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ACHIEVEMENT FIRST, INC.

FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

ACHIEVEMENT FIRST, INC.TABLE OF CONTENTSJUNE 30, 2006

	<u>PAGE</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	2
 <u>FINANCIAL STATEMENTS:</u>	
Statement of Financial Position (Assets)	3
Statement of Financial Position (Liabilities and Net Assets)	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
 <u>NOTES TO FINANCIAL STATEMENTS.</u>	 8 - 12

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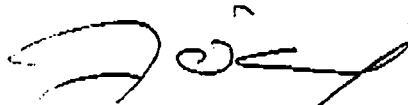
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Achievement First, Inc.

We have audited the accompanying statement of financial position of Achievement First, Inc. as of June 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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, Inc. as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.



James O'Connell, CPA

February 8, 2007

ACHIEVEMENT FIRST, INC.STATEMENT OF FINANCIAL POSITIONJUNE 30, 2006

	<u>Unre- stricted</u>	<u>Tempo- rarily Re- stricted</u>	<u>Per- manently Re- stricted</u>	<u>Total</u>
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash	\$2,285,462	\$ 291,883	\$ -	\$2,577,345
Accounts Receivable	110,000	-	-	110,000
Pledges and Grants Receivable	300,000	900,000	-	1,200,000
Due From Schools .	121,793	-	-	121,793
Prepaid Expenses .	<u>34,391</u>	<u>-</u>	<u>-</u>	<u>34,391</u>
<u>Total Current Assets</u>	<u>2,851,646</u>	<u>1,191,883</u>	<u>-</u>	<u>4,043,529</u>
<u>Fixed Assets:</u>				
Leasehold Improvements . . .	111,031	-	-	111,031
Furniture and Equipment	<u>183,039</u>	<u>-</u>	<u>-</u>	<u>183,039</u>
Total	294,070	-	-	294,070
Less: Accumulated Depreciation . . .	<u>29,042</u>	<u>-</u>	<u>-</u>	<u>29,042</u>
<u>Fixed Assets-Net .</u>	<u>265,028</u>	<u>-</u>	<u>-</u>	<u>265,028</u>
<u>Other Assets:</u>				
Pledges and Grants Receivable - Long Term	-	150,000	-	150,000
Trade name (net of accumulated amortization of \$874)	<u>5,682</u>	<u>-</u>	<u>-</u>	<u>5,682</u>
<u>Total Other Assets</u>	<u>5,682</u>	<u>150,000</u>	<u>-</u>	<u>155,682</u>
 Total Assets	 <u>\$3,122,356</u>	 <u>\$1,341,883</u>	 <u>\$ -</u>	 <u>\$4,464,239</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE FINANCIAL STATEMENTS

ACHIEVEMENT FIRST, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

	<u>Unre- stricted</u>	<u>Tempo- rarily Re- stricted</u>	<u>Per- manently Re- stricted</u>	<u>Total</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>Current Liabilities:</u>				
Accounts Payable	\$ 205,036	\$ -	\$ -	\$ 205,036
Accrued Expenses	38,654	-	-	38,654
Due to Schools	<u>520,177</u>	<u>-</u>	<u>-</u>	<u>520,177</u>
Total Current Liabilities	763,867	-	-	763,867
<u>Net Assets.</u>	<u>2,358,489</u>	<u>1,341,883</u>	<u>-</u>	<u>3,700,372</u>
Total Liabilities And Net Assets.	<u>\$3,122,356</u>	<u>\$1,341,883</u>	<u>\$ -</u>	<u>\$4,464,239</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
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ACHIEVEMENT FIRST, INC.STATEMENT OF ACTIVITIESYEAR ENDED JUNE 30, 2006

	<u>Unre-</u> <u>stricted</u>	<u>Tempo-</u> <u>rarily</u> <u>Re-</u> <u>stricted</u>	<u>Per-</u> <u>manently</u> <u>Re-</u> <u>stricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE:</u>				
Grants and Contributions	\$1,958,235	\$2,201,883	\$ -	\$4,160,118
In-Kind Management Fees	653,433	-	-	653,433
Interest Income	49,001	-	-	49,001
Other Income	10,605	-	-	10,605
Net Assets Released From Restrictions:				
Restriction Satisfied By Payment	<u>860,000</u>	<u>(860,000)</u>	<u>-</u>	<u>-</u>
<u>Total Support and Revenue</u>	<u>3,531,274</u>	<u>1,341,883</u>	<u>-</u>	<u>4,873,157</u>
<u>EXPENSES:</u>				
Program Services	2,790,890	-	-	2,790,890
Management and General	309,053	-	-	309,053
Fundraising	<u>142,005</u>	<u>-</u>	<u>-</u>	<u>142,005</u>
<u>Total Expenses</u>	<u>3,241,948</u>	<u>-</u>	<u>-</u>	<u>3,241,948</u>
<u>TOTAL CHANGE IN NET ASSETS</u>	<u>289,326</u>	<u>1,341,883</u>	<u>-</u>	<u>1,631,209</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>2,069,163</u>	<u>-</u>	<u>-</u>	<u>2,069,163</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$2,358,489</u>	<u>\$1,341,883</u>	<u>\$ -</u>	<u>\$3,700,372</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE FINANCIAL STATEMENTS

ACHIEVEMENT FIRST, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006

	<u>Program Services</u>	<u>Manage- ment and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Salaries and Wages	\$1,137,600	\$179,963	\$ 88,759	\$1,406,322
In-Kind Management Fees.	653,433	-	-	653,433
Curriculum Development	191,145	-	-	191,145
Staff Recruitment Expenses	141,739	-	-	141,739
Payroll Taxes.	95,098	15,044	7,420	117,562
Facility Search and Permit Costs.	116,149	-	-	116,149
Employee Benefits.	77,693	12,291	6,062	96,046
Information Technology	78,454	-	-	78,454
Staff Training	75,414	-	-	75,414
External Relations	47,855	6,836	13,673	68,364
Auditing and Accounting.	-	61,966	-	61,966
Rent	38,500	11,000	5,500	55,000
Office Expenses.	26,771	11,766	13,743	52,280
Leadership Team.	39,960	-	-	39,960
Telephone.	23,132	2,891	2,891	28,914
Depreciation and Amortization Expense.	18,604	2,325	2,325	23,254
All Other.	<u>29,343</u>	<u>4,971</u>	<u>1,632</u>	<u>35,946</u>
 <u>Total Expenses.</u>	 <u>\$2,790,890</u>	 <u>\$309,053</u>	 <u>\$142,005</u>	 <u>\$3,241,948</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE FINANCIAL STATEMENTS

ACHIEVEMENT FIRST, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (Decrease) in Net Assets	\$1,631,209
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	23,254
(Increase) Decrease In:	
Accounts Receivable	(110,000)
Pledges and Grants Receivable	(800,000)
Prepaid Expenses	(5,328)
Increase (Decrease) In:	
Accounts Payable & Accrued Expenses	203,975
Deferred Grant Revenue	(650,000)
 <u>NET CASH PROVIDED BY (TO) OPERATING ACTIVITIES.</u>	 \$ 293,110

CASH FLOWS FROM (TO) INVESTING ACTIVITIES:

Purchase of Fixed Assets	(192,467)
 <u>NET CASH PROVIDED BY (TO) INVESTING ACTIVITIES.</u>	 (192,467)

CASH FLOWS (TO) FROM FINANCING ACTIVITIES:

Net Loans to Schools	(121,793)
Net Loans From Schools	538,777
 <u>NET CASH PROVIDED BY (TO) FINANCING ACTIVITIES.</u>	 <u>416,984</u>

<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.</u>	517,627
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<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR.</u>	<u>2,059,718</u>
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<u>CASH AND CASH EQUIVALENTS - END OF YEAR.</u>	<u>\$2,577,345</u>
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SUPPLEMENTAL DISCLOSURES

<u>Interest Paid.</u>	\$ -0-
<u>Income Tax Paid.</u>	\$ -0-

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE FINANCIAL STATEMENTS

ACHIEVEMENT FIRST, INC.NOTES TO FINANCIAL STATEMENTSJUNE 30, 2006NOTE 1 - NATURE OF ACTIVITIESNature of Activities

Achievement First, Inc. (The "Organization") is an organization founded in July, 2003 which provides equal educational opportunity for urban children by inspiring in them the belief that they can achieve and by developing in them necessary academic and character skills.

NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESReporting Entity

In accordance with the provisions of section 10-66bb of the Connecticut General Statutes, Achievement First, Inc. was granted, on June 2, 2004, a charter to operate Elm City College Prep Charter School, a public school located in the City of New Haven. Said charter shall be operated in accordance with all applicable state and federal laws and regulations, and the terms of its charter. The charter expires in 2006, and may be renewed by the State of Connecticut.

The accounts of Elm City College Prep Charter School are not included in either the accompanying statement of financial position of Achievement First, Inc. as of June 30, 2006, or the related statements of activities, functional expenses and cash flows for the year then ended. Elm City College Prep Charter School is considered to be a reporting entity which is separate and distinct from Achievement First, Inc.

The Organization operates as a charter school management organization. It provides managerial services (e.g. finance, personnel, curriculum development, training, etc.) to charter schools. Charter schools receiving services include Amistad Academy (a Connecticut charter school), Elm City College Prep (a Connecticut charter school which operates two schools), Achievement First Crown Heights (a New York charter school which operates two schools), and Achievement First East New York (a New York charter school). The Organization opened four additional schools in the fall of 2006 - two in Connecticut and two in New York.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. All donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

ACHIEVEMENT FIRST, INC.NOTES TO FINANCIAL STATEMENTSJUNE 30, 2006NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Promises to Give (Continued)

Pledges receivable are classified as current assets if payment is expected within one year. All pledges receivable are expected to be paid within three years.

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 amount of support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The financial statements of The Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Under the accrual method of accounting, revenue and support are recognized as incurred.

Financial Statement Presentation

Financial statement presentation follows the recommendation of the Statement of Financial Accounting Standards (SFAS) Number 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS 117, The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

The Organization has also adopted SFAS No. 116, Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restriction.

Cash and Cash Equivalents

For purposes of financial statement presentation, the Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents. There were no cash equivalents on June 30, 2006.

ACHIEVEMENT FIRST, INC.NOTES TO FINANCIAL STATEMENTSJUNE 30, 2006NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)Fixed Assets, Depreciation

Furniture, fixtures and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred. Major improvements and betterments are capitalized. When assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is reflected in the land, building and equipment fund.

Depreciation is computed on the straight line method based on the estimated useful lives of the assets.

Intangible Assets

Intangible assets represent the Organization's trade name and are being amortized using the straight-line method based on estimated useful life.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair value at the date of donation. There were no noncash donations during the year ended June 30, 2006.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. For income tax purposes, Achievement First, Inc. is not classified as a private foundation.

Investments

The Organization has adopted SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values are to be reported at their fair values for financial statement purposes. Unrealized gains and losses are included in the change in net assets.

ACHIEVEMENT FIRST, INC.NOTES TO FINANCIAL STATEMENTSJUNE 30, 2006NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Donated Property and Equipment and Services

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. No donated property or equipment was reported in the financial statements.

The Organization generally pays for services requiring specific expertise. However, some individuals volunteer their time and perform a variety of tasks that assist The Organization with various educational programs and administrative tasks.

Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by The Organization. Volunteer services throughout the year are not recognized as contributions in the financial statements since the recognition criteria under SFAS 116 were not met.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When restricted funds are expended for the intended purpose temporarily restricted or permanently restricted net assets are reduced by the amount of the expenditure.

NOTE 2 - LEASE COMMITMENTS

The Organization has no capital lease or operating lease commitments. It leased space on a month to month basis during the year ended June 30, 2006.

ACHIEVEMENT FIRST, INC.NOTES TO FINANCIAL STATEMENTSJUNE 30, 2006NOTE 3 - CASH

The total cash held by The Organization may at times exceed the amount covered by insurance provided by the federal government. It is the opinion of management that the solvency of the referenced financial institutions is not of particular concern at this time.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Organization recorded, as did the schools under management, \$653,433 of in-kind revenue and expense as the value of management services provided to the schools during the year. The Organization waived cash payments for the services provided during the year, but plans to be paid for the services in upcoming years.

The Organization sometimes transfers funds to and receives funds from the schools under management. Funding for specific schools may at times be received by the Organization, and costs associated with a specific school may be paid by the Organization. All advances are non interest bearing. As of June 30, 2006, \$121,793 of advances to schools were due to the Organization and \$520,177 of funding for schools was due from the Organization to the schools.

The Organization paid \$55,000 of rent to Amistad Academy, Inc. during the year for office space on a month-to-month basis.

NOTE 5 - COMPENSATED ABSENCES

Employees are entitled to paid vacation and sick days depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future paid sick days and time off. Accordingly, no liability for these amounts has been recorded in the accompanying financial statements. Company policy is to recognize the cost of compensated absences when actually paid to employees.