

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

ICAHN CHARTER SCHOOL 5

June 30, 2014 and 2013

ICAHN CHARTER SCHOOL 5

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the
Icahn Charter School 5

Report on the financial statements

We have audited the accompanying financial statements of Icahn Charter School 5 (the “Charter School”), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School’s preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charter School as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 30, 2014, 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.

Grant Thornton LLP

New York, New York
October 30, 2014

ICAHN CHARTER SCHOOL 5
Statements of Financial Position
As of June 30, 2014 and 2013

ASSETS	2014	2013
Cash and cash equivalents	\$ 656,414	\$ 549,895
Grants and contracts receivable	55,706	77,570
Prepaid expenses	45,322	60,161
Contributions and other receivables	2,324	9,752
Capital assets, net	<u>216,876</u>	<u>276,062</u>
Total assets	<u>\$ 976,642</u>	<u>\$ 973,440</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 81,614	\$ 126,023
Accrued payroll and benefits	249,019	204,264
Deferred revenue	97,089	86,264
Obligation under capital lease	<u>15,565</u>	<u>19,604</u>
Total liabilities	<u>443,287</u>	<u>436,155</u>
Commitments and contingencies		
NET ASSETS - unrestricted	<u>533,355</u>	<u>537,285</u>
Total liabilities and net assets	<u>\$ 976,642</u>	<u>\$ 973,440</u>

The accompanying notes are an integral part of these statements.

ICAHN CHARTER SCHOOL 5
Statements of Activities
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
REVENUES, GAINS AND OTHER SUPPORT		
Public School District:		
Resident student enrollment	\$ 2,416,393	\$ 1,918,108
Students with disabilities	29,800	21,884
Grants and contracts:		
State and local	166,654	127,350
Federal - Title and IDEA	69,869	82,698
Federal - other	90,852	151,414
Other grants	11,539	23,597
	<u>2,785,107</u>	<u>2,325,051</u>
Total revenues, gains and other support		
EXPENSES		
Program services:		
Regular education	2,378,673	1,838,794
Special education	69,400	45,336
	<u>2,448,073</u>	<u>1,884,130</u>
Total program services		
Supporting services:		
Management and general	428,340	393,181
	<u>2,876,413</u>	<u>2,277,311</u>
Total operating expenses		
	<u>(91,306)</u>	<u>47,740</u>
(Deficit) surplus from school operations		
OTHER REVENUE		
Contributions:		
Foundation	33,043	127,880
Corporation	53,433	61,026
Interest income	162	141
Miscellaneous income	738	654
	<u>87,376</u>	<u>189,701</u>
Total other revenue		
	<u>(3,930)</u>	<u>237,441</u>
Change in net assets		
Net assets, beginning of year	537,285	299,844
Net assets, end of year	<u>\$ 533,355</u>	<u>\$ 537,285</u>

The accompanying notes are an integral part of these statements.

ICAHN CHARTER SCHOOL 5
Statements of Cash Flows
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,930)	\$ 237,441
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	122,288	66,422
Loss on disposal of equipment	-	279
Change in assets and liabilities:		
Decrease (increase) in grants and contracts receivable	21,864	(58,838)
Decrease in due from school district	-	2,773
Decrease (increase) in prepaid expenses	14,839	(31,719)
Decrease (increase) in contributions and other receivables	7,428	(5,089)
(Decrease) increase in accounts payable and accrued expenses	(44,409)	100,418
Increase in accrued payroll and benefits	44,755	65,940
Increase in deferred revenue	<u>10,825</u>	<u>22,840</u>
Net cash provided by operating activities	<u>173,660</u>	<u>400,467</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Purchases of equipment	<u>(63,102)</u>	<u>(254,858)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease payments	<u>(4,039)</u>	<u>-</u>
Net increase in cash and cash equivalents	106,519	145,609
Cash and cash equivalent, beginning of year	<u>549,895</u>	<u>404,286</u>
Cash and cash equivalents, end of year	<u>\$ 656,414</u>	<u>\$ 549,895</u>
Supplemental disclosure of cash flow information:		
Equipment acquired under capital leases	<u>\$ -</u>	<u>\$ 19,604</u>

The accompanying notes are an integral part of these statements.

ICAHN CHARTER SCHOOL 5

Notes to Financial Statements

June 30, 2014 and 2013

1. NATURE OF OPERATIONS

The Icahn Charter School 5 (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 January 12, 2010, 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 10, 2012.

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 stipulations 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, 2014 and 2013, 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, 2014 and 2013, 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.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by explicit donor-imposed restrictions. Public school district 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.

ICAHN CHARTER SCHOOL 5

Notes to Financial Statements

June 30, 2014 and 2013

Revenue from grants and contracts is recognized as the related expenses are incurred in accordance with the terms of the respective grant or contract agreement. Amounts received in advance are reported as deferred revenues.

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.

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 statements 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

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. As of June 30, 2014 and 2013, there was no allowance for uncollectible receivables. All contributions receivable as of June 30, 2014 and 2013 are expected to be collected within one year.

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 at June 30, 2014 and 2013 is a reserve fund of \$75,000 and \$50,000, respectively, 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 5

Notes to Financial Statements

June 30, 2014 and 2013

Capital Assets

Furniture, fixtures, equipment, library and textbooks are stated at cost net of depreciation, or fair value at date of contribution, if donated. The Charter School capitalizes all property and equipment with a cost of at least \$1,000 and an estimated useful life of more than one year. 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 and fixtures	3 years
Equipment	3-5 years
Library, software and textbooks	3 years

Taxes

The Charter School recognizes or derecognizes a tax position based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The Charter School evaluated its tax positions and concluded that there are no uncertain tax positions within its financial statements. The tax years ended 2011, 2012, 2013, and 2014 are still open to audit for both federal and state purposes.

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.

3. CAPITAL ASSETS, NET

At June 30, 2014 and 2013, capital assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Library, software and textbooks	\$ 23,177	\$ 21,816
Equipment	368,278	318,802
Furniture and fixtures	<u>29,341</u>	<u>17,076</u>
	420,796	357,694
Less: Accumulated depreciation	<u>(203,920)</u>	<u>(81,632)</u>
	<u>\$ 216,876</u>	<u>\$ 276,062</u>

Included in equipment as of June 30, 2014 and June 30, 2013 are assets acquired under capital leases at a cost of approximately \$22,000 with accumulated depreciation of approximately \$6,000 and \$2,000, respectively.

Depreciation expense totaled approximately \$122,000 and \$66,000 for the years ended June 30, 2014 and 2013, respectively.

ICAHN CHARTER SCHOOL 5

Notes to Financial Statements

June 30, 2014 and 2013

4. RELATED PARTY TRANSACTIONS

Legal services are provided at no cost by the Icahn Associates Corp. (the “Company”), a company affiliated with 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 utilizes certain facilities provided by Inwood Opportunity, an Organization affiliated with the Company, at no cost. The fair value of cost savings associated with such arrangement which totaled approximately \$153,000 and \$116,000 for the years ended June 30, 2014 and 2013 is recognized as revenue within state and local grants, and also included within expenses in the statement of activities.

Certain expenses are shared amongst the seven Icahn Charter Schools (affiliated entities) and amounts may also be received on behalf of another Icahn Charter School. Shared expenses primarily related to prorated salaries, based on student enrollment, for administrators at Icahn Charter School 1 who serve in a management capacity at the Charter School. Icahn Charter School 5 is also located in a building shared with Icahn Charter School 3 and Icahn Charter School 4. The three schools share certain resources that generate expenses that are prorated between the schools. At June 30, 2014 and 2013, accounts payable and accrued expenses included approximately \$39,000 and \$88,000, respectively, and other receivables included approximately \$1,000 and \$1,000, respectively, pertaining to these related party transactions.

5. CONTRIBUTED SERVICES

The Charter School utilizes certain transportation and food services provided by the New York City public school system at no cost. The Charter School is unable to determine the fair value for these services, and as such this is not reflected on the accompanying financial statements.

6. 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 \$2,446,000 and \$1,940,000 for the years ended June 30, 2014 and 2013, respectively. The Charter School is dependent upon this level of funding in order to continue its operations.

ICAHN CHARTER SCHOOL 5

Notes to Financial Statements

June 30, 2014 and 2013

7. 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, 2014 follow:

Year Ending June 30,

2015	\$ 4,794
2016	4,794
2017	4,794
2018	<u>2,397</u>
Total	16,779
Less: interest	<u>(1,214)</u>
	<u>\$ 15,565</u>

8. PENSION PLAN

The Charter School has a defined contribution plan (the "Plan"), administered by T Rowe Price, for all full-time personnel. Contributions by the Charter School to the Plan totaled approximately \$44,000 and \$34,000 for the years ended June 30, 2014 and 2013, respectively.

9. COMMITMENTS AND CONTINGENCIES

Government Agency Audits

The Charter School participates in a number of federal and state programs. These programs require that the Charter School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government contracts by government agencies is presently not determinable, it should not, in the opinion of management, have a material effect on the Charter School's financial position or change in net assets. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

Litigation

The Charter School may be involved in various legal actions from time to time arising in the normal course of business. In the opinion of management, there are no matters outstanding that would have a material adverse effect on the financial statements of the Charter School.

ICAHN CHARTER SCHOOL 5
Notes to Financial Statements
June 30, 2014 and 2013

10. SUBSEQUENT EVENTS

The Charter School evaluated its June 30, 2014 and 2013 financial statements for subsequent events through October 30, 2014, the date the financial statements were available to be issued. The Charter 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 AS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of the
Icahn Charter School 5

We have audited, 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, the financial statements of Icahn Charter School 5 (the “Charter School”), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2014.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Charter School’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School’s internal control.

A deficiency in internal control 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, such that there is a reasonable possibility that a material misstatement of the Charter School’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Charter School’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Charter School's financial statements are free from 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 audit, 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*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York
October 30, 2014

SUPPLEMENTARY INFORMATION

ICAHN CHARTER SCHOOL 5

Schedule of Functional Expenses

For the year ended June 30, 2014, with comparative totals for 2013

	Program Services			Management and General	2014 Total	2013 Total
	Regular Education	Special Education	Total			
PERSONNEL SERVICES COSTS:						
Administrative staff personnel	\$ 156,391	\$ -	\$ 156,391	\$ 152,127	\$ 308,518	\$ 288,741
Instructional personnel	995,770	-	995,770	-	995,770	765,080
Non-instructional personnel	-	-	-	147,315	147,315	107,121
Total personnel service costs	1,152,161	-	1,152,161	299,442	1,451,603	1,160,942
Fringe benefits and payroll taxes	282,667	490	283,157	15,953	299,110	221,691
Retirement	37,139	-	37,139	6,447	43,586	34,482
Legal service	348	-	348	80	428	372
Accounting /audit services	20,086	1,636	21,722	4,965	26,687	25,192
Other purchased/professional/consulting services	8,512	29,800	38,312	1,002	39,314	31,236
Building and land rent/lease	115,030	9,369	124,399	28,434	152,833	116,048
Repairs and maintenance	46,801	1,196	47,997	10,780	58,777	16,235
Insurance	15,978	-	15,978	3,652	19,630	22,929
Utilities	39,674	3,231	42,905	9,807	52,712	36,280
Supplies/materials	227,060	12,742	239,802	-	239,802	216,125
Equipment/furnishings	2,369	-	2,369	95	2,464	5,930
Staff development	140,218	-	140,218	-	140,218	134,932
Marketing /recruitment	1,312	-	1,312	300	1,612	895
Technology	54,904	515	55,419	12,667	68,086	81,893
Telephone	4,467	364	4,831	1,104	5,935	7,406
Food service	3,670	-	3,670	-	3,670	2,821
Student services	97,911	1,684	99,595	-	99,595	51,817
Office expense	21,749	877	22,626	5,113	27,739	25,560
Depreciation	92,610	7,448	100,058	22,230	122,288	66,422
Other	14,007	48	14,055	6,269	20,324	18,103
Total expenses	<u>\$ 2,378,673</u>	<u>\$ 69,400</u>	<u>\$ 2,448,073</u>	<u>\$ 428,340</u>	<u>\$ 2,876,413</u>	<u>\$ 2,277,311</u>

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