

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2009

(With Comparative Totals for 2008)

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL
TABLE OF CONTENTS
June 30, 2009

	Page
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12-13

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Achievement First East New York Charter School

We have audited the accompanying statement of financial position of Achievement First East New York Charter School (the "School") as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year ended June 30, 2009. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2008 financial statements and, in our report dated October 16, 2008, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Achievement First East New York Charter School as of June 30, 2009 and the changes in its net assets and its cash flows for the year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2009 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ERE LLP

New York, NY
October 23, 2009

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30,	2009	2008
Assets:		
Cash and cash equivalents	\$ 1,680,364	\$ 856,180
Grants and other receivables	251,108	295,788
Prepaid expenses and other assets	20,671	-
Due from Achievement First, Inc.	295	17,802
Property and equipment, net	226,501	142,467
Total Assets	\$ 2,178,939	\$ 1,312,237
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	\$ 107,262	\$ 116,794
Accrued salary and other payroll related expenses	224,182	295,134
Long term lease obligation	-	3,465
Total Liabilities	331,444	415,393
Net assets		
Unrestricted		
Operating	1,114,814	896,844
Board-designated reserve	732,681	-
Total Net Assets	1,847,495	896,844
Total Liabilities and Net Assets	\$ 2,178,939	\$ 1,312,237

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

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

STATEMENT OF ACTIVITIES

**For the Year Ended June 30, 2009
(with comparative totals for 2008)**

	2009	2008
Operating revenue:		
State and local per pupil operating revenue	\$ 5,200,559	\$ 3,617,516
Government grants and contracts	463,154	538,009
Student meal fees	1,979	4,684
Total operating revenue	5,665,692	4,160,209
Expenses:		
Program services	4,217,391	3,328,288
Management and general	511,254	408,841
Fundraising	41,682	29,064
Total operating expenses	4,770,327	3,766,193
Surplus from school operations	895,365	394,016
Support and other income:		
Contributions and other grants	-	10,000
Other income	55,286	25,879
Total support and other income	55,286	35,879
Change in net assets	950,651	429,895
Net assets - unrestricted – beginning of year	896,844	466,949
Net assets - unrestricted – end of year	\$ 1,847,495	\$ 896,844

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

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2009 (with comparative totals for 2008)

	Program Services	Management and General	Fund Raising	2009	2008
Salaries and wages	\$ 2,721,608	\$ 313,195	\$ -	\$ 3,034,803	\$ 2,307,957
Payroll taxes and employee benefits	499,248	57,452	-	556,700	434,331
Accounting fees	-	20,541	-	20,541	17,858
After-school academic program	138	-	-	138	-
Classroom supplies and instructional materials	233,342	-	-	233,342	223,916
Furniture and fixtures - non-capitalizable	1,709	8,568	-	10,277	10,344
Insurance	14,578	1,678	-	16,256	20,764
Bank service charge	-	87	-	87	1,455
Legal	-	-	-	-	356
Management fees	320,948	54,186	41,682	416,816	290,632
Office expense	103,732	27,427	-	131,159	91,867
Parent activities	1,726	-	-	1,726	30
Postage and delivery	1,583	396	-	1,979	2,831
Printing and photocopying	16,731	4,184	-	20,915	27,105
Rent - building permit fees	50	6	-	56	18,680
Repairs and maintenance	4,293	494	-	4,787	2,926
Staff professional development	27,774	-	-	27,774	8,258
Student field trips and incentive programs	20,641	-	-	20,641	13,412
Student food services	10,889	-	-	10,889	21,503
Student transportation	38,250	-	-	38,250	30,000
Technology infrastructure and software	3,908	123	-	4,031	15,581
Telephone and internet	89,802	10,334	-	100,136	79,598
Depreciation and amortization	106,441	12,249	-	118,690	134,571
Bad debt expense	-	334	-	334	12,218
Total expenses	\$ 4,217,391	\$ 511,254	\$ 41,682	\$ 4,770,327	\$ 3,766,193

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

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

STATEMENT OF CASH FLOWS

For the Year Ended June 30,	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 950,651	\$ 429,895
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	118,690	134,571
Bad debt expense	334	12,218
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Grants and other receivables	44,346	(165,269)
Prepaid expenses and other assets	(20,671)	10,725
Due from Achievement First, Inc.	17,507	(12,552)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(9,532)	(70,732)
Accrued salary and other payroll related expenses	(70,952)	93,771
Net cash provided by operating activities	1,030,373	432,627
Cash flows from investing activities:		
Purchase of property and equipment	(202,724)	(91,117)
Payments on long term lease obligation	(3,465)	(35,663)
Net cash used in investing activities	(206,189)	(126,780)
Net increase in cash and cash equivalents	824,184	305,847
Cash and cash equivalents - beginning of year	856,180	550,333
Cash and cash equivalents - end of year	\$ 1,680,364	\$ 856,180

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:

Interest	\$	-	\$	-
Income taxes	\$	-	\$	-

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

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2009

1. NATURE OF THE ORGANIZATION:

Achievement First East New York 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 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. Today the School serves students from low income households in Brooklyn, New York.

In fiscal year 2009, the School operated classes for students in kindergarten to fourth grade.

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 is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

During the fiscal year ended June 30, 2009, the Board of Trustees enacted a Board Designated Reserve Policy in which unrestricted net assets is set aside to be used only with the approval of the Board. The reserve is calculated by netting the prior year's

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2009

current assets against the prior year's current liabilities and reducing that difference by any assets whose use is contractually limited.

Cash and Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of one checking and one saving account and an escrow account, including \$25,310 in escrow account held aside for contingency purposes as required by the School's charter.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give. Grants and other receivables that are expected to be collected within one year and recorded at net realizable value are \$251,108 and \$295,788 for the fiscal years ended June 30, 2009 and June 30, 2008, respectively. The School has determined that no allowance for uncollectible accounts for contribution receivable is necessary as of June 30, 2009. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

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

Property and Equipment

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

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2009.

Planned Maintenance

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

Revenue Recognition

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

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2009

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 have been allocated by function among program and supporting service classifications using bases determined by management to be reasonable.

Use of Estimates

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

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through October 23, 2009. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

Comparative Financial Information

The June 30, 2009 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2008 are presented. As a result, the June 30, 2008 comparative information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such June 30, 2008 information should be read in conjunction with the School's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

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

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

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2009

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

With few exceptions, the School is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for fiscal years before 2006.

- 3. AGREEMENT FOR SCHOOL FACILITY:** The School has entered into a verbal 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. The New York City Department of Education is in the process of revising written facility use agreements and is expected to issue one for the School during the next fiscal year. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the fiscal years ended June 30, 2009 and June 30, 2008, the School incurred overtime permit fees of \$56 and \$18,680, 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., 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, 2010. For the fiscal years ended June 30, 2009 and June 30, 2008, the School incurred management fees of \$416,816 and \$290,632, which is included in the accompanying statement of functional expenses.

For the fiscal years ended June 30, 2009 and June 30, 2008 the amount due from Achievement First, Inc. was \$295 and \$17,802, respectively.

- 5. PROPERTY AND EQUIPMENT:** Property and equipment consist of the following as of June 30:

	2009	2008	Estimated Useful Lives
Furniture and fixtures	\$ 112,177	\$ 72,090	5 years
Computer hardware and software	441,868	335,901	3 years
Office equipment	50,521	42,385	3 years
Leasehold improvements	58,560	10,025	3-4 years
	<u>663,126</u>	<u>460,401</u>	
Less: accumulated depreciation and amortization	(436,625)	(317,934)	
	<u>\$ 226,501</u>	<u>\$ 142,467</u>	

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2009

Depreciation and amortization expense for the years ended June 30, 2009 and June 30, 2008 was \$118,690 and \$134,571, respectively.

- 6. LINE OF CREDIT:** The School entered into an agreement with a bank whereby it is permitted to borrow up to \$50,000 under a line of credit facility for working capital purposes. The agreement expires January 20, 2010, but is expected to be renewed on an annual basis. Interest is payable on any outstanding balance at the bank's prime rate plus one (4.25%) as of June 30, 2009. There was no outstanding balance on the line of credit at June 30, 2009 and October 23, 2009.

- 7. COMMITMENTS AND CONTINGENCIES:** The School leases office equipment under non-cancelable operating lease agreement expiring August, 2013. The future minimum payments are as follows:

June 30,	
2010	\$ 9,032
2011	9,032
2012	9,032
2013	9,032
2014	1,505
Total	\$ 37,633

- 8. PENSION PLAN:** Effective September 1, 2006, the School adopted a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the plan either the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 4% of an employee's salary, up to a maximum match of \$2,500 per year per employee. The School contribution does not become vested until its third year when it becomes fully vested. For the fiscal years ended June 30, 2009 and June 30, 2008, pension expense for the School is \$60,656 and \$49,575, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

- 9. 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, as well as additional funds for the use of facilities. 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.

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

- 10. CONCENTRATION:**
- 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 \$1,430,000 as of June 30, 2009. The FDIC has temporarily increased the limit to \$250,000 through December 31, 2013. The School's bank participates in the FDIC's Transaction Account Guarantee Program, in which 100% of all funds kept in non-interest bearing checking accounts are provided full coverage. The School's board agreed to move all but \$250,000 of the school's funds to the checking account in order to take advantage of this coverage. This unlimited insurance coverage is temporary and will remain in effect for participating institutions until December 31, 2009.
 - B. The School received approximately 91% of its total revenue from per pupil funding from New York City Department of Education.
 - C. The School's grants and other receivables exclusively consist of two major grantors.

**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 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, 2009, and have issued our report thereon dated October 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the School in a separate letter dated October 23, 2009.

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



New York, NY
October 23, 2009

To the Board of Trustees
Achievement First East New York Charter School

In planning and performing our audit of the financial statements of Achievement First East New York Charter School (the "School") as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Achievement First East New York Charter School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

- Property and equipment that was purchased prior fiscal years with Department of Youth and Community Development (DYCD) funds was not properly tagged.

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

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

This communication is intended solely for the information and use of 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 23, 2009

Achievement First East New York Charter School
Communication With Those Charged With Governance

OCTOBER 26, 2009



October 26, 2009

To the Audit Committee
Achievement First East New York Charter School

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

REQUIRED COMMUNICATIONS

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

As stated in our engagement letter May 27, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Achievement First East New York Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 25, 2009.

C. Auditor Independence:

We affirm that ERE LLP is independent with respect to Achievement First East New York 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 East New York Charter School are described in Note 2 to

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

E. Accounting Estimates Used in the Financial Statements:

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

Allowance for Doubtful Accounts:

As of June 30, 2009, Achievement First East New York Charter School recorded grants and other receivables of \$251,108. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's grantors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the Senior Director of Finance and an analysis of the nature of the receivables, we concur with management's conclusion that even though there were no subsequent collections on receivables as of October 23, 2009, credit-worthiness of grantors indicate that the receivables will be collected in the full amount.

Depreciation:

Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

E-rate Receivable:

Management's estimate of e-rate receivable is based on a calculation which allows 90% of qualified costs to be reimbursed from the Federal Government via the Universal Service Administrative Company. We evaluated the qualified cost and the calculation used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Functional Statement Allocation:

Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Related Party Transactions in Note 4 to the financial statements which describes the management agreement with Achievement First, Inc.

The disclosure of Risk Management in Note 9 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 9 audit adjustments (including 4 reclassifying entries) that decreased net assets by approximately \$12,000. Last year there were 12 audit adjustments that decreased net assets by approximately \$79,000. This year's most significant adjustments were as follows:

1. To record approximately \$31,000 of New York State Textbook Law (NYSTL) in-kind grant, this had no effect on net assets.
2. To decrease net assets by approximately \$11,000 to adjust accrual for 403b match.
3. To decrease net assets by approximately \$5,000 to correct special education per pupil funding.
4. To increase net assets by approximately \$4,000 to adjust accrual for attendance bonus.

Proposed and Uncorrected:

There was 1 audit adjustment that would have increased net assets by approximately \$189,000:

1. To increase net assets by approximately \$189,000 to reverse the July 2009 teachers' payroll accrual.

H. Audit Difficulties and Disagreements with Management:

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

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

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 23, 2009.

J. Management Consultations with Other Independent Accountants:

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

K. Other Audit Findings or Issues:

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

OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR ENHANCING OPERATING EFFICIENCY

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

Credit Cards:

Our audit of credit card charges revealed the following:

- * The company credit card has a credit line of \$20,000 and an aggregate cash advance line of \$10,000. These high lines may expose the School to potential risks. Accordingly, we recommend that management consider reducing the credit line and eliminating the cash advance feature.
- There was an instance of a \$270 transaction with Delta Education that was not recorded in Quickbooks. We recommend that all credit card transactions are accurately recorded in a timely manner.

***E-Rate Receivable:**

During the audit, we noted that the E-Rate funds from prior year was collected by Achievement First, Inc. but not forwarded to Achievement First East New York Charter School as of June 30, 2009. Even though this receivable was confirmed by Achievement First, Inc., we recommend all funds belonging to the school held by 3rd parties be transferred over to the school in a timely manner to avoid potential cash flow hardships.

***Write-offs:**

Through various conversations with the School's staff, there does not appear to be a formal written policy pertaining to the write-off of receivables. Accordingly, we recommend that the School adapt a written policy regarding the processing of write-off of receivables.

***Fixed Assets (See separate letter):**

Organizations that purchase fixed assets with Department of Youth and Community Development (DYCD) funding are required to properly tag those assets. As of the date of this letter, the School has not tagged those fixed assets. Accordingly, we recommend that the School not only adhere to this mandate, but also tag all significant fixed assets.

***Payroll:**

U.S. Generally Accepted Accounting Principles ("US GAAP") limits only those expenditures that were incurred during the fiscal year to be accrued as of the fiscal year end. As of June 30, 2009, an accrual for the July 2009 teachers' salary has been recorded. We recommend that management consider reversing the accrual.

Review of Payroll:

During our testing we noted that procedures for periodic review and approval of payroll and changes to payroll did not exist. We recommend that a periodic review and approval process be implemented to provide for better control in this sensitive area. Some one other than the one

charged with the payroll function should approve all changes in employee's gross pay, indicated with appropriate sign-offs, and perform periodic reviews of payroll reports.

School Facility Lease Agreement:

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

***Laptops:**

School's policies and procedures require that each employee carrying a School's laptop should have a signed *Laptop Usage Agreement*. We noted that 2 employees refused to sign the laptop usage agreements. Accordingly, we recommend that policies be implemented to ensure compliance with the School's established protocol.

Redesigned IRS Form 990:

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

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

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

Employers' Use of Employee Personal Information:

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

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

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

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

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of Achievement First East New York Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "ERE LLP". The letters are stylized and cursive.

ERE LLP



ACHIEVEMENT FIRST

AMISTAD ACADEMY · ELM CITY COLLEGE PREP · ACHIEVEMENT FIRST CROWN HEIGHTS CHARTER SCHOOL
ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL · ACHIEVEMENT FIRST ENDEAVOR CHARTER SCHOOL
ACHIEVEMENT FIRST BUSHWICK CHARTER SCHOOL · AMISTAD ACADEMY HIGH · ACHIEVEMENT FIRST BRIDGEPORT ACADEMY
ACHIEVEMENT FIRST BROWNSVILLE CHARTER SCHOOL · ACHIEVEMENT FIRST HARTFORD ACADEMY

October 23, 2009

To Whom It May Concern:

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

Findings from Prior Audits Corrected In FY 2009:

Conflict of Interest Policies

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

Whistle Blower Policies

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

Inventory of Fixed Assets

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

Use of Quickbooks Software

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

Cash Concentration in Uninsured Accounts:

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

Disaster Recovery Plan

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

CT 403 James Street New Haven CT 06513 T 203 773 3223 F 203 773 3221
NYC 1137 Herkimer Street Brooklyn NY 11233 T 718 774 0906 F 718 804 0131
www.achievementfirst.org



Findings In FY 2009:

Credit Cards

Management and the Board of Trustees will review the aggregate credit line for the school to decide if it needs to be lowered. In the matter of the cash advance line, we wish to note that we have repeatedly requested the credit card company to eliminate this line, but they have failed to do so. We note that the use of the cash advance is prohibited by our fiscal policies and has never been used by the school. We also concur that a transaction was not entered into the accounting system and will continue to work with staff to ensure that expenses are being entered properly.

E-Rate Receivable:

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

Write-offs:

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

Property and Equipment purchased with Government funds not Tagged

We agree that certain items purchased by the school with Department of Youth and Community Development funds were not tagged for inventory purposes as required by the funder. We believe, however, that this does not put the school at risk and does not present any possibility that there is any misstatement of the schools financial statements as a result. When the next inventory is performed those assets will be identified and tagged.

Payroll (July Salary Accrual)

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

Review of Payroll

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

School Facility Use Agreement

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

Laptop Use Agreements

As part of a larger review of personnel files and record-keeping practices we will ensure that all staff have signed laptop use agreements in their files. Any staff who refuse to sign the agreements will not be allowed to use laptops until such time as the agreements are signed.

IRS Form 990

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

Employers' Use of Personal Information

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