ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2007

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accountants & advisors

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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, 2007, and the related statements of activities, functional expenses and cash flows for the period from January 10, 2006 (date of inception) to June 30, 2007. 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.

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, 2007 and the changes in its net assets and its cash flows for the period from January 10, 2006 (date of inception) to June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 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.

ERE LLP

New York, NY
September 20, 2007

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30, 2007

Assets:		
Cash	$	48,785
Contribution and other receivables		210,239
Prepaid expenses and other assets		12,271
Lease acquisition costs		1,258,233
Property and equipment, net		122,291
Total Assets	**$**	**1,651,819**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$	245,853
Facility loan		889,638
Line of credit		50,000
Other liabilities		4,995
Total Liabilities		1,190,486
Unrestricted net assets		461,333
Total Liabilities and Net Assets	**$**	**1,651,819**

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

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Period from January 10, 2006 (date of inception) to June 30, 2007

Operating revenue:	
State and local per pupil operating revenue	$ 846,982
Federal, state and local grants	605,579
Student Meal Fees	5,038
Total operating revenue	1,457,599
Expenses:	
Program services	1,058,579
Management and general	234,304
Total operating expenses	1,292,883
Surplus from school operations	164,716
Contributions:	
Foundation grants	240,000
Corporate grants	50,000
Individual grants	5,000
Interest income	967
Other income	650
Change in net assets	461,333
Net assets – unrestricted – beginning of year	-
Net assets – unrestricted – end of year	**$ 461,333**

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

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

Period from January 10, 2006 (date of inception) to June 30, 2007

	Program Services	Management and General	Total
Salaries and wages	$ 599,227	$ 129,887	$ 729,114
Payroll taxes and employee benefits	119,313	23,405	142,718
Accounting fees	-	10,000	10,000
After-school academic program	6,210	-	6,210
Classroom supplies and instructional materials	110,452	-	110,452
Furnitures and fixutres - non-capitalizable	5,793	1,136	6,929
Insurance	4,313	846	5,159
Interest and bank service charge	3,135	1,297	4,432
Legal	-	2,588	2,588
Management fees	23,715	44,043	67,758
Office expense	27,202	4,936	32,138
Parent activities	667	-	667
Postage and delivery	1,700	425	2,125
Printing and photocopying	10,848	2,712	13,560
Rent - building permit fees	18,970	3,721	22,691
Repairs and maintenance	1,603	314	1,917
Special education contracted services	22,513	-	22,513
Staff professional development	3,459	-	3,459
Student field trips and incentive programs	23,151	-	23,151
Student food services	9,504	-	9,504
Student transportation	16,957	-	16,957
Student uniforms	519	-	519
Technology infrastructure and software	11,044	2,166	13,210
Telephone and internet	6,735	1,322	8,057
Depreciation and amortization	28,069	5,506	33,575
Bad debt expense	3,480	-	3,480
Total expenses	**$ 1,058,579**	**$ 234,304**	**$ 1,292,883**

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

ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL

STATEMENT OF CASH FLOWS

Period from January 10, 2006 (date of inception) to June 30, 2007

Cash flows from operating activities:	
Change in net assets	$ 461,333
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	33,575
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Increase in contribution and other receivables	(210,239)
Increase in prepaid expenses and other assets	(12,271)
Increase (decrease) in liabilities:	
Increase in accounts payable and accrued expenses	245,853
Increase in other liabilities	4,995
Net cash provided by operating activities	523,246
Cash flows from investing activities:	
Purchase of property and equipment	(155,866)
Payments on the lease acquisition costs	(1,258,233)
Net cash used in investing activities	(1,414,099)
Cash flows from financing activities	
Proceeds from line of credit	100,000
Principal payments on line of credit	(50,000)
Proceeds from the facility loan	1,100,000
Principal payments on the facility loan	(210,362)
Net cash provided by financing activities	939,638
Net increase in cash	48,785
Cash - beginning of year	-
Cash - end of year	**$ 48,785**

Supplementary information:

Cash paid for interest	**$ 30,691**
Cash paid for 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 pending a tax-exempt status under Section 501(c) (3) of the Internal Revenue Code. Today the School serves students from low income households in Brooklyn, New York.

The School is pending a tax-exempt status under 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Because the School is newly created, the final determination will not be made until the end of the advanced ruling period.

During the period from January 10, 2006 to June 30, 2006, the School was dormant and had no revenue and expense activities. Any school-related start-up activities were being handled directly by Achievement First, Inc. ("Achievement First"), a related party.

In fiscal year 2007, the School operated classes for students in fifth grade.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

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

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.

Contribution and Other Receivables
Contribution and other receivables represent unconditional promises to give. At June 30, 2007, the School had $210,239 of contribution and other receivables that are expected to be collected within one year and recorded at net realizable value. The School has determined that no allowance for uncollectible accounts for contribution receivable is necessary as of June 30, 2007. 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.

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.

Revenue Recognition
Government grants are recognized as revenue to the extent of expenditures or based on the achievement of performance milestones. Revenue recognition depends on the contract. The disbursements received from government agencies are subject to audit by those agencies. The government agencies may request return of funds as a result of noncompliance by the School with the terms of the grants/contracts. Other grants and contributions are recognized as revenue when they are received or unconditionally pledged.

Functional Allocation of Expenses
Expenses that can 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.

3. AGREEMENT FOR SCHOOL FACILITY: The School has entered into a "Facility Share Use Agreement" (the "Agreement") with the New York City Department of Education for dedicated and shared space at P.S. 157, a New York City public school located at 800 Kent Street, Brooklyn, New York. The Agreement commenced on July 1, 2006 at a cost of $1 per year and expires on June 30, 2009. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. As of June 30, 2007, the School incurred overtime permit fees of $22,691, which is included in the accompanying statement of functional expenses

4. RELATED PARTY TRANSACTIONS:

The School entered into an Academic and Business Services Agreement (the "Agreement") with Achievement First, a not-for-profit organization dedicated to helping start and run charter schools. This Agreement provides management and other administrative support services to the School. Pursuant to the terms of the Agreement, the School shall pay a service fee equivalent to 8% of the average number of students enrolled during the school year, times the approved per pupil operating expense for the upcoming year. The initial term of this Agreement is for 5 years ending on June 30, 2011. As of June 30, 2007, the School incurred management fees of $67,758, which is included 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 sublease a building which is in the process of being constructed. In addition, the New York City Department of Education ("NYC DOE") through the New York State Construction Authority ("NYSCA") has agreed to help finance the development and construction of the building, provided that the Civic Builders and the School collectively contribute 20% of the costs of the construction. As part of the leasing acquisition costs, the School is expected to pay 10% of the acquisition and construction costs of the building over the construction period which is expected to end in 2009. These costs are estimated to be approximately $4,000,000. Upon completion of the construction of the building, NYSCA will lease the building to Civic Builders for a thirty year term. Civic Builders will in turn sublease the building to the School for the same period, at an annual lease of $1 plus operation costs. Included in lease acquisition cost of $1,258,233 is capitalized interest of $47,819 as of June 30, 2007.

6. PROPERTY AND EQUIPMENT:

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

			Estimated Useful Life
Furniture and fixtures	$	12,600	5 years
Computers and hardware		17,253	3 years
Musical instruments		55,228	5 years
Equipment		46,557	3 years
Software		12,299	3 years
Leasehold improvements		11,929	5 years
		155,866	
Less: accumulated depreciation and amortization		(33,575)	
	$	122,291	

Depreciation expense for the year ended June 30, 2007 was $33,575.

7. FACILITY LOAN: In December 2006, the School entered into a loan agreement with Achievement First, Inc., its management company, for $1,100,000. The purpose of the loan was to finance the acquisition and construction costs of a new building (see Note 4 above). The loan has a maturity date of December 31, 2007 and bears non-compoundable interest at a rate of JP Morgan Chase Bank's prime (8.25%). As of June 30, 2007, the School had a facility loan payable of $889,638. Interest expense for the year ended June 30, 2007 amounted to $47,819, of which the entire amount has been capitalized (see Note 3 above).

8. LINE OF CREDIT: The School has a revolving line of credit agreement with Bank of America in which it can borrow up to $200,000. The line of credit carries an interest rate of prime plus one percent (9.25%) and is secured by the School's equipment and receivables. As of June 30, 2007, the School had an outstanding balance of $50,000. The balance was subsequently paid off in full before September 20, 2007. Total interest expense as of June 30, 2007 was $4,432 and is included in debt service and bank service charge in the accompanying statement of functional expenses.

9. COMMITMENTS AND CONTINGENCIES: The Organization leases telecommunication equipment and copiers under a non-cancelable operating lease which will expire in 2009. Future minimum lease payments are as follows:

June 30,		
2008	$	27,094
2009		27,094
2010		6,218
Total	$	60,406

10. 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. As of June 30, 2007, pension expense for the School is $14,900, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

11. 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.

12. CONCENTRATIONS: The School received approximately 48% of its total revenue from per pupil funding from New York City Department of Education.

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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, 2007, and have issued our report thereon dated September 20, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identity any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School in a separate letter dated September 20, 2007.

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
September 20, 2007