

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

ICAHN CHARTER SCHOOL 5

June 30, 2012

ICAHN CHARTER SCHOOL 5

TABLE OF CONTENTS

	Page
Report of Independent Certified Public Accountants	1 - 2
Financial Statements	
Statement of Financial Position as of June 30, 2012	3
Statement of Activities for the Year Ended June 30, 2012	4
Statement of Cash Flows for the Year Ended June 30, 2012	5
Notes to Financial Statements	6 - 10
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters	11 - 12
Supplementary Information	
Schedule of Functional Expenses for the Year Ended June 30, 2012	14

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the
Icahn Charter School 5

We have audited the accompanying statement of financial position of the Icahn Charter School 5 (the “Charter School”) as of June 30, 2012, 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 5 as of June 30, 2012, 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 November 9, 2012, 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 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 audit 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 established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole

Grant Thornton LLP

New York, New York
November 9, 2012

ICAHN CHARTER SCHOOL 5
Statement of Financial Position
As of June 30, 2012

ASSETS

Cash and cash equivalents	\$ 404,286
Grants and contracts receivable	18,732
Due from school district	2,773
Prepaid expenses	28,442
Contributions and other receivable	4,663
Capital assets, net	<u>68,301</u>
Total assets	<u>\$ 527,197</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	25,605
Accrued payroll and benefits	138,324
Deferred revenue	<u>63,424</u>
Total liabilities	<u>227,353</u>

Commitments

Net assets - unrestricted	<u>299,844</u>
Total liabilities and net assets	<u>\$ 527,197</u>

The accompanying notes are an integral part of this statement.

ICAHN CHARTER SCHOOL 5

Statement of Activities

For the year ended June 30, 2012

REVENUES, GAINS AND OTHER SUPPORT

Public School District:

Resident student enrollment	\$ 1,376,295
Students with disabilities	11,475

Grants and contracts:

State and local	84,797
Federal - Title and IDEA	63,022
Federal - Other	219,170
Other Grants	<u>4,202</u>

Total revenues, gains and other support	<u>1,758,961</u>
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EXPENSES

Program services:

Regular education	1,192,868
Special Education	<u>31,802</u>

Total program services	1,224,670
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Supporting services:

Management and general	<u>266,909</u>
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Total operating expenses	<u>1,491,579</u>
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Surplus from school operations	<u>267,382</u>
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OTHER REVENUE

Contributions:

Foundation	20,219
Corporation	11,700
Interest income	49
Miscellaneous income	<u>494</u>

Total other revenue	<u>32,462</u>
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Increase in net assets	299,844
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Net assets, beginning of year	<u>-</u>
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Net assets, end of year	<u>\$ 299,844</u>
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The accompanying notes are an integral part of this statement.

ICAHN CHARTER SCHOOL 5

Statement of Cash Flows

For the year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 299,844
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	15,600
Change in assets and liabilities:	
Increase in grants and contracts receivable	(18,732)
Increase in due from school district	(2,773)
Increase in prepaid expenses	(28,442)
Increase in contributions and other receivables	(4,663)
Increase in accounts payable and accrued expenses	25,605
Increase in accrued payroll and benefits	138,324
Increase in deferred revenue	<u>63,424</u>
Net cash provided by operating activities	<u>488,187</u>

CASH FLOWS FROM INVESTMENT ACTIVITIES

Purchase of equipment	<u>(83,901)</u>
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Net increase in cash and cash equivalents	404,286
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Cash and cash equivalent, beginning of year	<u>-</u>
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Cash and cash equivalents, end of year	<u>\$ 404,286</u>
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The accompanying notes are an integral part of this statement.

ICAHN CHARTER SCHOOL 5

Notes to Financial Statements

June 30, 2012

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 12, 2011.

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, 2012, 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, 2012, 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 5

Notes to Financial Statements

June 30, 2012

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.

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. 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 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 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 5

Notes to Financial Statements

June 30, 2012

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 \$500 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 Charter School is no longer subject to audits for periods 2008 and prior.

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, 2012, capital assets consisted of the following:

Library, software and textbooks	\$ 19,966
Equipment	62,757
Furniture and fixtures	<u>1,178</u>
	83,901
Less: Accumulated depreciation	<u>(15,600)</u>
	<u><u>\$ 68,301</u></u>

Depreciation expense totaled approximately \$16,000 for the year ended June 30, 2012.

ICAHN CHARTER SCHOOL 5

Notes to Financial Statements

June 30, 2012

4. RELATED PARTY TRANSACTIONS

Certain payroll and 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 cost savings associated with such arrangement which totaled approximately \$77,000 for the year ended June 30, 2012, 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.

At June 30, 2012, accounts payable and accrued expenses included approximately \$5,000 for shared expenses payable to Icahn Charter School 1, an affiliated organization. Shared expenses include prorated salaries, based on student enrollment, for eight administrators at Icahn Charter School 1 who serve in management capacity at Icahn Charter School 5.

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 \$1,376,000 for the year ended June 30, 2012. The Charter School is dependent upon this level of funding in order to continue its operations.

6. 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 \$17,000 for the year ended June 30, 2012.

7. COMMITMENTS AND CONTINGENCIES

Government Agency Audits

The Charter School participates in a number of federal and state programs. These programs require that the 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 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.

ICAHN CHARTER SCHOOL 5
Notes to Financial Statements
June 30, 2012

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.

8. SUBSEQUENT EVENTS

The Charter School evaluated its June 30, 2012 financial statements for subsequent events through November 9, 2012, 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**

To the Board of Directors of the
Icahn Charter School 5

We have audited the financial statements of the Icahn Charter School 5 (the “Charter School”) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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 an 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 audits 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
November 9, 2012

SUPPLEMENTARY INFORMATION

ICAHN CHARTER SCHOOL 5
Schedule of Functional Expenses
For the year ended June 30, 2012

	Program Services			Management and General	Total
	Regular Education	Special Education	Total		
Personnel Services Costs:					
Administrative staff personnel	\$ 134,582	\$ -	\$ 134,582	\$ 114,362	\$ 248,944
Instructional personnel	484,438	-	484,438	-	484,438
Non-instructional personnel	-	-	-	73,485	73,485
Total personnel service costs	619,020	-	619,020	187,847	806,867
Fringe benefits and payroll taxes	136,180	6,059	142,239	29,442	171,681
Retirement	11,974	-	11,974	4,806	16,780
Legal service	127	-	127	38	165
Other purchased/professional/consulting services	6,047	11,474	17,521	1,128	18,649
Building and land rent/lease	53,702	5,021	58,723	17,617	76,340
Repairs and maintenance	4,844	453	5,297	1,589	6,886
Insurance	18,503	-	18,503	5,551	24,054
Utilities	12,315	1,151	13,466	4,040	17,506
Supplies/materials	129,694	5,649	135,343	-	135,343
Equipment/furnishings	5,683	-	5,683	260	5,943
Staff development	116,740	-	116,740	-	116,740
Marketing /recruitment	214	-	214	64	278
Technology	14,691	204	14,895	4,468	19,363
Telephone	1,118	105	1,223	367	1,590
Food service	1,886	-	1,886	-	1,886
Student services	30,986	510	31,496	-	31,496
Office expense	13,296	163	13,459	4,038	17,497
Depreciation	10,836	1,013	11,849	3,751	15,600
Other	5,012	-	5,012	1,903	6,915
Total expenses	<u>\$ 1,192,868</u>	<u>\$ 31,802</u>	<u>\$ 1,224,670</u>	<u>\$ 266,909</u>	<u>\$ 1,491,579</u>

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