

**ACHIEVEMENT FIRST CROWN
HEIGHTS CHARTER SCHOOL**

FINANCIAL STATEMENTS

JUNE 30, 2007

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

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GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Achievement First Crown Heights Charter School

We have audited the accompanying statements of financial position of Achievement First Crown Heights Charter School (the "School") as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2007, and the period from March 15, 2005 (date of inception) to June 30, 2006. 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 audits.

We conducted our audits 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 audits provide 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 the School as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the year ended June 30, 2007 and the period from March 15, 2005 (date of inception) to June 30, 2006 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 12, 2007 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.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

October 12, 2007

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30,	2007	2006
ASSETS		
Cash and Cash Equivalents	\$ 525,165	\$377,583
Grants and Contracts Receivable	441,892	179,953
Prepaid Expenses and Other Assets	35,077	22,519
Property and Equipment, net	375,565	257,059
Total Assets	\$1,377,699	\$837,114
LIABILITIES AND UNRESTRICTED NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 610,637	\$331,709
Refundable advance from state and local government grants	35,000	
Other liabilities	79,664	36,542
Total liabilities	725,301	368,251
Commitments and Contingency		
Unrestricted Net Assets	652,398	468,863
Total Liabilities and Unrestricted Net Assets	\$1,377,699	\$837,114

See Notes to Financial Statements

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

STATEMENT OF ACTIVITIES

	Year ended June 30, 2007	Period from March 15, 2005 (date of inception) to June 30, 2006
Operating revenue:		
State and local per pupil operating revenue	\$4,291,802	\$ 2,187,382
Government grants and contracts	510,760	638,323
Total operating revenue	4,802,562	2,825,705
Expenses:		
Program services	4,112,570	2,401,152
Management and general	573,020	420,192
Total operating expenses	4,685,590	2,821,344
Revenue from school operations	116,972	4,361
Contributions and other grants	26,200	458,611
Other income	40,363	5,891
Change in unrestricted net assets	183,535	468,863
Unrestricted net assets at beginning of period	468,863	
Unrestricted net assets at end of period	\$ 652,398	\$ 468,863

See Notes to Financial Statements

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2007

	Program Services	Management and General	Total
Salaries and wages	\$2,549,739	\$226,567	\$2,776,306
Payroll taxes and employee benefits	465,199	38,262	503,461
Accounting fees		18,500	18,500
After-school academic program	4,576		4,576
Classroom supplies and instructional materials	300,577		300,577
Furniture and equipment - noncapitalizable	18,230	1,381	19,611
Insurance	17,459	1,436	18,895
Interest and bank service charges	2,575	212	2,787
Management fee	120,170	223,173	343,343
Office expense	99,625	7,594	107,219
Parent activities	74		74
Postage and delivery	3,958	990	4,948
Printing and photocopying	18,819	4,705	23,524
Building permit fees	58,402	4,803	63,205
Special education contracted services	92,746		92,746
Staff professional development	35,548		35,548
Student field trips and incentive programs	55,196		55,196
Student food services	35,815		35,815
Student transportation	59,658		59,658
Student uniforms	4,191		4,191
Technology infrastructure and software	2,132	175	2,307
Telephone and Internet	24,916	2,049	26,965
Bad debts		31,414	31,414
Depreciation and amortization	142,965	11,759	154,724
Total expenses	\$4,112,570	\$573,020	\$4,685,590

See Notes to Financial Statements

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

Period from March 15, 2005 (date of inception) to June 30, 2006

	Program Services	Management and General	Total
Salaries and wages	\$1,309,588	\$135,126	\$1,444,714
Payroll taxes and employee benefits	226,774	25,160	251,934
Accounting fees		11,500	11,500
After-school academic program	7,881		7,881
Classroom supplies and instructional materials	339,362		339,362
Furniture and equipment - noncapitalizable	64,815	1,373	66,188
Insurance	18,363	1,790	20,153
Interest and bank service charges		8,254	8,254
Legal		52,626	52,626
Management fee	68,993	128,131	197,124
Office expense	10,379	29,226	39,605
Parent activities	983		983
Postage and delivery	2,159	211	2,370
Printing and photocopying	14,987	1,461	16,448
Building permit fees	49,966	4,872	54,838
Repairs and maintenance	11,625	1,133	12,758
Special education contracted services	71,994		71,994
Staff professional development	7,449	8,633	16,082
Student field trips and incentive programs	28,973		28,973
Student food services	16,081		16,081
Student transportation	20,975		20,975
Student uniforms	20,110		20,110
Technology infrastructure and software	6,582	642	7,224
Telephone and Internet	23,574	2,299	25,873
Depreciation and amortization	79,539	7,755	87,294
Total expenses	\$2,401,152	\$420,192	\$2,821,344

See Notes to Financial Statements

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

STATEMENT OF CASH FLOWS

	Year ended June 30, 2007	Period from March 15, 2005 (date of inception) to June 30, 2006
Cash flows from operating activities:		
Change in unrestricted net assets	\$ 183,535	\$ 468,863
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	154,724	87,294
Bad debts provision	31,414	
Changes in operating assets and liabilities:		
Increase in grants and contracts receivable	(293,353)	(179,953)
Increase in prepaid expenses and other assets	(12,558)	(22,519)
Increase in accounts payable and accrued expenses	275,690	258,317
Increase in refundable advance from state and local government grant	35,000	
Increase in other liabilities	43,122	36,542
Net cash provided by operating activities	417,574	648,544
Cash used in investing activity - purchases of property and equipment	(269,992)	(270,961)
Net increase in cash and cash equivalents	147,582	377,583
Cash and cash equivalents at beginning of period	377,583	
Cash and cash equivalents at end of period	\$ 525,165	\$ 377,583
 Supplemental schedule of noncash investing activity:		
Purchase of equipment included in accounts payable and accrued expenses	\$ 3,238	\$ 73,392

See Notes to Financial Statements

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

**1. PRINCIPAL
BUSINESS
ACTIVITY AND
SUMMARY OF
SIGNIFICANT
ACCOUNTING
POLICIES:**

Achievement First Crown Heights Charter School (the "School") is an educational corporation that operates in the borough of Brooklyn and county of Kings, New York. On March 15, 2005, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

During the period from March 15, 2005 (date of inception) to June 30, 2005, the School was dormant and had no revenue and expense activities. Any school-related start-up activities were being handled by Achievement First, Inc. ("Achievement First"), a related party.

The School's mission is 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.

In fiscal year 2007, the School operated classes for students in kindergarten and grades 1, 2, 5 and 6, and for fiscal 2006, kindergarten and grades 1 and 5.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The School reports amounts received with donor stipulations that limit the use of the assets for certain purposes as unrestricted net assets if the stipulated purpose restriction is accomplished in the same year. Contributions of assets other than cash are recorded at their estimated fair value.

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 recognized 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.

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

The School recognizes contributed services in accordance with Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*. Accordingly, contributed services are recognized as revenue and assets or expenses at fair value if those services (a) create or enhance nonfinancial assets, (b) would typically need to be purchased by the School if they had not been provided by contribution or (c) require specialized skills and are provided by individuals with those skills. During the period March 15, 2005 (date of inception) to June 30, 2006, the School recognized contributed services amounting to \$249,151 of which \$197,124 was provided by Achievement First, a related party.

A number of volunteers have made a contribution of their time to the School to develop its programs and to serve on the School's board of trustees. The value of this contributed time is not reflected in these financial statements.

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in these accounts.

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of two money market account balances, including \$25,219 in one money market account held aside for contingency purposes as required by the School's charter.

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$1,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is being provided for by the straight-line method over the shorter of the estimated useful life of the asset or term of the related facility shared-use agreement. Property and equipment acquired with certain government contract funds are recorded as expenses pursuant to the terms of the contract in which the government funding source retains ownership of the property.

Expenses are classified according to the functional categories for which they are incurred, as follows:

Program services - represents expenses directly associated with general education and special education for certain students requiring additional attention and guidance.

Management and general - represents expenses related to the overall administration and operation of the School that are not associated with any program services.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates.

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

2. **AGREEMENT FOR SCHOOL FACILITY:** The School has entered into a "Facility Shared Use Agreement" (the "Agreement") with the New York City Department of Education for dedicated and shared space at PS 391, a New York City public school located at 790 East New York Avenue, Brooklyn, New York. The Agreement commenced on July 1, 2005 at a cost of \$1 per year and expires in June 2010. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours.

3. **PROPERTY AND EQUIPMENT, NET:** Property and equipment, net, at cost, consists of the following:

June 30,	2007	2006	Estimated Useful Life
Furniture and fixtures	\$116,740	\$ 67,382	3 to 5 years
Computer hardware and software	330,650	222,741	3 years
Instruments and other equipment	91,429	44,300	3 to 5 years
Site improvements	78,764	9,930	3 to 4 years
	617,583	344,353	
Less accumulated depreciation and amortization	242,018	87,294	
	\$375,565	\$257,059	

Computer hardware and software includes software licenses acquired in the amount of \$113,832 under an installment purchase agreement. As of June 30, 2007 and 2006, the School owes \$36,696 and \$73,392, respectively, under this installment purchase agreement. This outstanding balance has been included in accounts payable and accrued expenses in the accompanying statement of financial position.

Instruments and other equipment include telephone equipment acquired in the amount of \$43,009 with related accumulated depreciation of \$10,752 as of June 30, 2007. A portion of the total cost of telephone equipment amounting to \$10,000 was financed with a leasing company with monthly payments of principal and interest amounting to \$833 due over a 13-month period. This financing transaction has been accounted for as a capital lease with a remaining balance of \$3,238 included in accounts payable and accrued expenses in the 2007 accompanying statement of financial position.

4. **GRANTS AND CONTRACTS RECEIVABLE:** Grants and contracts receivable represent balances due on grants and contracts with certain federal, state and local government agencies for services rendered and qualifying expenditures incurred in connection with the School's operation. The School expects to collect these receivables within one year.

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

- 5. RELATED PARTY TRANSACTIONS:** Achievement First, a not-for-profit organization dedicated to helping run charter schools, provides management and other administrative support services to the School. One of the six members of the School's Board of Trustees is a representative of Achievement First.

Pursuant to the terms of the Academic and Business Services Agreement by and between Achievement First and the School, dated September 21, 2005 and expiring on June 30, 2010, the School shall pay Achievement First a service fee equivalent to 8% of the average number of students enrolled during the school year then ending times the approved per pupil operating expense for the upcoming year. For the period from March 15, 2005 (date of inception) to June 30, 2006, Achievement First waived its service fees valued at \$197,124, which met the criteria for recognition under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. The School recognized such donated services as contributions and management fees in the 2006 financial statements.

Pursuant to a board resolution dated November 13, 2006, the annual service fee was modified to 8% of the current-year enrollment to be paid by the School to Achievement First on a quarterly basis. Accordingly, the School recognized management fees to Achievement First of \$343,343 for the year ended June 30, 2007.

During fiscal year 2006, the School received \$230,000 from a donor, of which \$33,000 will be passed on to Achievement First pursuant to an agreement made with the donor, for expenditures related to start-up activities funded on behalf of the School. Such amount has been reflected in other liabilities in the 2006 accompanying statement of financial position. The School paid the amount of \$33,000 to Achievement First during fiscal 2007.

- 6. COMMITMENTS AND CONTINGENCY:** The School leases office equipment under noncancelable operating leases expiring through September 2009. Equipment rental expense charged to operations amounted to approximately \$25,000 for the year ended June 30, 2007 and \$16,000 during the period from March 15, 2005 (date of inception) to June 30, 2006.

The future minimum payments under these leases are as follows:

Year ending June 30,	
2008	\$26,087
2009	10,156
2010	1,693
	<hr/>
	\$37,936

ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that any cost disallowances will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

- 7. BANK CREDIT FACILITY:** The School entered into an agreement with a bank whereby it was permitted to borrow up to a maximum of \$200,000 under a line of credit facility for working capital purposes. Interest was payable on any outstanding balance at the bank's prime rate plus 1%. There was no outstanding balance on the line of credit at June 30, 2006. The agreement expired on November 30, 2006 and was not renewed.

- 8. EMPLOYEE BENEFIT PLAN:** In fiscal year 2007, the School has executed a deferred compensation plan qualified under Section 403 (b) of the Internal Revenue Code. The School matches up to 4% of each employee's annual salary not to exceed \$2,500. For the year ended June 30, 2007, the employer matching contributions to the Plan and accrued for in the accompanying financial statements amounted to approximately \$47,000.



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

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

The Board of Trustees
Achievement First Crown Heights Charter School

We have audited the financial statements of Achievement First Crown Heights Charter School (the "School") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide an opinion on 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 a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

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.

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 over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or 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 the management of the School in a separate letter dated October 12, 2007.

This report is intended solely for the information and use of the audit committee, board of trustees, management, the New York State Department of Education 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.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

October 12, 2007