

**ACHIEVEMENT FIRST EAST NEW YORK
CHARTER SCHOOL**

FINANCIAL STATEMENTS

JUNE 30, 2007

ACHIEVEMENT FIRST EAST NEW YORK 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 East New York Charter School

We have audited the accompanying statements of financial position of Achievement First East New York 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, 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 EAST NEW YORK CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30,	2007	2006
ASSETS		
Cash and Cash Equivalents	\$550,333	\$281,732
Grants and Contracts Receivable	139,034	152,375
Prepaid Expenses and Other Assets	19,678	19,670
Property and Equipment, net	185,922	171,650
Total Assets	\$894,967	\$625,427
LIABILITIES AND UNRESTRICTED NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$366,599	\$266,736
Refundable advance from state and local government grants	35,000	
Other liabilities	23,452	96,547
Total liabilities	425,051	363,283
Commitments and Contingency		
Unrestricted Net Assets	469,916	262,144
Total Liabilities and Unrestricted Net Assets	\$894,967	\$625,427

See Notes to Financial Statements

ACHIEVEMENT FIRST EAST NEW YORK 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	\$2,532,177	\$1,461,352
Government grants and contracts	398,113	551,164
Total operating revenue	2,930,290	2,012,516
Expenses:		
Program services	2,338,254	1,737,344
Management and general	405,781	344,556
Total operating expenses	2,744,035	2,081,900
School operating surplus (deficit)	186,255	(69,384)
Contributions and other grants	4,000	327,613
Other income	17,517	3,915
Change in unrestricted net assets	207,772	262,144
Unrestricted net assets at beginning of period	262,144	
Unrestricted net assets at end of period	\$ 469,916	\$ 262,144

See Notes to Financial Statements

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2007

	Program Services	Management and General	Total
Salaries and wages	\$1,451,143	\$154,093	\$1,605,236
Payroll taxes and employee benefits	296,481	30,028	326,509
Accounting fees		18,500	18,500
After-school academic program	1,250		1,250
Classroom supplies and instructional materials	179,475		179,475
Furniture and equipment - noncapitalizable	10,626	1,076	11,702
Insurance	12,579	1,274	13,853
Interest and bank service charges	1,591	161	1,752
Management fee	70,901	131,673	202,574
Office expense	32,173	2,580	34,753
Parent activities	310		310
Postage and delivery	1,163	291	1,454
Printing and photocopying	16,544	4,136	20,680
Building permit fees	27,999	2,836	30,835
Repairs and maintenance	305	31	336
Special education contracted services	55,753		55,753
Staff professional development	9,365		9,365
Student field trips and incentive programs	9,216		9,216
Student food services	18,348		18,348
Student transportation	28,125		28,125
Student uniforms	649		649
Technology infrastructure and software	2,519	255	2,774
Telephone and Internet	14,480	1,467	15,947
Bad debts		47,529	47,529
Depreciation and amortization	97,259	9,851	107,110
Total expenses	\$2,338,254	\$405,781	\$2,744,035

See Notes to Financial Statements

ACHIEVEMENT FIRST EAST NEW YORK 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	\$ 956,216	\$108,951	\$1,065,167
Payroll taxes and employee benefits	166,648	21,786	188,434
Accounting fees		11,500	11,500
After-school academic program	8,565		8,565
Classroom supplies and instructional materials	237,078		237,078
Furniture and equipment - noncapitalizable	56,056	1,540	57,596
Insurance	10,466	1,192	11,658
Interest and bank service charges		11,138	11,138
Legal		60,018	60,018
Management fee	46,417	86,203	132,620
Office expense	9,836	16,665	26,501
Parent activities	331		331
Postage and delivery	841	95	936
Printing and photocopying	10,937	1,246	12,183
Building permit fees	30,614	3,488	34,102
Repairs and maintenance	8,329	949	9,278
Special education contracted services	48,794		48,794
Staff professional development	8,527	7,303	15,830
Student field trips and incentive programs	2,617		2,617
Student food services	9,928		9,928
Student transportation	19,500		19,500
Student uniforms	11,994		11,994
Technology infrastructure and software	8,835	2,818	11,653
Telephone and Internet	16,361	1,864	18,225
Depreciation and amortization	68,454	7,800	76,254
Total expenses	\$1,737,344	\$344,556	\$2,081,900

See Notes to Financial Statements

ACHIEVEMENT FIRST EAST NEW YORK 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	\$ 207,772	\$ 262,144
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	107,110	76,254
Bad debts provision	47,529	
Changes in operating assets and liabilities:		
Increase in grants and contracts receivable	(34,188)	(152,375)
Increase in prepaid expenses and other assets	(8)	(19,670)
Increase in accounts payable and accrued expenses	97,430	193,344
Increase in refundable advance from state and local government grant	35,000	
(Decrease) increase in other liabilities	(73,095)	96,547
Net cash provided by operating activities	387,550	456,244
Cash used in investing activity - purchases of property and equipment	(118,949)	(174,512)
Net increase in cash and cash equivalents	268,601	281,732
Cash and cash equivalents at beginning of period	281,732	
Cash and cash equivalents at end of period	\$ 550,333	\$ 281,732

Supplemental schedule of noncash investing activity:

Purchase of equipment included in accounts payable and accrued expenses	\$ 2,433	\$ 73,392
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See Notes to Financial Statements

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Achievement First East New York Charter School (the "School") is an educational corporation that commenced operating as a charter school 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 focused 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, first and second grades, and in 2006 in kindergarten and first grade.

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 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.

ACHIEVEMENT FIRST EAST NEW YORK 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 from March 15, 2005 (date of inception) to June 30, 2006, the School recognized contributed services amounting to \$192,113 of which \$132,620 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 has not been recorded in the 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 \$25,208 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 site 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 is 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 were 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 administration and overall 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 those estimates.

ACHIEVEMENT FIRST EAST NEW YORK 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 P.S. 13, a New York City public school located at 557 Pennsylvania 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	\$ 53,717	\$ 36,372	5 years
Computer hardware and software	268,517	201,838	3 years
Office equipment	37,027	9,694	3 years
Site improvements	10,025		3-4 years
	369,286	247,904	
Less accumulated depreciation and amortization	183,364	76,254	
	\$185,922	\$171,650	

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. Such amounts have been included in accounts payable and accrued expenses in the accompanying statement of financial position.

Office equipment includes telephone equipment acquired in the amount of \$22,365 with related accumulated depreciation of \$6,212 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 \$2,433 included in accounts payable and accrued expenses in the accompanying 2007 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 EAST NEW YORK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

5. RELATED PARTY TRANSACTIONS:

Achievement First, a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the School. One of the eight 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 28, 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 \$132,620, 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 \$202,574 for the year ended June 30, 2007.

One of the employees of Achievement First Bushwick Charter School, a charter school under the Achievement First network of schools, provided special education services to certain students of the School. A total of \$24,808 was paid by the School to Achievement First Bushwick Charter School for that individual's services during the year ended June 30, 2007.

During fiscal year 2006, the School received \$230,000 from a donor, of which \$94,500 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 accompanying 2006 statement of financial position. The School paid \$94,500 to Achievement First during fiscal 2007.

6. COMMITMENTS AND CONTINGENCY:

The School leases office equipment under noncancelable operating lease agreements expiring through July 2009. Equipment rental expense charged to operations amounted to approximately \$25,000 for the year ended June 30, 2007 and \$12,000 for 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	\$26,064
2009	14,133
2010	846
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	\$41,043

ACHIEVEMENT FIRST EAST NEW YORK 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 disallowance will not have a material effect in 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 \$25,000.



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 East New York Charter School

We have audited the financial statements of Achievement First East New York 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