

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

ICAHN CHARTER SCHOOL 4

June 30, 2010

ICAHN CHARTER SCHOOL 4

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the
Icahn Charter School 4

We have audited the accompanying statement of financial position of the Icahn Charter School 4 (the “Charter School”) as of June 30, 2010, 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 4 as of June 30, 2010, 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, 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 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 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 audit 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 4
Statement of Financial Position
As of June 30, 2010

ASSETS

Cash and cash equivalents	\$ 436,420
Grants and contracts receivable	87,833
Prepaid expenses	25,871
Contributions and other receivable	1,136
Capital assets, net	<u>162,380</u>
Total assets	<u>\$ 713,640</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	66,534
Accrued payroll and benefits	133,753
Due to school district	4,630
Deferred revenue	70,680
Obligation under capital lease	<u>27,251</u>
Total liabilities	302,848

Commitments

Net assets - unrestricted	<u>410,792</u>
Total liabilities and net assets	<u>\$ 713,640</u>

The accompanying notes are an integral part of this statement.

ICAHN CHARTER SCHOOL 4
Statement of Activities
For the year ended June 30, 2010

REVENUES, GAINS AND OTHER SUPPORT

Public School District:	
Resident student enrollment	\$ 1,282,497
Grants and contracts:	
State and local	151,094
Federal- Title and IDEA	99,287
Federal- Other	<u>251,472</u>
 Total revenues, gains and other support	 <u>1,784,350</u>

EXPENSES

Program services:	
Regular education	1,088,079
Supporting services:	
Management and general	<u>286,637</u>
 Total expenses	 <u>1,374,716</u>
 Surplus from school operations	 <u>409,634</u>

OTHER REVENUE

Interest income	270
Miscellaneous income	<u>888</u>
 Total other revenue	 <u>1,158</u>
 Increase in net assets	 410,792
 Net assets, beginning of year	 <u>-</u>
 Net assets, end of year	 <u>\$ 410,792</u>

The accompanying notes are an integral part of this statement.

ICAHN CHARTER SCHOOL 4
Statement of Cash Flows
For the year ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 410,792
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	43,257
Changes in assets and liabilities:	
Increase in grants and contracts receivable	(87,833)
Increase in prepaid expenses	(25,871)
Increase in contributions and other receivables	(1,136)
Increase in accounts payable	66,534
Increase in accrued liabilities	133,753
Increase in due to school district	4,630
Increase in deferred revenue	<u>70,680</u>
Net cash provided by operating activities	<u>614,806</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Purchase of equipment	<u>(174,067)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital lease payments	<u>(4,319)</u>
Net increase in cash and cash equivalents	436,420
Cash and cash equivalent, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 436,420</u>
Supplemental cash flow:	
Equipment acquired under a capital lease	<u>\$ 31,570</u>

The accompanying notes are an integral part of this statement.

ICAHN CHARTER SCHOOL 4

Notes to Financial Statements

June 30, 2010

1. NATURE OF OPERATIONS

The Icahn Charter School 4 (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 December 5, 2008 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, 2009.

The Charter School had applied for exemption 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). The Charter School is awaiting final determination on tax exemption.

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, 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, 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 4
Notes to Financial Statements
June 30, 2010

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 \$25,000 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 4
Notes to Financial Statements
June 30, 2010

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 \$50,000 for the year ended June 30, 2010, 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.

ICAHN CHARTER SCHOOL 4
Notes to Financial Statements
June 30, 2010

3. CAPITAL ASSETS, NET

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

Library, software and textbooks	\$ 72,391
Equipment	102,610
Furniture and fixtures	<u>30,636</u>
	205,637
Less: Accumulated depreciation	<u>(43,257)</u>
	<u>\$ 162,380</u>

Included in equipment as of June 30, 2010 are assets acquired under capital leases at a cost of approximately \$32,000 with accumulated depreciation of approximately \$5,000.

Depreciation expense totaled approximately \$43,000 for the year ended June 30, 2010.

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, accounts payable and accrued expenses included \$21,200 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 4.

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 \$1,282,000 for the year ended June 30, 2010. The Charter School is dependent upon this level of funding in order to continue its operations.

ICAHN CHARTER SCHOOL 4
Notes to Financial Statements
June 30, 2010

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	\$ 7,020
2012	7,020
2013	7,020
2014	7,020
2015	<u>1,755</u>
	29,835
Less: Interest	<u>(2,584)</u>
	<u>\$ 27,251</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 \$16,000 for the year ended June 30, 2010.

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 4

We have audited the financial statements of the Icahn Charter School 4 (the “Charter School”) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. 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 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 4
Schedule of Functional Expenses
For the year ended June 30, 2010

	Regular Education	Management and General	Total
Personnel services costs			
Administrative staff personnel	\$ 128,504	\$ 143,855	\$ 272,359
Instructional personnel	481,495	-	481,495
Non-Instructional Personnel	-	65,269	65,269
	<u>609,999</u>	<u>209,124</u>	<u>819,123</u>
Total personnel services costs			
Employee benefits and payroll taxes	108,746	34,079	142,825
Retirement	6,138	9,586	15,724
Legal service	-	329	329
Other purchased/professional/consulting services	6,803	906	7,709
Building and land rent/lease	38,909	10,611	49,520
Repairs and maintenance	939	256	1,195
Insurance	20,258	5,525	25,783
Supplies/materials	92,854	-	92,854
Equipment/furnishings	2,507	389	2,896
Staff development	112,982	-	112,982
Marketing/recruitment	204	56	260
Technology	3,143	857	4,000
Food service	1,533	-	1,533
Student services	19,005	-	19,005
Office expenses	23,329	6,362	29,691
Depreciation	36,091	7,166	43,257
Other purchased/professional/consulting services	4,639	1,391	6,030
	<u>1,088,079</u>	<u>286,637</u>	<u>1,374,716</u>
Total expenses			

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