ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010

(With Comparative Totals for 2009)

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL
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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, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended June 30, 2010. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2009 financial statements and, in our report dated October 23, 2009 we expressed an unqualified opinion on those financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ERE LLP

New York, NY
October 26, 2010

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30,	2010	2009
Assets:		
Cash	$ 273,810	$ 612,738
Grant and other receivables	156,423	120,389
Lease acquisition costs	6,542,478	5,555,756
Due from Achievement First, Inc.	272,778	51,213
Due from NYC Department of Education	3,540	-
Property and equipment, net	137,800	163,915
Prepaid expenses	990	-
Total Assets	**$ 7,387,819**	**$ 6,504,011**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$ 212,801	788,855
Accrued salary and other payroll related expenses	221,196	149,320
Due to other schools	20,148	-
Due to NYC Department of Education	-	38,846
Facility loan payable	714,290	-
Line of credit	300,000	300,000
Total Liabilities	1,468,435	1,277,021
Net assets:		
Unrestricted		
Operating	5,729,226	5,171,421
Board-designated reserve	190,158	55,569
Total Net Assets	5,919,384	5,226,990
Total Liabilities and Net Assets	**$ 7,387,819**	**$ 6,504,011**

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,	2010	2009
Operating revenue:		
State and local per pupil operating revenue	$ 3,779,847	$ 3,154,438
Government grants and contracts	634,041	342,270
Total operating revenue	4,413,888	3,496,708
Expenses:		
Program services	4,135,847	3,046,405
Management and general	532,286	398,768
Fund raising	30,239	25,132
Total operating expenses	4,698,372	3,470,305
(Deficit) surplus from school operations	(284,484)	26,403
Support and other revenue		
Contributions and other grants	853,599	2,184,960
Interest and other income	123,279	4,506
Total support and other income	976,878	2,189,466
Change in net assets	692,394	2,215,869
Net assets - unrestricted – beginning of year	5,226,990	3,011,121
Net assets - unrestricted – end of year	**$ 5,919,384**	**$ 5,226,990**

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, 2010 (with comparative totals for 2009)

	Program Services	Management and General	Fund Raising	2010	2009
Salaries and wages	$ 2,284,789	$ 246,028	$ -	$ 2,530,817	$ 2,100,921
Payroll taxes and employee benefits	445,737	45,433	-	491,170	356,901
Accounting fees	-	49,953	-	49,953	20,415
After-school academic program	9,357	-	-	9,357	7,483
Classroom supplies and instructional materials	161,469	-	-	161,469	176,808
Furnitures and fixutres - non-capitalizable	16,564	29,000	-	45,564	22,956
Insurance	24,421	2,504	-	26,925	12,273
Interest and bank service charges	62,944	8,651	-	71,595	4,113
Legal	25,847	6,462	-	32,309	-
Management fees	232,839	39,310	30,239	302,388	251,324
Office expense	100,869	18,595	-	119,464	78,147
Parent activities	1,640	-	-	1,640	1,169
Postage and delivery	2,073	518	-	2,591	2,786
Printing and photocopying	8,014	2,004	-	10,018	36,348
Professional fees	33,584	8,396	-	41,980	-
Rent - building permit fees	47,031	4,823	-	51,854	28,072
Repairs and maintenance	206,129	21,140	-	227,269	163
Special education contracted services	17,893	-	-	17,893	11,243
Staff professional development	12,114	-	-	12,114	18,977
Student field trips and incentive programs	105,299	-	-	105,299	69,269
Student food services	38,051	-	-	38,051	34,937
Student transportation	6,856	-	-	6,856	27,736
Student uniforms	88	-	-	88	1,072
Technology infrastructure and software	33,069	2,210	-	35,279	21,272
Telephone and internet	96,081	9,585	-	105,666	79,115
Utilities	86,238	21,559	-	107,797	-
Depreciation and amortization	64,460	16,115	-	80,575	90,580
Bad debt expense	12,391	-	-	12,391	16,225
Total expenses	**$ 4,135,847**	**$ 532,286**	**$ 30,239**	**$ 4,698,372**	**$ 3,470,305**

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,	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 692,394	$ 2,215,869
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	80,575	90,580
Bad debt expense	12,391	16,225
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Grant and other receivables	(36,034)	1,375,333
Due from Achievement First, Inc.	(221,565)	26,268
Due from NYC Department of Education	(3,540)	-
Prepaid expenses	(990)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(576,054)	651,034
Accrued salaries and other payroll related expenses	71,876	(3,296)
Due to other schools	20,148	-
Due to NYC Department of Education	(51,237)	-
Net cash (used in) provided by operating activities	(12,036)	4,372,013
Cash flows from investing activities:		
Purchase of property and equipment	(54,460)	(94,634)
Payments on the lease acquisition costs	(986,722)	(3,927,240)
Net cash used in investing activities	(1,041,182)	(4,021,874)
Cash flows from financing activities		
Proceeds from line of credit	-	599,642
Principal payments on line of credit	-	(499,642)
Proceeds from facility loan payable	1,000,000	
Principal payments on the facility loan payable	(285,710)	-
Net cash provided by financing activities	714,290	100,000
Net (decrease) increase in cash	(338,928)	450,139
Cash - beginning of year	612,738	162,599
Cash - end of year	**$ 273,810**	**$ 612,738**
Supplementary information:		
Cash paid during the year for:		
Interest	**$ 65,441**	**$ 4,103**
Income Taxes	**$ -**	**$ -**

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 exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Today the School serves students from low income households in Brooklyn, New York.

In fiscal year 2010, the School operated classes for students in fifth to eighth 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 are set aside to be used only with the approval of the Board. The reserve is calculated by netting the prior year's current assets against the prior year's current liabilities and reducing that difference by any assets whose use is contractually limited.

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

Grant and Other Receivables
Grant and other receivables represent unconditional promises to give. Grant and other receivables that are expected to be collected within one year and recorded at net realizable value are $159,963 and $120,389 for the fiscal years ended June 30, 2010 and June 30, 2009, respectively. The School has determined that no allowance for uncollectible accounts for grant receivables is necessary as of June 30, 2010. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

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

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

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

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2010.

Planned Maintenance
Costs related to planned major maintenance are expensed as incurred.

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

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

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

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

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

Comparative Financial Information
The June 30, 2010 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2009 are presented. As a result, the June 30, 2009 comparative information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such June 30, 2009 information should be read in conjunction with the School's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Reclassifications
Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

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

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

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

3. AGREEMENT FOR SCHOOL FACILITY: For the fiscal years 2006 through 2009 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 was set to expire on June 30, 2009. The Agreement was continued by the Department of Education on a verbal basis during FY 2010. The School was responsible for any overtime-related costs for services provided beyond the regular opening hours. For the fiscal years ended June 30, 2010 and June 30, 2009, the School incurred overtime permit fees of $51,854 and $28,072, respectively, which is included in the accompanying statement of functional expenses.

4. RELATED PARTY TRANSACTIONS: The School entered into an Academic and "Business Services" Agreement (the "Agreement") with Achievement First, Inc. (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, 2010 and June 30, 2009, the School incurred management fees of $302,388 and $251,324, respectively, which is included in the accompanying statement of functional expenses.

For the fiscal years ended June 30, 2010 and June 30, 2009 the amount due from Achievement First, Inc. was $272,778 and $51,213, respectively.

In June 2009, the School entered into an unsecured revolving line of credit agreement with Achievement First in which the school can borrow up to $2,000,000 through June 30, 2012. The line of credit is to be used to support capital improvements at the School. The line of credit carries an interest rate of 6%. For the first two years of the term, interest only payments are being made; at the end of this period, the School must pay down principal balance of the loan to an amount not to exceed $1,000,000. At June 30, 2012, all outstanding principal plus accrued interest will be due and payable in full. As of June 30, 2010 there was an outstanding balance of $714,290. As of June 30, 2010, interest paid to Achievement First was $56,800 and is included in interest and bank service charges in the accompanying statement of functional expenses.

5. LEASE ACQUISITION COSTS:

During 2006, the School entered into an agreement with a construction management company, Civic Builders, to build a school facility. 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 was expected to pay 10% of the acquisition and construction costs of the building over the construction period which ended in 2009. These costs were estimated to be approximately $5,100,000. Upon completion of the construction of the building, NYSCA leased the building to Civic Builders for a thirty year term. Civic Builders will sublease the building to Achievement First; in turn Achievement First will sublease the building to the School. The terms of the subleases between Civic Builders and Achievement First and the School were not finalized as of April 2010, but it is expected that Civic will sublease the building to Achievement First for a 30-year term at an annual lease of $1 plus operating costs, and that Achievement First will do the same with the School. Included in lease acquisition costs of $6,542,478 and $5,555,756 is capitalized interest of $85,683 as of June 30, 2010 and June 30, 2009, respectively.

6. PROPERTY AND EQUIPMENT:

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

	2010	2009	Estimated Useful Lives
Furniture and fixtures	$ 40,081	$ 38,000	5 years
Computer hardware and software	102,214	97,507	3 years
Musical instruments	76,347	76,347	5 years
Equipment	104,000	69,530	3 years
Software	21,431	21,431	3 years
Leasehold improvements	65,297	52,095	5 years
	409,370	354,910	
Less: accumulated depreciation and amortization	(271,570)	(190,995)	
	$ 137,800	$ 163,915	

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 was $80,575and $90,580, 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, 2010). As of June 30, 2010, the School had an outstanding balance of $300,000. Total interest expense as of June 30, 2010 was $12,599 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 non-cancelable operating leases. Future minimum lease payments are as follows:

June 30,		
2011	$	7,387
2012		4,001
2013		1,174
Total	$	12,562

9. PENSION PLAN:

Effective September 1, 2006, the School adopted a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the plan either the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 4% of an employee's salary, up to a maximum match of $2,500 per year per employee. The School contribution does not become vested until its third year when it becomes fully vested. For the fiscal years ended June 30, 2010 and June 30, 2009, pension expense for the School is $51,232 and $21,212, 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 $121,000 as of June 30, 2010. The FDIC has temporarily increased the limit to $250,000 through December 31, 2013.

B. The School received approximately 70% of its total revenue from per pupil funding from New York City Department of Education.

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

12. SUBSEQUENT EVENT:

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

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Trustees
Achievement First 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, 2010, and have issued our report thereon dated October 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 26, 2010.

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

ERE LLP

New York, NY
October 26, 2010

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To the Board of Trustees
Achievement First 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, 2010, 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 and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

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

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

ERE LLP

New York, NY
October 26, 2010

Achievement First Endeavor Charter School

Communication With Those Charged With Governance

OCTOBER 26, 2010

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October 26, 2010

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, 2010 and are prepared to issue our report thereon dated October 26, 2010. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

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

As stated in our engagement letter May 17, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Achievement First 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 April 15, 2010.

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. As described therein, the School elected to implement the application of an accounting pronouncement pertaining to accounting for uncertain tax positions. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

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

Allowance for Doubtful Accounts:

As of June 30, 2010, Achievement First Endeavor Charter School recorded grant and other receivables of $159,963. 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 Regional Directors 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 Related Party Transactions in Note 4 to the financial statements which describes the revolving line of credit between the School and Achievement First Inc.

The disclosure of Lease Acquisition Costs in Note 5 to the financial statements which describes the costs associated with the development and construction of a new building.

The disclosure of Risk Management in Note 10 to the financial statements which describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

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

Proposed and Corrected:

There were 23 audit adjustments (including 4 reclassifying entries) that decreased net assets by approximately $221,000. Last year there were 19 audit adjustments that decreased net assets by approximately $8,000. The most significant adjustments were as follows:

1. To decrease net assets by approximately $92,000 to accrue for utilities fees.
2. To decrease net assets by approximately $51,000 to accrue for an additional 403(b) pension liability.
3. To decrease net assets by approximately $48,000 to correct the AF Network Support intercompany activity.
4. To decrease net assets by approximately $33,000 to accrue for the year-end attendance bonuses.
5. To increase net assets by approximately $25,000 to record E-rate receivable.
6. To decrease net assets by approximately $16,000 to accrue for audit fees.
7. To decrease net assets by approximately $16,000 to accrue for utilities.
8. To decrease net assets by approximately $14,000 to record legal fees pertaining to the facility loan.

9. To increase net assets by approximately $13,000 to correct the amount of Title I ARRA funding.

10. To increase nets assets by approximately $12,000 to record additional contributions income.

Proposed and Uncorrected:

There were 2 audit adjustments that collectively would have increased net assets by approximately $113,000:

1. To increase net assets by approximately $221,000 to reverse the July 2010 teachers' salary and other payroll related expenses accrual.

2. To decrease net assets by approximately $108,000 to reverse the July 2009 teachers' salary and other payroll related expenses accrual proposed adjustment from prior fiscal year.

H. Audit Difficulties and Disagreements with Management:

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

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

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 26, 2010.

J. Management Consultations with Other Independent Accountants:

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

K. Other Audit Findings or Issues:

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

OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR ENHANCING OPERATING EFFICIENCY

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

***Credit Cards:**

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.

- The School's credit card has a credit line of $20,000 for the operations support personnel and $10,000 for the Director of School Operations, as well as 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, 2010. These high lines may expose the School to potential risks. Accordingly, we recommend that management consider reducing the credit line and continue its efforts in eliminating the cash advance feature.

- Of the three credit card statements we tested, one was charged interest ($10.16). We recommend that all credit card statements be paid in a timely manner so finance charges, late fees, and interest can be avoided.

Payroll Reconciliation:

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

***Payroll:**

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

***Personnel File Testing (See separate letter)**

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, 2010 the following were noted:

- Five instances of missing I-9 forms
- Two instances of missing W-4 forms
- One instance of a missing direct deposit form
- Two instances of missing personnel data forms
- Twelve instances of missing copies of I.D.'s
- Two instances of missing benefit forms
- Nine instances of missing retirement saving plan documentation
- Twenty instances of missing resumes
- Fifteen instances of missing *Laptop Usage Policy* agreement
- One instance of a missing *Credit Card Usage Policy* agreement
- Three instances of missing *Cell Phone Usage Policy* agreement

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

Cash Disbursement Testing:

Our audit of cash disbursements revealed the following:

- Of the forty cash disbursements tested, seven invoices were not stamped "paid". We recommend that all paid invoices be marked as such in order to avoid any confusion.

- Of the forty cash disbursements tested, there were four instances where sales tax was charged. We recommend the School evaluate the cost benefits associated with engaging with vendors who do not accept the available documentation.

***Escrow Policy**

NYCDOE requires that each New York City Chancellor-Authorized Charter School establish 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, 2010, the amount should be $70,000. We have been informed that the School has a verbal waiver for the escrow requirement. Accordingly, we recommend that the School secure a written waiver.

***Write-offs:**

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

Internal Control Review:

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

Board Minutes:

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

Investment Policy:

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

School Facility Lease Agreement:

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

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

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of Achievement First 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

Achievement First

October 26, 2010

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 2009-10 financial statements:

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

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

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

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

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

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

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

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

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

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