

**INTERNATIONAL LEADERSHIP
CHARTER SCHOOL**

FINANCIAL STATEMENTS

JUNE 30, 2007

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

CONTENTS
June 30, 2007

Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 9
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10 - 11
Schedule of Findings and Responses	12 - 13



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
International Leadership Charter School

We have audited the accompanying statement of financial position of International Leadership Charter School (the "School") as of June 30, 2007, and the related statements of activities, functional expenses, and cash flows for the period from January 10, 2006 (date of inception) to June 30, 2007. These financial statements are the responsibility of the 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 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 School as of June 30, 2007, and the changes in its net assets and its cash flows for the period from January 10, 2006 (date of inception) to June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 7 to the financial statements, the School has been placed on probation by the Department of Education of the City of New York. This raises substantial doubt about the School's ability to continue as a going concern. The Board of Trustees' plans in regard to these matters are also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2007, on our consideration of the 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.

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INTERNATIONAL LEADERSHIP CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2007

ASSETS

Cash	\$ 19,180
Grants Receivable	120,984
Due from Affiliate	36,932
Security Deposit and Other Assets	72,669
Property and Equipment, net	218,943
Total Assets	\$468,708

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$312,462
Refundable advances	137,241
Deferred rent obligation	80,536
Total liabilities	530,239

Commitments and Contingencies

Net Assets:

Unrestricted	(111,531)
Temporarily restricted - time restricted for fiscal 2008	50,000
Total deficiency in net assets	(61,531)
Total Liabilities and Deficiency in Net Assets	\$468,708

See Independent Auditor's Report and
Notes to Financial Statements

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Period from January 10, 2006 (date of inception) to June 30, 2007

Changes in unrestricted net assets	
Operating revenue:	
State and local per pupil operating revenue	\$ 936,224
Government grants and contracts	372,044
Total operating revenue	1,308,268
Expenses:	
Education	1,444,524
General and administrative	271,935
Total operating expenses	1,716,459
Deficit from School operations	(408,191)
Other unrestricted revenue and expenses:	
Contributions	253,525
Donated services	100,000
Other income	167
Fund-raising	(57,032)
Total other unrestricted revenue and expenses	296,660
Change in unrestricted net assets	(111,531)
Temporarily restricted contribution and change in temporarily restricted net assets	50,000
Change in net assets and deficiency in net assets at end of period	\$ (61,531)

See Independent Auditor's Report and
Notes to Financial Statements

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

Period from January 10, 2006 (date of inception) to June 30, 2007

	Education	General and Administrative	Fund-raising	Total
Salaries	\$ 396,509	\$ 77,510	\$17,615	\$ 491,634
Payroll taxes and benefits	65,471	12,798	2,909	81,178
Curricula and books	85,667			85,667
Instructional supplies and equipment	28,798	804	179	29,781
Contractual services	142,061	9,101	2,048	153,210
Student meals	44,441			44,441
Professional fees	153,764	61,959	8,692	224,415
Marketing and recruiting	32,474	1,261	287	34,022
Office supplies		28,919	7,230	36,149
Occupancy	237,814	46,488	10,565	294,867
Utilities	49,696	9,715	2,208	61,619
Facility maintenance and security	60,763	11,878	2,699	75,340
Professional development	102,927	2,874	639	106,440
Insurance	18,084	3,535	803	22,422
Depreciation and amortization	13,429	2,625	597	16,651
Other expenses	12,626	2,468	561	15,655
	\$1,444,524	\$271,935	\$57,032	\$1,773,491

See Independent Auditor's Report and
Notes to Financial Statements

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

STATEMENT OF CASH FLOWS

Period from January 10, 2006 (date of inception) to June 30, 2007

Cash flows from operating activities:	
Change in net assets	\$ (61,531)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	16,651
Deferred rent obligation	80,536
Changes in operating assets and liabilities:	
Increase in grants receivable	(120,984)
Increase in due from affiliate	(36,932)
Increase in security deposit and other assets	(72,669)
Increase in accounts payable and accrued expenses	312,462
Increase in refundable advances	137,241
Net cash provided by operating activities	254,774
Cash used in investing activity - fixed asset acquisitions	(235,594)
Net increase in cash	19,180
Cash at end of period	\$ 19,180

See Independent Auditor's Report and
Notes to Financial Statements

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

International Leadership Charter School (the "School") is an educational corporation that operates in the borough of the Bronx, New York City. On January 10, 2006, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

During the period from January 10, 2006 to June 30, 2006, the School was dormant and had no significant revenue and expense activities. Any School related start-up activities were being handled directly by Friends of ILCS Corporation ("Friends"), a related party.

In fiscal year 2007, the School operated classes for students in the ninth grade.

The School's mission is to provide a rigorous curriculum, disciplined environment and supportive community, where their students are academically and socially prepared to excel in demanding college preparatory high schools.

The New York City Department of Education ("NYCDOE") provides free and reduced lunches and transportation directly to a majority of the School's students. The School also feeds those students who do not qualify to receive free meals.

The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The School reports gifts of cash and other assets as 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. The School reports amounts received with donor stipulations that limit the use of the assets for certain purposes as unrestricted net assets if the stipulated purpose restriction is accomplished in the same year. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled, and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recognized by the School when qualifying expenditures are incurred and billable to the government.

The School recognizes contributed services in accordance with Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*. Accordingly, contributed services are recognized as revenue and assets or expenses at fair value if those services (a) create or enhance nonfinancial assets, (b) would typically need to be

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

purchased by the School if they had not been provided by contribution or (c) require specialized skills and are provided by individuals with those skills. The School received donated legal services that have been recognized at their fair value of \$100,000 for the period ended June 30, 2007.

A number of volunteers have made a contribution of their time to the School to develop its program and to serve on the School's board of trustees. The value of this contributed time is not reflected in these financial statements.

The School maintains its cash in bank deposit accounts which, at times may exceed federally insured limits. The School has not experienced any losses in these accounts.

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$500 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title.

Expenses are classified according to the functional categories for which they are incurred, as follows:

Education services - represents expenses directly associated with general education and special educational for certain students requiring additional with attention and guidance.

Management and general - represents expenses related to the overall administration and operation of the School that are not associated with any program services or fund-raising

Fund-raising - represents expenses related to efforts to raise additional funds for the School not earned by their per pupil revenue and grants from federal, state and local government.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates and the difference could be significant.

2. RELATED PARTY TRANSACTION:

Friends is a not-for-profit organization dedicated to encourage the development of public charters schools in the Bronx specifically by promoting the creation and supporting the operation of the School. An officer of the School is also a board member of Friends.

At June 30, 2007, Friends owed the School \$36,932 for contributions it received on behalf of the School.

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

3. PROPERTY AND EQUIPMENT, NET:

Property and equipment, net, at cost, consists of the following:

June 30, 2007		Estimated Useful Life
Computer and other equipment	\$ 66,025	5 years
Furniture and fixtures	31,395	5 years
Leasehold improvements	138,174	10 years
	235,594	
Less accumulated depreciation and amortization	(16,651)	
	\$218,943	

4. COMMITMENTS:

The School has entered into a five-year noncancelable operating lease agreement with an unrelated third party for a facility in the Bronx, New York for its administrative office and instructional location. The lease expires in August 2011 and the School has an option to extend the agreement for another five-year period.

Future minimum lease payments under the lease are as follows:

Year ending June 30,

2008	\$ 563,365
2009	563,365
2010	563,365
2011	563,365
2012	70,421
	\$2,323,881

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payment required by the lease.

5. CONTINGENCIES:

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

The School is involved in various claims and legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the School or the results of its operations.

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

6. EMPLOYEE BENEFIT PLAN: The School maintains a deferred compensation plan for all qualified employees. The School may elect to make contributions to the plan on a discretionary basis, but in 2007 there were no contributions to the plan from the School.

7. PROBATIONARY STATUS: The School has been placed on probation by the NYCDOE until the close of the 2007-08 academic year. If the School fails to comply with the requirements of the probation the NYCDOE may revoke the School's charter in July 2008.

The Board of Trustees of the School has developed the following plan to comply with these requirements:

- The Board has recruited five new members with the necessary expertise to provide proper oversight. These individuals include a retired NYC school superintendent, a banker, a nonprofit executive, a foundation President and a media specialist. The Board continues to identify individuals who bring and represent a diversity of perspectives, especially in the areas of finance and education, and legal expertise.
- The School has hired a Director of Instruction in July 2007 to lead, supervise and support the teaching faculty at the School. She is being supported by two educational consultants who are retired principals.
- In August 2007, a Business Manager was hired to run the School's operations.
- The Board has developed a succession plan and has retained a national search firm to identify qualified candidates for the position of Head of School.
- The Board is developing a governance plan to support and demonstrate its capacity to deliver on the proposed transition timeline and terms of the probation.



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REPORT 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

The Board of Trustees
International Leadership Charter School

We have audited the financial statements of the International Leadership Charter School (the "School") as of and for the period from January 10, 2006 (date of inception) to June 30, 2007, and have issued our report thereon dated October 30, 2007. 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 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 School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies (2007-1 and 2007-2) described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.



Compliance and Other Matters - As part of obtaining reasonable assurance about whether the 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2007-2 and 2007-3.

Management's responses to the findings included in the accompanying schedule of findings and responses have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

We noted certain matters that we reported to the management of the School in a separate letter dated October 30, 2007.

This report is intended solely for the information and use of the audit committee, management, the Department of Education of the City of New York and the State Education Department of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

October 30, 2007

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES June 30, 2006

2007-1 Internal Control Practices Over Disbursements

Observations

During our audit, we noted a number of areas where reasonable internal control practices were not in place, or were not being enforced, in relation to disbursements. Together, these demonstrated a pattern of not giving adequate attention to the importance of financial controls. Each of these items represents a control deficiency that together create a significant deficiency.

1. Competitive bids were not sought for major purchases.
2. A former Board member was still included as an authorized signer on the School's bank accounts.
3. Checks requiring two signatures were often signed by only one signer.
4. Certain payments were made to a vendor without obtaining an invoice because the vendor insisted on being paid on the date of service.
5. Invoices that were paid by the School were not being stamped "paid", which could cause an invoice to be erroneously paid twice and overstate the expenses of the School.

Recommendations

The Board of Trustees did not follow certain of its policies and procedures. The School's management should ensure that it follows adopted policies and procedures on a regular basis and if exceptions to the procedures were decided by the Board then they should be documented properly. Specific procedures to address the noted deficiencies are as follows:

1. The policy for obtaining competitive bids for major purchases should be closely followed except in appropriately defined situations. If the policy is waived, it should be adequately documented and approved.
2. Authorized signers should be modified immediately whenever a signer severs the relationship with the School.
3. The School must ensure that it has an adequate number of check signers, and must enforce its policies regarding two signatures.
4. Payments should never be made without proper supporting documentation.
5. All invoices should be stamped and canceled when paid to avoid duplication of payment.

Management's Response

Management agrees and has already started to work with outside accounting consultants subsequent to year-end to ensure the policy and procedures manual is being adhered to.

During the School's first year of operation, there was only a four-week window after signing the lease agreement, effective August 15, 2006, to hire architects and contractors in order to renovate the facility to obtain a certificate of occupancy from the Department of Buildings in order to move in and operate their school on time. As most charter schools in similar circumstances, the School's Board agreed to waive the requirement for competitive bids during this period in order to open the School by September 11, 2006.

The former Board chair resigned in August and the resolution was provided to the bank on September 26, 2007 to remove the individual as an authorized signatory on the School's accounts.

INTERNATIONAL LEADERSHIP CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES June 30, 2006

2007-2 Maintenance of Student Records

Observations

We tested 3- student files. Missing documents included birth certificates (14 out of 30), registration forms (2 out of 30), medical forms (8 out of 30) and proof of address (15 out of 30). While the existence of completed registration forms evidenced that students met the requirements for admission to the School, lack of proper documentation in the files can make it difficult for the School to prove that each student is entitled to free public education in New York City.

Recommendation

We recommend that the School immediately review and update all student files.

Management's Response

Management agrees and the School's new business manager's responsibilities is the periodic review of student files to ensure that all files are updated and establishing procedures to ensure that all files are complete when a new student is admitted to the School.

2007-3 Maintenance of Personnel Records

Observation

We tested 10 personnel files; we noted that none were properly completed at the time of employment. Some employees did not properly fill out eligibility verification forms (i.e., Form I-9) and the required two forms of identification were not always in evidence. Also, copies of an employee's contract offer letter and a few resumes were not maintained in employee personnel files.

Recommendation

We recommend that the School review its personnel files to ensure that all employees on staff have complete personnel files.

Management's Response

Management agrees and the School's new business manager has the responsibility to review all personnel files and ensure that all files are updated and have all the required documentation to ensure the School is in compliance with its policies and federal requirements.

The School did not have a business manager to manage the personnel records from February 2007 through August 2007. The files that had missing documentation were for employees hired during that period.