

FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE
TOGETHER WITH REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

CARL C. ICAHN CHARTER SCHOOL

June 30, 2008 and 2007

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the
Carl C. Icahn Charter School:

We have audited the accompanying statements of financial position of the Carl C. Icahn Charter School (the "Charter School") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Carl C. Icahn Charter School as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, 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 29, 2008, on our consideration of the Charter 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 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Charter School taken as a whole. The supplementary information included on pages 13 and 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

GRANT THORNTON LLP

New York, New York
October 29, 2008

Carl C. Icahn Charter School

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 1,406,074	\$ 1,118,979
Grants and contributions receivable	191,466	132,857
Prepaid expenses	31,118	22,923
Furniture, fixtures and equipment, net (Note C)	<u>191,115</u>	<u>126,442</u>
Total assets	<u>\$ 1,819,773</u>	<u>\$ 1,401,201</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 758,710	\$ 491,807
Deferred revenue	<u>141,944</u>	<u>474,165</u>
Total liabilities	<u>900,654</u>	<u>965,972</u>
Commitments and contingencies (Note D)		
Net assets:		
Unrestricted	916,066	422,926
Temporarily restricted (Note E)	<u>3,053</u>	<u>12,303</u>
Total net assets	<u>919,119</u>	<u>435,229</u>
Total liabilities and net assets	<u>\$ 1,819,773</u>	<u>\$ 1,401,201</u>

The accompanying notes are an integral part of these statements.

Carl C. Icahn Charter School

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:						
State and local capitation (Note F)	\$ 3,818,703	\$ -	\$ 3,818,703	\$ 2,736,898	\$ -	\$ 2,736,898
Grants and contributions	466,974	-	466,974	263,663	9,250	272,913
Special education	16,770	-	16,770	10,815	-	10,815
Interest income	64,552	-	64,552	31,205	-	31,205
Other	1,931	-	1,931	14,116	-	14,116
Net assets released from restrictions	9,250	(9,250)	-	20,860	(20,860)	-
Total revenues, gains and other support	<u>4,378,180</u>	<u>(9,250)</u>	<u>4,368,930</u>	<u>3,077,557</u>	<u>(11,610)</u>	<u>3,065,947</u>
Expenses:						
Program services:						
Regular education	3,427,317	-	3,427,317	2,819,938	-	2,819,938
Special education	4,407	-	4,407	13,084	-	13,084
Total program services	3,431,724	-	3,431,724	2,833,022	-	2,833,022
Supporting services:						
Management and general	453,316	-	453,316	354,445	-	354,445
Total expenses	<u>3,885,040</u>	<u>-</u>	<u>3,885,040</u>	<u>3,187,467</u>	<u>-</u>	<u>3,187,467</u>
Increase (decrease) in net assets	493,140	(9,250)	483,890	(109,910)	(11,610)	(121,520)
Net assets, beginning of year	<u>422,926</u>	<u>12,303</u>	<u>435,229</u>	<u>532,836</u>	<u>23,913</u>	<u>556,749</u>
Net assets, end of year	<u>\$ 916,066</u>	<u>\$ 3,053</u>	<u>\$ 919,119</u>	<u>\$ 422,926</u>	<u>\$ 12,303</u>	<u>\$ 435,229</u>

The accompanying notes are an integral part of these statements.

Carl C. Icahn Charter School

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash receipts from:		
State and local capitation	\$ 3,486,481	\$ 2,834,172
Grants and contributions	425,135	335,095
Interest	64,552	31,205
Other	1,931	14,116
Cash payments to/for:		
Employee salaries and benefits	(2,866,775)	(2,507,818)
Vendors	(664,450)	(527,013)
Net cash provided by operating activities	<u>446,874</u>	<u>179,757</u>
Cash flows from investing activities:		
Purchase of furniture, fixtures and equipment	<u>(159,779)</u>	<u>(118,071)</u>
Net cash used in investing activities	<u>(159,779)</u>	<u>(118,071)</u>
Net increase in cash and cash equivalents	287,095	61,686
Cash and cash equivalents, beginning of year	<u>1,118,979</u>	<u>1,057,293</u>
Cash and cash equivalents, end of year	<u>\$ 1,406,074</u>	<u>\$ 1,118,979</u>
Reconciliation of increase (decrease) in net assets to net cash provided by operating activities:		
Increase (decrease) in net assets	\$ 483,890	\$ (121,520)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	95,106	66,750
Changes in assets and liabilities:		
(Increase) decrease in grants and contributions receivable	(58,609)	51,366
(Increase) decrease in prepaid expenses	(8,195)	10,295
Increase in accounts payable and accrued expenses	266,903	75,592
(Decrease) increase in deferred revenue	(332,221)	97,274
Net cash provided by operating activities	<u>\$ 446,874</u>	<u>\$ 179,757</u>

The accompanying notes are an integral part of these statements.

Carl C. Icahn Charter School

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE A - NATURE OF OPERATIONS

The Carl C. Icahn Charter School (the "Charter School") is an educational corporation formed to operate a charter school located in the City of New York, County of the Bronx. On March 20, 2001, the Board of Regents of The University of the State of New York, for and on behalf of the State Education Department, granted a provisional charter valid for a term of five years, incorporating the Charter School. The Charter was renewed in 2005 for another five years, ending on July 31, 2011.

The central mission of the Charter School, using the Core Knowledge curriculum developed by E.D. Hirsch, is to provide students with a rigorous academic program offered in an extended day/year setting. Students are expected to graduate armed with the skills and knowledge to participate successfully in the most rigorous academic environments and have a sense of personal and community responsibility. The Charter School is coeducational and nonsectarian and commenced instruction on September 4, 2001.

The Charter School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code and is classified as an organization described in Section 501(c)(3).

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The Charter School prepares its financial statements on the accrual basis of accounting in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") and standards established by the Financial Accounting Standards Board for external financial reporting by not-for-profit organizations. Those standards require the classification of activities and net assets based upon the existence or absence of donor-imposed restrictions, as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulation and, therefore, may be expended for any purpose in performing the primary objective of the Charter School.

Temporarily Restricted - Net assets subject to donor-imposed restrictions that will be satisfied either by actions of the Charter School or the passage of time.

Carl C. Icahn Charter School

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE B (continued)

Permanently Restricted - Net assets subject to donor-imposed restrictions stipulating that the corpus be maintained in perpetuity by the Charter School, but permit the Charter School to expend all or part of the income derived therefrom. At June 30, 2008 and 2007, the Charter School did not have any permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by explicit donor-imposed restrictions or by law. Revenues (state and local capitation) received from the New York City Department of Education Office of Charter Schools are recognized over the period earned. Amounts received in advance are reported as deferred revenue. Expenses are reported as decrease in unrestricted net assets.

Contributions with donor-imposed restrictions are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met, and recorded in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same fiscal year are reported as unrestricted revenues.

2. *Cash and Cash Equivalents*

Cash and cash equivalents are recorded at fair value, and are comprised of highly liquid financial instruments with original maturities of three months or less at the time of purchase.

3. *Concentration of Credit Risk*

Certain financial instruments potentially subject the Charter School to concentration of credit risk. These financial instruments consist primarily of cash and cash equivalents. The Charter School maintains its cash in various bank accounts, which at times may exceed federally insured limits. The Charter School has not experienced, nor does it anticipate, any losses with respect to these bank accounts.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE B (continued)

4. *Furniture, Fixtures, Equipment, Library and Textbooks*

Furniture, fixtures, equipment, library and textbooks are stated at cost net of depreciation, or fair value at date of contribution, if donated. Depreciation of furniture, fixtures, equipment, library, software and textbooks is computed in the month in which the assets are acquired, utilizing the straight-line basis, over their estimated useful lives, as follows:

	<u>Useful lives</u>
Furniture	3 years
Fixtures	3 years
Equipment	3 - 5 years
Library, software and textbooks	3 years

5. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

NOTE C - FURNITURE, FIXTURES AND EQUIPMENT, NET

At June 30, 2008 and 2007, furniture, fixtures and equipment consisted of the following:

	<u>2008</u>	<u>2007</u>
Library, software and textbooks	\$ 237,334	\$ 213,763
Equipment	249,390	168,077
Furniture and fixtures	<u>146,200</u>	<u>91,305</u>
	632,924	473,145
Less: Accumulated depreciation	<u>(441,809)</u>	<u>(346,703)</u>
	<u>\$ 191,115</u>	<u>\$ 126,442</u>

Depreciation expense totaled \$95,106 and \$66,750 for the years ended June 30, 2008 and 2007, respectively.

Carl C. Icahn Charter School

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE D - RELATED PARTY TRANSACTIONS

Certain payroll and legal services are provided by the Icahn Associates Corp. (the "Company"), a company affiliated with Carl C. Icahn, at no cost to the Charter School. These amounts have not been reflected as in-kind contributions in the accompanying financial statements, as neither the Charter School nor the Company has a readily measurable or objective basis for determining such amounts.

The Charter School has a year-to-year operating lease with the Foundation for a Greater Opportunity, a related party. Under the terms of the lease, the Charter School accrued minimum rentals of \$50,000 annually. Total rent expense for the years ended June 30, 2008 and 2007 was \$55,451 and \$67,729, respectively.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2008 and 2007, temporarily restricted net assets consisted of the following:

	<u>2008</u>	<u>2007</u>
Restricted as to purpose:		
Regular education	\$ <u>3,053</u>	\$ <u>12,303</u>
	<u>\$ 3,053</u>	<u>\$ 12,303</u>

During the years ended June 30, 2008 and 2007, net assets were released from donor restrictions by incurring expenses satisfying purpose or time restrictions as follows:

	<u>2008</u>	<u>2007</u>
Regular education	\$ 9,250	\$ 12,560
Charter School Improvement Fund (rent)	<u>-</u>	<u>8,300</u>
Net assets released from restrictions	<u>\$ 9,250</u>	<u>\$ 20,860</u>

Carl C. Icahn Charter School

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE F - CONCENTRATION OF REVENUES

The Charter School receives a majority of its revenues from the New York State Education Department through the New York City Department of Education Office of Charter Schools. The New York City Department of Education provides general operating support to the Charter School based upon the location and the number of students enrolled. Operating support provided to the Charter School by the New York City Department of Education totaled \$3,818,703 and \$2,736,898 for the years ended June 30, 2008 and 2007, respectively. The Charter School is dependent upon this level of funding in order to continue its operations.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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 Directors of the
Carl C. Icahn Charter School:

We have audited the financial statements of the Carl C. Icahn Charter School (the "Charter School") as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 29, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Charter 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 Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter 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 Charter School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Charter School's financial statements that is more than inconsequential will not be prevented or detected by the Charter 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 Charter 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 Charter 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 audits, 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*.

This report is intended solely for the information and use of the Charter School's Board of Directors and management, and the State of New York awarding agencies providing funding to the Charter School, and is not intended to be and should not be used by anyone other than these specified parties.

GRANT Thornton LLP

New York, New York
October 29, 2008

Carl C. Icahn Charter School

SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended June 30, 2008

	<u>Regular Education</u>	<u>Special Education</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 2,320,524	\$ 2,840	\$ 325,065	\$ 2,648,429
Employee benefits and payroll taxes	437,371	217	69,471	507,059
Accounting/auditing fees	14,184	-	2,503	16,687
Bank/payroll service charge	3,339	-	609	3,948
Consultants - education	19,300	-	2,000	21,300
Contracted services - other	26,044	-	2,894	28,938
Custodial Supplies	8,486	-	943	9,429
Dues and subscriptions	169	-	2,293	2,462
Equipment rental/lease	4,634	55	763	5,452
Extracurricular	28,460	-	-	28,460
Insurance	43,893	-	4,877	48,770
Internet and community connectivity	6,537	73	734	7,344
Legal	-	-	1,679	1,679
Maintenance and repairs	30,188	-	9,412	39,600
Occupancy	47,500	-	2,500	50,000
Office supplies	9,407	-	17,511	26,918
Printing	12,466	140	1,401	14,007
Instructional supplies	131,890	-	-	131,890
Postage and delivery	2,967	33	333	3,333
Software and license support	-	-	619	619
Staff development	112,825	-	-	112,825
Student testing	5,354	-	-	5,354
Telephone	9,532	98	97	9,727
Transportation (student)	19,655	-	-	19,655
Travel	6,321	-	473	6,794
Utilities	33,755	-	3,751	37,506
Other	598	-	1,151	1,749
Depreciation (Note C)	<u>91,918</u>	<u>951</u>	<u>2,237</u>	<u>95,106</u>
Total expenses	<u>\$ 3,427,317</u>	<u>\$ 4,407</u>	<u>\$ 453,316</u>	<u>\$ 3,885,040</u>

This schedule should be read in conjunction with the report of independent certified public accountants.

Carl C. Icahn Charter School

SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended June 30, 2007

	Regular Education	Special Education	Management and General	Total
Salaries	\$ 1,817,894	\$ 11,179	\$ 258,382	\$ 2,087,455
Employee benefits and payroll taxes	385,976	1,347	54,694	442,017
Accounting/auditing fees	12,345	-	2,179	14,524
Bank/payroll service charge	3,122	-	918	4,040
Consultants - education	6,092	-	1,200	7,292
Contracted services - other	50,497	-	4,391	54,888
Dues and subscriptions	1,134	-	1,440	2,574
Equipment rental/lease	4,820	49	859	5,728
Extracurricular	35,724	-	-	35,724
Insurance	38,225	-	2,012	40,237
Internet and community connectivity	1,940	19	346	2,305
Legal	-	-	2,150	2,150
Maintenance and repairs	30,255	-	1,550	31,805
Marketing and recruitment	3,647	-	-	3,647
Occupancy	59,500	-	2,500	62,000
Office supplies	3,074	-	10,899	13,973
Printing	9,614	55	1,706	11,375
Instructional supplies	93,151	-	-	93,151
Postage and delivery	2,379	18	423	2,820
Software and license support	-	-	359	359
Staff development	88,375	-	-	88,375
Student testing	13,504	-	-	13,504
Telephone	7,316	57	1,301	8,674
Transportation (student)	17,518	-	-	17,518
Travel	8,218	-	426	8,644
Utilities	62,467	-	3,289	65,756
Other	100	-	82	182
Depreciation (Note C)	<u>63,051</u>	<u>360</u>	<u>3,339</u>	<u>66,750</u>
Total expenses	<u>\$ 2,819,938</u>	<u>\$ 13,084</u>	<u>\$ 354,445</u>	<u>\$ 3,187,467</u>

This schedule should be read in conjunction with the report of independent certified public accountants.