ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2008

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accountants & advisors

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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, 2008, and the related statements of activities, functional expenses and cash flows for the year ended June 30, 2008. 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 East New York Charter School as of June 30, 2008 and the changes in its net assets and its cash flows for the year ended June 30, 2008, 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 16, 2008 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 16, 2008

ACHIEVEMENT FIRST EAST NEW YORK CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30, 2008

Assets:	
Cash and cash equivalents	$ 856,180
Grants and other receivables	295,788
Due from Achievement First, Inc.	17,802
Property and equipment, net	142,467
Total Assets	**$ 1,312,237**
Liabilities and Net Assets:	
Liabilities:	
Accounts payable and accrued expenses	$ 116,794
Accrued salary and other payroll related expenses	295,134
Long term lease obligation	3,465
Total Liabilities	415,393
Net assets - unrestricted	896,844
Total Liabilities and Net Assets	**$ 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, 2008

Operating revenue:	
State and local per pupil operating revenue	$ 3,617,516
Government grants and contracts	538,009
Student meal fees	4,684
Total operating revenue	4,160,209
Expenses:	
Program services	3,328,288
Management and general	408,841
Fund Raising	29,064
Total operating expenses	3,766,193
Surplus from school operations	394,016
Support and other income:	
Contributions and other grants	10,000
Other income	25,879
Total support and other income	35,879
Change in net assets	429,895
Net assets - unrestricted – beginning of year	466,949
Net assets - unrestricted – end of year	**$ 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, 2008

	Program Services	Management and General	Fund Raising	Total
Salaries and wages	$ 2,070,524	$ 237,433	$ -	$ 2,307,957
Payroll taxes and employee benefits	389,648	44,683	-	434,331
Accounting fees	-	17,858	-	17,858
Classroom supplies and instructional materials	223,916	-	-	223,916
Furnitures and fixutres - non-capitalizable	9,280	1,064	-	10,344
Insurance	18,628	2,136	-	20,764
Interest and bank service charge	-	1,455	-	1,455
Legal	-	356	-	356
Management fees	223,786	37,782	29,064	290,632
Office expense	69,989	21,878	-	91,867
Parent activities	30	-	-	30
Postage and delivery	2,265	566	-	2,831
Printing and photocopying	21,684	5,421	-	27,105
Rent - building permit fees	16,758	1,922	-	18,680
Repairs and maintenance	2,625	301	-	2,926
Staff professional development	8,258	-	-	8,258
Student field trips and incentive programs	13,412	-	-	13,412
Student food services	21,503	-	-	21,503
Student transportation	30,000	-	-	30,000
Technology infrastructure and software	13,846	1,735	-	15,581
Telephone and internet	71,409	8,189	-	79,598
Depreciation and amortization	120,727	13,844	-	134,571
Bad debt expense	-	12,218	-	12,218
Total expenses	**$ 3,328,288**	**$ 408,841**	**$ 29,064**	**$ 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, 2008

Cash flows from operating activities:	
Change in net assets	$ 429,895
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	134,571
Bad debt expense	12,218
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Increase in grants and other receivables	(165,269)
Decrease in prepaid expenses and other assets	10,725
Increase in due from Achievement First, Inc.	(12,552)
Increase (decrease) in liabilities:	
Decrease in accounts payable and accrued expenses	(70,732)
Increase in accrued salary and other payroll related expenses	93,771
Net cash provided by operating activities	**432,627**
Cash flows from investing activities:	
Purchase of property and equipment	(91,117)
Payments on long term lease obligation	(35,663)
Net cash used in investing activities	**(126,780)**
Net increase in cash and cash equivalents	305,847
Cash and cash equivalents - beginning of year	550,333
Cash and cash equivalents - end of year	**$ 856,180**

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

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 2008, the School operated classes for students in kindergarten to third 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 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.

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 two saving accounts, including $25,208 in one saving account held aside for contingency purposes as required by the School's charter.

Contribution and Other Receivables

Contribution and other receivables represent unconditional promises to give. At June 30, 2008, the School had $295,788 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, 2008. 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, 2008.

Revenue Recognition

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

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

Functional Allocation of Expenses

Expenses that can 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 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. As of June 30, 2008, the School incurred overtime permit fees of $18,680, 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 year ended June 30, 2008, the School incurred management fees of $290,632, which is included in the accompanying statement of functional expenses.

As of June 30, 2008 the amount due from Achievement First, Inc. was $17,802.

5. PROPERTY AND EQUIPMENT: Property and equipment consist of the following as of June 30, 2008:

			Estimated Useful Lives
Furniture and fixtures	$	72,090	5 years
Computer hardware and software		335,901	3 years
Office equipment		42,385	3 years
Leasehold improvements		10,025	3-4 years
		460,401	
Less: accumulated depreciation and amortization		(317,934)	
	$	142,467	

Depreciation and amortization expense for the year ended June 30, 2008 was $134,571.

6. LINE OF CREDIT:

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 (5%). There was no outstanding balance on the line of credit at June 30, 2008. The agreement expired on July 30, 2008 and was renewed with a maximum amount permitted to borrow of $50,000 and expiring January 31, 2009.

7. COMMITMENTS AND CONTINGENCIES:

The School leases office equipment under non-cancelable operating lease agreements expiring through July 2009.The future minimum payments are as follows:

June 30,		
2009	$	14,133
2010		846
Total	$	14,979

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. As of June 30, 2008, pension expense for the School is $49,575, 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. The accompanying financial statements make no provision for the possible disallowance or refund.

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 FDIC limits by approximately $865,000 as of June 30, 2008.

B. The School received approximately 87% 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 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, 2008, and have issued our report thereon dated October 16, 2008. 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. We consider the following deficiency to be a significant deficiency in internal controls:

- Supervisory review and approval of credit card transactions are not consistently performed and documented.

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 October 16, 2008.

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

ERE LLP

New York, NY
October 16, 2008