

Financial Statements and Supplementary Schedule
Together with Report of Independent
Certified Public Accountants

ICAHN CHARTER SCHOOL 3

June 30, 2010

ICAHN CHARTER SCHOOL 3

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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 statements of financial position of the Icahn Charter School 3 (the “Charter School”) as of June 30, 2010 and 2009, and the related statement 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 Icahn Charter School 3 as of June 30, 2010 and 2009, 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, 2010, 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 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 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, 2010

ICAHN CHARTER SCHOOL 3
Statements of Financial Position
As of June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 621,305	\$ 444,923
Grants and contracts receivable	119,855	90,855
Due from school district	1,200	-
Prepaid expenses	56,968	30,797
Contributions and other receivables	1,207	103
Capital assets, net	<u>81,534</u>	<u>91,256</u>
Total assets	<u>\$ 882,069</u>	<u>\$ 657,934</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 52,194	\$ 117,203
Accrued payroll and benefits	203,439	142,995
Due to school districts	622	31,579
Deferred revenue	94,534	51,038
Obligations under capital lease	<u>11,734</u>	<u>15,033</u>
Total liabilities	<u>362,523</u>	<u>357,848</u>
Commitments		
Net assets - unrestricted	<u>519,546</u>	<u>300,086</u>
Total liabilities and net assets	<u>\$ 882,069</u>	<u>\$ 657,934</u>

The accompanying notes are an integral part of these statements.

ICAHN CHARTER SCHOOL 3
Statements of Activities
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUE, GAINS AND OTHER SUPPORT		
Public School District:		
Resident Student Enrollment	\$ 1,767,770	\$ 1,275,958
Students with disabilities	19,049	-
Grants and contracts:		
State and local	100,642	235,069
Federal - Title and IDEA	116,381	82,766
Federal - Other	89,931	182,322
Other grants	10,705	-
Total revenue, gains and other support	<u>2,104,478</u>	<u>1,776,115</u>
EXPENSES		
Program services:		
Regular education	1,576,627	1,228,598
Special education	35,677	8,880
Total program services	<u>1,612,304</u>	<u>1,237,478</u>
Supporting services:		
Management and general	274,690	242,253
Total operating expenses	<u>1,886,994</u>	<u>1,479,731</u>
Surplus from school operations	<u>217,484</u>	<u>296,383</u>
OTHER REVENUE		
Fundraising	529	452
Interest income	677	3,251
Miscellaneous income	770	-
Total other revenue	<u>1,976</u>	<u>3,703</u>
Increase in net assets	219,460	300,086
Net assets beginning of year	<u>300,086</u>	<u>-</u>
Net assets, end of year	<u>\$ 519,546</u>	<u>\$ 300,086</u>

The accompanying notes are an integral part of these statements.

ICAHN CHARTER SCHOOL 3
Statements of Cash Flows
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 219,460	\$ 300,086
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	46,328	32,017
Changes in assets and liabilities:		
Increase in contributions receivable	(1,104)	(103)
Increase in due from school districts	(1,200)	-
Increase in grants and contracts receivable	(29,000)	(90,855)
Increase in prepaid expenses	(26,171)	(30,797)
(Decrease) increase in accounts payable	(65,009)	117,203
Increase in accrued liabilities	60,444	142,995
(Decrease) increase in due to school districts	(30,957)	31,579
Increase in deferred revenue	43,496	51,038
	<u>216,287</u>	<u>553,163</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	<u>(36,606)</u>	<u>(105,855)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease payments	<u>(3,299)</u>	<u>(2,385)</u>
	176,382	444,923
Net increase in cash and cash equivalents	176,382	444,923
Cash and cash equivalents at beginning of year	<u>444,923</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 621,305</u>	<u>\$ 444,923</u>
Supplemental disclosure of cash flow information:		
Equipment acquired under capital leases	<u>\$ -</u>	<u>\$ 17,418</u>

The accompanying notes are an integral part of these statements.

ICAHN CHARTER SCHOOL 3
Notes to Financial Statements
June 30, 2010 and 2009

1. 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. At June 30, 2010 and 2009, the Charter School did not have any temporarily restricted net assets.

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, 2010 and 2009, the Charter School did not have any permanently restricted net assets.

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, contributions and grants.

ICAHN CHARTER SCHOOL 3
Notes to Financial Statements
June 30, 2010 and 2009

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 recorded as income in the period received.

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. Included in Cash and Cash Equivalents is a reserve fund of \$50,000 to cover debts in the event of the Charter School's dissolution.

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.

ICAHN CHARTER SCHOOL 3
Notes to Financial Statements
June 30, 2010 and 2009

Capital Assets

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

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 approximately \$89,000 and \$95,000 for the year ended June 30, 2010 and 2009, respectively, is recorded as contributed space and is recognized as revenue within state and local grants, and also included within regular education expenses in the statement of activities based on the fair value of the space received.

Taxes

On July 1, 2009, the Charter School adopted Accounting Standards Codification (“ASC”) 740 “Income Taxes.” ASC 740 requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The adoption of this guidance did not have an impact on the Charter School’s financial statements, as management believes that there are no uncertain tax positions within its financial statements.

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.

Reclassifications

Certain account balances as of June 30, 2009 have been reclassified in order to conform with the presentation of the June 30, 2010 financial statements.

ICAHN CHARTER SCHOOL 3
Notes to Financial Statements
June 30, 2010 and 2009

3. CAPITAL ASSETS, NET

At June 30, 2010 and 2009, capital assets consisted of the following:

	<u>2010</u>	<u>2009</u>
Library, software and textbooks	\$ 77,595	\$ 48,157
Equipment	45,998	42,061
Furniture and fixtures	<u>36,286</u>	<u>33,055</u>
	159,879	123,273
Less: Accumulated depreciation	<u>(78,345)</u>	<u>(32,017)</u>
	<u>\$ 81,534</u>	<u>\$ 91,256</u>

Included in equipment as of June 30, 2010 are assets acquired under capital leases at a cost of approximately \$17,000 with accumulated depreciation of approximately \$6,000.

Depreciation expense totaled approximately \$46,000 and \$32,000 for the years ended June 30, 2010 and 2009, respectively.

4. 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.

At June 30, 2010 and 2009, accounts payable and accrued expenses included approximately \$31,000 and \$59,000 for shared expenses payable to Icahn Charter School 1, an affiliated organization. Shared expenses include prorated salaries, based on student enrollment, for two administrators at Icahn Charter School 1 who serve in management capacity at Icahn Charter School 3.

5. 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 approximately \$1,768,000 and \$1,276,000 for the year ended June 30, 2010 and 2009, respectively. The Charter School is dependent upon this level of funding in order to continue its operations.

ICAHN CHARTER SCHOOL 3
Notes to Financial Statements
June 30, 2010 and 2009

6. 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, 2010 follow:

Year Ending June 30,

2011	\$	3,876
2012		3,876
2013		3,876
2014		<u>968</u>
		12,596
Less: Interest		<u>(862)</u>
		<u><u>\$ 11,734</u></u>

7. 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 approximately \$29,000 and \$12,000 for the year ended June 30, 2010 and 2009, respectively.

8. SUBSEQUENT EVENT

The School evaluated its June 30, 2010 financial statements for subsequent events through October 29, 2010, the date the financial statements were available to be issued. The School is not aware of any Subsequent events which would require recognition or disclosure in the accompanying financial statements.

**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 years ended June 30, 2010 and 2009, and have issued our report thereon dated October 29, 2010. 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 express no such opinion.

A deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Charter School’s financial statements will not be prevented, detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Charter School’s internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

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, 2010

SUPPLEMENTARY INFORMATION

ICAHN CHARTER SCHOOL 3

Schedule of Functional Expenses

For the year ended June 30, 2010 with comparative totals for 2009

	Program Services			Management and General	2010 Total	2009 Total
	Regular Education	Special Education	Total			
PERSONNEL SERVICES COSTS						
Administrative staff personnel	\$ 154,027	\$ -	\$ 154,027	\$ 132,194	\$ 286,221	\$ 259,836
Instructional personnel	808,947	22,342	831,289	-	831,289	581,767
Non-instructional personnel	16,528	-	16,528	46,913	63,441	58,921
Total personnel service costs	<u>979,502</u>	<u>22,342</u>	<u>1,001,844</u>	<u>179,107</u>	<u>1,180,951</u>	<u>900,524</u>
Fringe benefits and payroll taxes	199,346	6,742	206,088	31,930	238,018	165,113
Retirement	19,994	1,117	21,111	7,854	28,965	11,565
Legal service	-	-	-	2,248	2,248	3,825
Accounting/audit services	16,496	1,419	17,915	4,886	22,801	-
Other purchased/professional/consulting services	7,948	-	7,948	941	8,889	7,540
Building and land rent/lease	70,157	-	70,157	19,134	89,291	94,937
Repairs and maintenance	2,986	-	2,986	814	3,800	47,815
Insurance	26,550	-	26,550	7,241	33,791	23,653
Utilities	2,679	230	2,909	793	3,702	5,458
Supplies/materials	55,387	-	55,387	-	55,387	106,447
Equipment/furnishings	1,629	-	1,629	-	1,629	7
Staff development	56,193	-	56,193	-	56,193	43,337
Technology	22,211	179	22,390	6,106	28,496	2,545
Food service	6,444	-	6,444	-	6,444	117
Student services	42,693	968	43,661	-	43,661	9,565
Office expense	13,057	27	13,084	3,568	16,652	22,098
Depreciation	35,240	2,653	37,893	8,434	46,327	32,017
Other	18,115	-	18,115	1,634	19,749	3,168
Total expenses	<u>\$ 1,576,627</u>	<u>\$ 35,677</u>	<u>\$ 1,612,304</u>	<u>\$ 274,690</u>	<u>\$ 1,886,994</u>	<u>\$ 1,479,731</u>

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