function should approve all changes in employee's gross pay, indicated with appropriate sign-offs, and perform periodic reviews of payroll reports.

**School Facility Lease Agreement:**

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

***Laptops:**

School's policies and procedures require that each employee carrying a School's laptop should have a signed *Laptop Usage Agreement.* We noted that 4 employees were missing the laptop usage agreements. Accordingly, we recommend that policies be implemented to ensure compliance with the School's established protocol.

**Employee Personnel Files**

The School Director of Operations is responsible for establishing a complete personnel file for each School employee. Every personnel file, which contains the personal information and performance outcomes of an employee throughout his/her tenure with the School, is kept both secure and confidential. As of June 30, 2009 the following were noted:

- Three instances of missing fingerprint clearance confirmations
- One instance of a missing I-9 form
- Two instances of missing direct deposit forms
- One instance of a missing benefit form
- Three instances of missing certification documentation
- Two instances of missing resumes
- And one instance of a missing credit card usage agreement

Accordingly, we recommend that policies be implemented to ensure compliance with the School's established protocol.

**Cell Phones Usage Agreement:**

The School has established a policy where each employee issued a school cell phone, must sign the *Cell Phone Usage Agreement*. As of the end of our fieldwork there were three instances of missing cell phone usage agreements. We recommend that the School enforce the established policy.

**Teachers' Reimbursements**

All purchases except professional services, utilities, equipment or property rentals and other recurring expenditures should be obtained via purchase order request. Professional services are monitored via contract management procedures, not the generation of a purchase order. Employee expense reports should be completed and submitted once a month. All expense reports are to be reviewed and approved by the Principal and processed by the School Director of Operations. As of June 30, 2009 we came across three instances where the teachers' reimbursement forms were missing original receipts.

**NYCDOE Escrow Policy**

NYCDOE requires that each New York City Chancellor-Authorized Charter School set up an escrow account. The purpose of this account is in case of dissolution of the school. We recommend that management establish an escrow account in the appropriate amount. As of June 30, 2009 the amount in the account should be $70,000.

**Redesigned IRS Form 990:**

On December 20, 2007, the Internal Revenue Service (the "Service") released a redesigned Form 990, Return of Organization Exempt from Income Tax, for tax year 2008 (to be filed in 2009 and later years). The new form is comprised of an 11 page core form that applies to all organization. Although many of the questions request information on practices or policies that are not mandated by Federal tax law, the Service emphasizes that good governance and accountability practices are more likely to lead to "transparent organizations with regard to their operations, finances, fundraising practices and use of assets for exempt and unrelated purposes".

In an effort to provide accurate and positive information, management should review and if necessary establish the following policies:

- Procedures for making the organization's Form 1023 and 990 available for public inspection.
- Consideration of whether the organization makes its governing documents, conflict of interest policy and financial statements available for public inspection.
- Gift acceptance policy.

**Employers' Use of Employee Personal Information:**

Effective January 3, 2009, New York State's new omnibus identity theft law imposes additional restrictions on employers' use of personal identifying information, including Social Security numbers. The new restrictions prohibit employers with New York employees from:

- Publicly displaying an employee's Social Security number;
- Visibly printing a Social Security number on employee identification badges or cards, including time cards, or using it as an identification number for occupational licensing purposes;
- Placing employees' Social Security numbers in files with unrestricted access; or
- Communicating an employee's personal information to the general public. Such personal information includes, but is not limited to, an employee's Social Security number, home address or telephone number, personal e-mail address, internet ID name and password, parent's surname prior to marriage, and driver's license number.

The New York State labor commission is authorized to impose fines of up to $500 for each "knowing" violation of the statute. (It is unclear whether fines may be applied per each affected individual whose personal information is violated, or only per violating event.) To avoid incurring penalties, employers with New York employees should review and revise their existing employee policies and procedures to safeguard against prohibited uses of worker Social Security numbers and other personal information, as failure to do so will be considered presumptive evidence of a "knowing" violation of the New York law.

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 Endeavor 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 23, 2009

To Whom It May Concern:

The following are the responses of the management of Achievement First Endeavor Charter School to the findings and recommendations made by ERE LLP as part of the audit of the school's FY 2008-09 financial statements. We have also included a section that details findings that were corrected from prior audits:

**Findings from Prior Audits Corrected In FY 2009:**

**Conflict of Interest Policies**
It was noted in past audits that the school did not maintain signed conflict of interest policies on file. This finding has been corrected; all Board of Trustee members are required to sign such a document as part of the annual reporting process to the New York State Department of Education.

**Whistle Blower Policies**
It was noted in past audits that the school did not have a Whistle Blower policy; upon examination of school policies adopted by the Board of Trustees the auditors noted these policies contained a Whistle Blower policy as well.

**Inventory of Fixed Assets**
It was noted in prior years' audits that the school had not completed an inventory of fixed assets; by the end of FY 2009 the school completed an inventory.

**Use of Quickbooks Software**
In the FY 2008 audit it was noted that the school was using Quickbooks software which could be manipulated after a closing or audit was complete. In FY 2010 Achievement First has begun implement new accounting software (SAGE/MIP) that eliminates the possibility for this manipulation.

**Cash Concentration in Uninsured Accounts:**
It was noted in prior year audits that cash balances that exceeded FDIC insurance limits were being maintained in bank accounts. The school is now maintaining cash in a non-interest bearing checking account that is fully insured by the FDIC through December 2009.

**Disaster Recovery Plan**
In prior years the auditors noted that the school did not have an IT Disaster Recovery plan. In FY 2009 such a plan was implemented.

**Findings In FY 2009:**

**Credit Cards**
Management will work with the school staff to ensure that all policies related to credit card use are being followed, including timely entry of all expenses, the review and signing of statements by the Regional Director of Operations and stamping receipt and payment dates.

**E-Rate Receivable:**
Management agrees that E-Rate funding received by Achievement First Inc. was not passed to the school on a timely basis. While this did not create a cash flow hardship for the school, we will monitor receivables more closely to ensure timely transfers.

**Write-offs:**
We concur that a formal written policy for writing off receivables has not been adopted into the school's Fiscal Policies and Procedures manual. We will incorporate this into the next manual update.

**Fixed Assets**
Management concurs that all significant fixed assets should be tagged.

**Payroll (July Salary Accrual)**
We continue to accrue July teacher salaries into the prior fiscal year as our operating year starts on August 1$^{st}$ (and is when staff offer letters are dated.) We therefore respectfully disagree with the recommendation and will continue to follow this practice.

**Review of Payroll**
We agree that procedures for periodic review and approval of payroll by someone other than the individual charged with the payroll function should be implemented.

**School Facility Use Agreement**
The New York City Department of Education is working on revised Use Agreements; Achievement First Central management has been in continued communications with DOE on this issue; at this time we believe there is no risk we will lose access to facilities.

**Laptop Use/Cellphone Use Agreements**
As part of a larger review of personnel files and record-keeping practices we will ensure that all staff have signed laptop and cell phone use agreements in their files.

**Personnel Files:**
We will conduct a review of personnel files and ensure that all required documents are being maintained properly.

**Teacher Reimbursements missing original receipts:**
We will conduct internal audits to ensure that fiscal policies and procedures are being followed and paperwork properly maintained.

**NYC Department of Education Escrow Policy**
The New York City Departemt of Education is aware that Endeavor did not set up such an account due to cash flow issues primarily caused by the cash needs of the school's construction project. The school is allowed to receive a waiver from this policy due to cash flow hardship; we will obtain this waiver in writing.

**IRS Form 990**
Management notes that the school's IRS Form 990 is readily available on public web sites such as Guidestar; we also make the Form 990 Form 1023 and any other governing documents available to any party who requests them. We will also consider incorporating a gift acceptance policy into our fiscal policies.

**Employers' Use of Personal Information**
Management appreciates ERE bringing this information to our attention; we also note that ERE did not indicate that the school was out of compliance with the new law. Currently, all schools maintain personnel records in locked cabinets, social security numbers are not displayed on payroll records or employee IDs. As part of our overall personnel record review we will examine the new law and ensure that we are in compliance with it.