

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

ICAHN CHARTER SCHOOL 3

June 30, 2009

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the  
Icahn Charter School 3:

We have audited the accompanying statement of financial position of the Icahn Charter School 3 (the “Charter School”) as of June 30, 2009, and the related statement of activities and cash flows for the year 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 audit.

We conducted our audit 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 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 the Icahn Charter School 3 as of June 30, 2009, and the changes in its net assets and its cash flows for the year 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, 2009, 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 audit.

Our audit was 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 page 13 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, 2009

Icahn Charter School 3

STATEMENT OF FINANCIAL POSITION

As of June 30, 2009

ASSETS

Cash and cash equivalents	\$ 444,923
Grants and contributions receivable	90,958
Prepaid expenses	30,797
Furniture, fixtures and equipment, net (Note C)	<u>91,256</u>
Total assets	<u>\$ 657,934</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 291,777
Deferred revenue	51,038
Obligation under capital lease	<u>15,033</u>
Total liabilities	357,848
Net assets - unrestricted	<u>300,086</u>
Total liabilities and net assets	<u>\$ 657,934</u>

The accompanying notes are an integral part of this statement.

Icahn Charter School 3  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2009

Revenues, gains and other support:	
State and local capitation (Note E)	\$ 1,275,958
Grants and contributions	500,157
Interest income	3,251
Other	<u>452</u>
Total revenues, gains and other support	<u>1,779,818</u>
Expenses:	
Program services:	
Regular education	1,228,997
Special education	<u>8,880</u>
Total program services	1,237,877
Supporting services:	
Management and general	<u>241,855</u>
Total expenses	<u>1,479,732</u>
Increase in net assets	300,086
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u>\$ 300,086</u>

The accompanying notes are an integral part of this statement.

Icahn Charter School 3

STATEMENT OF CASH FLOWS

For the year ended June 30, 2009

Cash flows from operating activities:	
Cash receipts from:	
State and local capitation	\$ 1,326,996
Grants and contributions	409,198
Interest	3,251
Other	452
Cash payments to/for:	
Employee salaries and benefits	(936,664)
Vendors	<u>(250,070)</u>
Net cash provided by operating activities	<u>553,163</u>
Cash flows from investing activities:	
Purchase of furniture, fixtures and equipment	<u>(105,855)</u>
Cash flows from financing activities:	
Obligation under capital lease	<u>(2,385)</u>
Net increase in cash and cash equivalents	444,923
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 444,923</u>
Reconciliation of increase in net assets to net cash provided by operating activities:	
Increase in net assets	\$ 300,086
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	32,017
Changes in assets and liabilities:	
Increase in grants and contributions receivable	(90,958)
Increase in prepaid expenses	(30,797)
Increase in accounts payable and accrued expenses	291,777
Increase in deferred revenue	<u>51,038</u>
Net cash provided by operating activities	<u>\$ 553,163</u>
Supplemental disclosure of cash flow information:	
Equipment acquired under capital lease	<u>\$ 17,418</u>

The accompanying notes are an integral part of this statement.

Icahn Charter School 3

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - NATURE OF OPERATIONS

The Icahn Charter School 3 (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 September 12, 2006, 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 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 8, 2008.

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 ("U.S. 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.

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 there from. At June 30, 2009, the Charter School did not have any permanently restricted net assets.

Icahn Charter School 3

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE B (continued)

2. Revenue

Revenue is recorded on the accrual basis of accounting. The Charter School derives its revenue primarily from state and local capitation based on student enrollment, and contributions and grants.

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.

The Charter School records contributions of cash and other assets when an unconditional promise to give such assets is received from a donor. Contributions are recorded at the fair market value of the assets received and are classified as either unrestricted, temporarily restricted or permanently restricted, depending on whether the donor has imposed a restriction on the use of such assets. All contributions receivable are expected to be collected within one year.

The Charter School reports gifts of cash or other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same fiscal year are reported as unrestricted revenues.

Receivables outstanding longer than the payment terms are considered past due. The carrying value of the related receivables is reduced by an appropriate allowance for uncollectible accounts. The Charter School determines its allowance by considering a number of factors, including the length of time receivables are past due, the Charter School's previous loss history, the donor's current ability to pay its obligation, and the condition of the general economy and the industry as a whole.

The Charter School writes off receivables when they are deemed to be uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

3. 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.

Icahn Charter School 3

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE B (continued)

4. 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 may exceed federally insured limits at times. The Charter School has not experienced, nor does it anticipate, any losses with respect to these bank accounts.

5. 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

6. Contributed Space

The Charter School utilizes certain facilities provided by the New York City public school system at no cost. The cost savings associated with such arrangement which totaled \$94,937 for the year ended June 30, 2009, is recorded as contributed space and is recognized as revenue and expenses in the statement of activities based on the fair value of the space received.

7. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Icahn Charter School 3

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE C - FURNITURE, FIXTURES AND EQUIPMENT, NET

At June 30, 2009, furniture, fixtures and equipment consisted of the following:

Library, software and textbooks	\$ 48,157
Equipment	42,061
Furniture and fixtures	<u>33,055</u>
	123,273
Less: Accumulated depreciation	<u>(32,017)</u>
	<u>\$ 91,256</u>

Included in equipment as of June 30, 2009 are assets acquired under capital leases at a cost of \$17,418, with accumulated depreciation of \$2,613. Remaining obligations due under such leases are included in obligation under capital lease in the accompanying fiscal year 2009 statement of financial position.

Depreciation expense totaled \$32,017 for the year ended June 30, 2009.

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.

NOTE E - 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 \$1,275,958 for the year ended June 30, 2009. The Charter School is dependent upon this level of funding in order to continue its operations.

Icahn Charter School 3

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE F - OBLIGATION UNDER CAPITAL LEASE

A long-term lease covering equipment is classified as a capital lease. Accordingly, equipment is capitalized as leased property and amortized on a straight-line basis over the term of the lease. The corresponding obligation under the capital lease represents the present value of the rental payments discounted by interest rates implicit in the lease agreement. Annual payments subsequent to June 30, 2009 follow:

Year Ending June 30,

2010	\$ 3,876
2011	3,876
2012	3,876
2013	3,876
2014	<u>646</u>
	16,150
Less: Interest	<u>(1,117)</u>
	<u>\$ 15,033</u>

NOTE G - PENSION PLAN

The Charter School has a defined contribution plan (the "Plan"), administered by Prudential, for all full-time personnel. Contributions by The Charter School to the Plan totaled \$11,564 for the year ended June 30, 2009.



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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  
Icahn Charter School 3:

We have audited the financial statements of the Icahn Charter School 3 (the “Charter School”) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 29, 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 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 to prevent or detect misstatements on a timely basis in the normal course of performing their assigned functions. 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. It is not intended for, and should not be used by anyone other than these specified parties.

*GRANT THORNTON LLP*

New York, New York  
October 29, 2009

**SUPPLEMENTARY INFORMATION**

## Icahn Charter School 3

## SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended June 30, 2009

	Regular Education	Special Education	Management and General	Total
Salaries	\$ 710,465	\$ 1,302	\$ 188,757	\$ 900,524
Employee benefits and payroll taxes	157,069	100	19,508	176,677
Bank/payroll service charge	2,935	-	852	3,787
Consultants - education	3,917	-	-	3,917
Dues and subscriptions	7	-	-	7
Extracurricular	25	-	-	25
Insurance	19,158	-	4,493	23,651
Internet and community connectivity	1,730	129	436	2,295
Legal	-	-	3,825	3,825
Maintenance and repairs	38,730	-	9,335	48,065
Occupancy	84,696	5,341	4,900	94,937
Office supplies	17,434	-	4,089	21,523
Instructional supplies	106,447	-	-	106,447
Other expenses	1,562	-	-	1,562
Postage and delivery	398	30	100	528
Staff development	43,337	-	-	43,337
Student testing	4,415	-	-	4,415
Telephone	4,114	308	1,038	5,460
Transportation (student)	5,125	-	-	5,125
Travel	-	-	1,086	1,086
Interest	397	28	97	522
Depreciation (Note C)	<u>27,036</u>	<u>1,642</u>	<u>3,339</u>	<u>32,017</u>
Total expenses	<u>\$ 1,228,997</u>	<u>\$ 8,880</u>	<u>\$ 241,855</u>	<u>\$ 1,479,732</u>

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