

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

FISCAL YEARS ENDED JUNE 30, 2007 AND 2006

**WATSON RICE LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**JOHN V. LINDSAY WILDCAT CHARTER SCHOOL
JUNE 30, 2007 AND 2006**

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Watson Rice LLP
Certified Public Accountants and Advisors

5 Penn Plaza
New York, New York 10001
www.watsonrice.com

Telephone: 212.447.7300
Facsimile: 212.683.6031
watsonrice@watsonrice.com

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees of
John V. Lindsay Wildcat Charter School

We have audited the accompanying statement of financial position of John V. Lindsay Wildcat Charter School (the "School") as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. 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. The prior year comparative information has been derived from the School's 2006 financial statements, which were done by other auditors, whose report, dated January 2, 2007, expressed an unqualified opinion on those statements.

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 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 5, 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.

INDEPENDENT AUDITOR'S REPORT

The Schedule of Functional Expenses on pages 12 to 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

New York, New York
October 5, 2007

Watson Rice LLP

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2007 AND 2006

ASSETS	2007	2006
Current Assets:		
Cash and cash equivalents	\$ 2,203,529	\$ 2,132,972
Grant receivable	334,067	339,753
Other receivables	288,975	232,725
Other assets	2,451	4,389
Total current assets	<u>2,829,022</u>	<u>2,709,839</u>
Equipment and leasehold improvements		
Self acquired, net	32,771	45,550
Donated and restricted by grantor, net	123,627	150,666
Total Equipment and leasehold improvements, net	<u>156,398</u>	<u>196,216</u>
Total Assets	<u>\$ 2,985,420</u>	<u>\$ 2,906,055</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 22,702	\$ 12,654
Accrued expenses	463,760	386,263
Refundable advances	162,074	11,992
Total liabilities	<u>648,536</u>	<u>410,909</u>
Net assets:		
Unrestricted	2,213,257	2,344,480
Temporarily restricted	123,627	150,666
Total net assets	<u>2,336,884</u>	<u>2,495,146</u>
Totals	<u>\$ 2,985,420</u>	<u>\$ 2,906,055</u>

See accompanying notes to financial statements.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2007 AND 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues:						
Public School District:						
Resident student enrollment	\$ 4,333,300	\$ -	\$ 4,333,300	\$ 3,924,033	\$ -	\$ 3,924,033
Students with disabilities	859,660	-	859,660	663,485	-	663,485
Federal grants	380,274	-	380,274	143,933	-	143,933
Private grants	87,748	-	87,748	100,000	-	100,000
Investment income	101,475	-	101,475	77,515	-	77,515
Other income	7,099	-	7,099	4,346	-	4,346
Net assets released from restrictions	27,039	(27,039)	-	27,039	(27,039)	-
Total revenues	<u>5,796,595</u>	<u>(27,039)</u>	<u>5,769,556</u>	<u>4,940,351</u>	<u>(27,039)</u>	<u>4,913,312</u>
Expenses:						
Program expenses:						
Regular education	4,461,687	-	4,461,687	3,945,097	-	3,945,097
Special education	678,113	-	678,113	311,942	-	311,942
Other program	32,156	-	32,156	48,420	-	48,420
Management and general	755,862	-	755,862	480,893	-	478,476
Total expenses	<u>5,927,818</u>	<u>-</u>	<u>5,927,818</u>	<u>4,786,352</u>	<u>-</u>	<u>4,783,935</u>
Changes in net assets	(131,223)	(27,039)	(158,262)	153,999	(27,039)	126,960
Net assets, beginning of year	<u>2,344,480</u>	<u>150,666</u>	<u>2,495,146</u>	<u>2,190,481</u>	<u>177,705</u>	<u>2,368,186</u>
Net assets, end of year	<u>\$ 2,213,257</u>	<u>\$ 123,627</u>	<u>\$ 2,336,884</u>	<u>\$ 2,344,480</u>	<u>\$ 150,666</u>	<u>\$ 2,495,146</u>

See accompanying notes to financial statements.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (158,262)	\$ 126,960
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	63,935	60,082
Changes in operating assets and liabilities:		
Grant receivable	5,686	(128,253)
Other receivables	(56,250)	(177,524)
Other assets	1,938	37,441
Accounts payable	10,048	(26,865)
Accrued expenses	77,497	25,401
Refundable advances	150,082	(28,900)
Net cash provided by (used in) operating activities	<u>94,674</u>	<u>(111,658)</u>
NET CASH FROM INVESTING ACTIVITIES:		
Acquisition of equipment	<u>(24,117)</u>	<u>(28,900)</u>
Net cash used in investing activities	<u>(24,117)</u>	<u>(28,900)</u>
NET CASH FROM FINANCING ACTIVITIES:		
	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	70,557	(140,558)
Cash and cash equivalents, beginning of year	2,132,972	2,273,530
Cash and cash equivalents, end of year	<u>\$ 2,203,529</u>	<u>\$ 2,132,972</u>

See accompanying notes to financial statements.

JOHN. V. LINDSAY WILDCAT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 ORGANIZATION

Effective September 1, 2000, John V. Lindsay Wildcat Charter School (the "School") was granted a charter valid for five years by the University of the State of New York, Education Department. The charter has been renewed for a period of two years. The School is an inner city high school serving adolescents who are at risk of failure due to poor attendance, disruptive behavior, criminal activity and poor academic achievement.

The School was organized under the Not-For-Profit Corporation Law of the State of New York and is qualified as a public foundation exempt from Federal income tax under certain provisions of the Internal Revenue Code.

On July 18, 2002, the School's Charter was amended to include a location in the Bronx, New York. This school includes an "8+" class. Prior to the amendment, the Corporation, under a contract with the New York City Human Resource Administration, provided the activities of this location which are similar to the School.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The School's financial statements are presented in conformity with the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets; which are discussed below:

Unrestricted net assets – Consists of net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.

JOHN. V. LINDSAY WILDCAT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

Temporarily restricted net assets – Consists of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization. The temporarily restricted assets include all revenues and contributions designated for program activities.

Permanently restricted net assets – Consists of assets whose use by the organization is subject to donor-imposed stipulations that the funds be maintained in perpetuity and only the interests earned from the investment of such funds may be released from restrictions and used in the School's operations.

As of June 30, 2007, the School has no permanently restricted net assets.

Revenue and Support

Pursuant to SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose of the restrictions.

Unconditional promises to give cash or other assets are recorded as contributions when the unconditional promise is made. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Recognition of revenue:

Cost recovery grants have terms which provide for reimbursements of budgeted expenditures within the grant period. These funds are received in either pre-determined installments or increments based upon expenses incurred. Accordingly, grant income is recognized in amounts equal to expenditures incurred.

Any excess or deficiency of cash receipts over expenditures incurred is reported as deferred revenue or accounts receivable. Upon termination of operations under each grant, the unexpended funds received under the terms of the grant revert to the grantor.

JOHN. V. LINDSAY WILDCAT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

Nonrefundable grants have terms which impose no limitation on the use of the funds or the period to which the funds may be applied. Accordingly, revenue is recorded over the term of the school year.

Contributed Services and Property

Pursuant to SFAS No. 116, "Accounting for Contributions Received and Contributions Made", contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period services are provided.

Cash and Cash Equivalents

For financial statement purposes, the School considers all cash and other highly liquid instruments with original maturities of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is recorded on the straight-line method over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. As of June 30, 2007, the School's depreciation or amortization periods are as follows:

	<u>Life in Years</u>
Office equipment	3
Furniture and Fixtures	5 to 7
Leasehold Improvements	2 to 7.5

Functional Expenses Allocation

The costs of providing for the School's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services that are benefited.

JOHN. V. LINDSAY WILDCAT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Income Taxes

The School is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Some accounts in the June 30, 2006 financial statements have been reclassified to conform to the June 30, 2007 financial statement presentation.

NOTE 3 CASH AND CASH EQUIVALENTS

As of June 30, the account consists of:

	<u>2007</u>	<u>2006</u>
Operating	\$ 72,475	\$ 32,116
Payroll	57,525	-
Student Incentives	3,891	86
Savings	2,019,377	2,057,514
Escrow	50,161	42,756
Other	100	500
Total	<u>\$ 2,203,529</u>	<u>\$ 2,132,972</u>

The savings account has an annual yield rate of 4.0%; interest income earned on the account amounted to \$101,475 and \$77,515 for the fiscal years ended June 30, 2007 and 2006, respectively.

JOHN. V. LINDSAY WILDCAT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 3 CASH AND CASH EQUIVALENTS - CONTINUED

The School maintains its deposits in banks and its temporary investments in financial institutions that, at times, may exceed federally insured limits. At June 30, 2007 and 2006, the School has cash and cash equivalent balances that exceeded federally insured limits in the amount of \$2,103,528 and \$2,032,972, respectively.

NOTE 4 GRANTS RECEIVABLE

The account represents Federal Title I, II, and V Funds receivable from the State of New York.

NOTE 5 OTHER RECEIVABLES

As of June 30, the account consists of:

<u>Receivable from</u>	<u>2007</u>	<u>2006</u>
Wildcat Service Corporation	\$ 163,015	\$ 232,725
New Era Transitions, Inc.	125,960	-
	<u>\$ 288,975</u>	<u>\$ 232,725</u>

The receivable from Wildcat Service Corporation ("WCS") is part of a civil case filed by WCS in the Civil Court of New York seeking payment by the School of approximately \$350,000 in unpaid rent. Upon stipulation by the parties, the hearing date for that action has been adjourned for November 1, 2007. Aside from the dispute over the unpaid rent, there are also administrative fees and other amounts allegedly owed by the School to WCS and advances and other amount allegedly owed by WCS to the School. (See Note 11)

The receivable from the New Era Transitions, Inc. (NETS), a non-profit organization incorporated in the City of New York, represents start up costs and funds advanced by the School. NETS is a related entity by affiliation, since three of its board members are also serving on the Board of the School. The School's compliance officer is also serving on the Board of NETS.

JOHN. V. LINDSAY WILDCAT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 6 PROPERTY AND EQUIPMENT

As of June 30, the account consists of:

	<u>2007</u>	<u>2006</u>
Furniture	\$ 9,010	\$ -
Equipment	287,049	271,943
Leasehold improvement	41,089	41,089
Subtotal	337,148	313,032
Less: Accumulated Depreciation	(180,750)	(116,816)
Net Book Value	<u>\$ 156,398</u>	<u>\$ 196,216</u>

NOTE 7 ACCRUED EXPENSES

As of June 30, the account consists of:

	<u>2007</u>	<u>2006</u>
Payroll	\$ 450,659	\$ 386,263
Other	14,500	-
	<u>\$ 465,159</u>	<u>\$ 386,263</u>

NOTE 8 REFUNDABLE ADVANCES

The account represents excess funds received from the State of New York for the School's operating budget for the fiscal years ended June 30, 2007 and 2006. See Cost Recovery Grant Revenue under Note 2.

NOTE 9 PENSION

All union members are covered under a retirement plan administered by the New York City Teachers Retirement System. The plan is partially contributory. The School's contribution amounted to \$202,889 and \$204,340 for the years ended June 30, 2007 and 2006, respectively.

JOHN. V. LINDSAY WILDCAT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 10 LEASE COMMITMENTS

The School occupies space at the lower Manhattan location under a sublease agreement until the end of the School's current Charter, or the end of the lease, June 30, 2009. Rent is charged on a square foot basis by the landlord for space the School utilizes in the Manhattan location.

Minimum rentals due under the leases and sublease at June 30, 2007 are \$76,667.

NOTE 11 CONTINGENCIES

The School is involved in a civil dispute with WSC, formerly an affiliated company. The subject of the civil case is unpaid rent of \$350,000 which WSC claims the School owes. As of the date of this report, the matter is still pending and hearing is set for November 1, 2007. In addition to the unpaid rent, there are certain administrative fees and charges which the School claims WSC owes and vice versa. The legal representation obtained from the School's legal counsel states that as of October 8, 2007, the date of the legal counsel's response, the outcome of those potential claims could not be reasonably determined. The June 30, 2007 financial statements do not include any accruals for the outcome of such claims, except for the amount that the School carries in its books since 2006 as a receivable from WSC.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2007

	2007				
	Program Services			Management and	
	General Education	Special Education	Other Program	General	Total
Personnel Costs:					
Salaries	\$ 2,224,856	\$ 497,806	\$ -	\$ 2,722,662	\$ 2,975,534
Employee benefits and payroll taxes	579,636	129,692	-	709,328	844,651
	<u>2,804,492</u>	<u>627,498</u>	<u>-</u>	<u>3,431,990</u>	<u>3,820,185</u>
Other than Personnel Costs:					
Rent	844,539	45,899	-	890,438	917,977
Consultants-education	226,716	-	-	226,716	470,409
Student incentives	195,180	-	32,156	227,336	227,336
Utilities	86,782	4,716	-	91,498	94,328
Insurance	72,106	-	-	72,106	72,106
Educational supplies	60,366	-	-	60,366	60,366
Audit	-	-	-	-	40,546
Office supplies, postage and printing	-	-	-	-	34,914
Equipment rental	24,429	-	-	24,429	24,429
Maintenance	23,384	-	-	23,384	23,384
Telephone	17,126	-	-	17,126	17,126
Staff development	14,532	-	-	14,532	14,532
Copying	12,867	-	-	12,867	12,867
Travel	12,640	-	-	12,640	12,640
Water	2,593	-	-	2,593	2,593
Bank charges	-	-	-	-	2,120
Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	16,025
Total before depreciation and amortization	<u>4,397,752</u>	<u>678,113</u>	<u>32,156</u>	<u>5,108,021</u>	<u>5,863,883</u>
Depreciation and amortization	<u>63,935</u>	<u>-</u>	<u>-</u>	<u>63,935</u>	<u>63,935</u>
Total expenses	<u>\$ 4,461,687</u>	<u>\$ 678,113</u>	<u>\$ 32,156</u>	<u>\$ 5,171,956</u>	<u>\$ 5,927,818</u>

See accompanying notes to financial statements.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FUNCTIONAL EXPENSES - CONTINUED

YEAR ENDED JUNE 30, 2006

	2006					
	Program Services			Total	Management and General	Total
	General Education	Special Education	Other Program			
Personnel Costs:						
Salaries	\$ 1,817,533	\$ 209,715	\$ -	\$ 2,027,248	\$ 302,922	\$ 2,330,170
Employee benefits and payroll taxes	631,812	72,901	-	704,713	105,303	810,016
	<u>2,449,345</u>	<u>282,616</u>	-	<u>2,731,961</u>	<u>408,225</u>	<u>3,140,186</u>
Other than Personnel Costs:						
Rent	859,518	26,583	-	886,101	-	886,101
Consultants-education	158,748	-	-	158,748	13,804	172,552
Student incentives	153,331	-	48,420	201,751	-	201,751
Utilities	88,697	2,743	-	91,440	-	91,440
Insurance	49,332	-	-	49,332	-	49,332
Educational supplies	10,258	-	-	10,258	-	10,258
Audit	-	-	-	-	10,829	10,829
Office supplies, postage and printing	-	-	-	-	37,028	37,028
Equipment rental	32,259	-	-	32,259	-	32,259
Maintenance	15,803	-	-	15,803	-	15,803
Telephone	14,806	-	-	14,806	-	14,806
Staff development	2,227	-	-	2,227	-	2,227
Copying	15,275	-	-	15,275	-	15,275
Travel	6,137	-	-	6,137	-	6,137
Water	4,442	-	-	4,442	-	4,442
Bank charges	-	-	-	-	2,575	2,575
Equipment	24,837	-	-	24,837	-	24,837
Miscellaneous	-	-	-	-	8,432	8,432
Total before depreciation and amortization	<u>3,885,015</u>	<u>311,942</u>	<u>48,420</u>	<u>4,245,377</u>	<u>480,893</u>	<u>4,726,270</u>
Depreciation and amortization	<u>60,082</u>	-	-	<u>60,082</u>	-	<u>60,082</u>
Total expenses	<u>\$ 3,945,097</u>	<u>\$ 311,942</u>	<u>\$ 48,420</u>	<u>\$ 4,305,459</u>	<u>\$ 480,893</u>	<u>\$ 4,786,352</u>

See accompanying notes to financial statements.



Watson Rice LLP
Certified Public Accountants and Advisors

5 Penn Plaza
New York, New York 10001
www.watsonrice.com

Telephone: 212.447.7300
Facsimile: 212.683.6031
watsonrice@watsonrice.com

**INDEPENDENT AUDITOR'S 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***

To the Board of Trustees of
John V. Lindsay Wildcat Charter School

We have audited the financial statements of John V. Lindsay Wildcat Charter School (the "School") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 5, 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 described in the accompanying schedule of findings and recommendations to be significant deficiencies in internal control over financial reporting, identified as items 07-1 to 07-5.

INDEPENDENT AUDITOR'S 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* – CONTINUED

Internal Control Over Financial Reporting - Continued

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, of the reportable conditions described above, we consider item 07-1 to be 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 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 management and the Board of Directors of John V. Lindsay Wildcat Charter School and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

New York, New York
October 5, 2007

Watson Rice UP

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2007

Section I – Current Year Findings

07-1 *Limitations in Personnel that Contribute to the Performance of Incompatible Functions*

Criteria

Incompatible functions, for internal control purposes, are those functions, duties, and responsibilities that allow an individual to be involved in the processing of a transaction and at the same time allow that same individual access to the assets of an organization.

Condition

During the conduct of interviews and observations over the School's business processes, we noted the following incompatible functions:

- a. The person who has the primary function of processing and encoding transactions into the accounting system also performs the following functions:
 - 1. Makes deposits to the bank
 - 2. Updates the manual cash receipts log

- b. The person who can serve as the alternate accountant also performs the following functions:
 - 1. Signs the checks from one bank account that only requires one signatory
 - 2. Serves as one of the alternate signatories for the other bank accounts
 - 3. Prepares the monthly bank reconciliations

Cause

The condition described above is a result of the inherent limitations of having only two people handling the accounting function.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2007

Section I – Current Year Findings - Continued

07-1 *Limitations in Personnel that Contribute to the Performance of Incompatible Functions - Continued*

Recommendation

We recommend the following to address the conditions noted above:

- a. Check signing functions should not rest with anyone in the accounting department.
- b. The manual cash receipts log maintained should be updated by a person outside of the accounting function. This will serve as a check and balance within the organization. This also means that the function of receiving funds through the mail should be assigned to an individual outside of accounting. At the end of each business day, that individual should then endorse all receipts for the day to accounting. The cash receipts log should be signed off to serve as a proof that receipts endorsed for the day are complete and intact.
- c. Perform a cost benefit analysis and consider employing another individual for the accounting department or utilizing an existing staff that can be cross trained to perform minor accounting functions. This recommendation seeks to help extract actual bookkeeping functions from the Chief Financial Officer and will allow the CFO to focus on account reconciliation, analyses, and oversight functions.
- d. Employees who have direct access to cash should also be bonded to reduce the School's exposure to potential theft or loss.

Management's response

As noted, the cause is a result of the inherent limitations of having a two person accounting staff. However, after discussions with the external auditor, the School has taken the following corrective action with approval from its Board of Trustees,

1. The CFO is removed as an authorized signer on the bank account requiring only one signature. The CFO remains one of three authorized signers on bank accounts requiring two signatures.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2007

Section I – Current Year Findings - Continued

07-1 *Limitations in Personnel that Contribute to the Performance of Incompatible Functions - Continued*

Management's response - Continued

2. An employee who is not part of the accounting department is assigned the responsibility for receiving funds through the mail, maintaining a cash receipts log, and depositing cash receipts endorsed by the Senior Accountant.
3. Before having employees who have direct access to cash become bonded, the School is in consultation with its broker to confirm that there is no overlap in our existing insurance policy.

07-2 *Presence of Significant Idle Cash Balances*

Criteria

Cash management is one of the responsibilities and functions of management. Options to maximize potential revenues for significant cash balances should be explored such that a higher yield rate at the lowest possible risk level is achieved.

Condition

The School has over \$2.0M in cash balances that are presently placed in a high yield savings account. This exposes the School to the risk of loss because the account is not sufficiently covered by the FDIC insured limit of \$100,000 per bank, per depositor.

Cause

The School, in the process of separating from its affiliated company, has failed to focus on the presence of a significant amount of idle cash.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2007

Section I – Current Year Findings - Continued

07-2 *Presence of Significant Idle Cash Balances - Continued*

Recommendation

The School's Board and management is enjoined to seek investment options from financial institutions on how best to manage the School's funds. Financial institutions have investment arms that can give presentations about an entity's investment options. The presentations are designed to provide knowledge to allow the Board and the management to make informed decisions about funds management. Part of the key considerations in choosing investment options should be one that will allow the School to maximize potential yields from its funds at the lowest possible risk level.

Management's Response

The School's management met with JPMorgan Chase to discuss investment options that bring higher yields from its funds. JPMorgan Chase is scheduled to make a presentation to the Finance and Audit Committee at the November 15, 2007 meeting. The School's Board and management will continue to seek investment options from financial institutions other than JPMorgan Chase.

07-3 *Absence of Capitalization Threshold*

Criteria

Capitalization thresholds serve as guide in determining which acquisitions of long lived assets are to be capitalized and which ones can be expensed outright. Capitalization of an asset allows an entity to defer the full recognition of expended resources so that the expense, in the form of depreciation charges, can be matched with the accounting period that benefited from the utilization of the asset.

Condition

The School does not have a policy on capitalization threshold and currently capitalizes small valued items that have estimated lives of more than one year.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2007

Section I – Current Year Findings - Continued

07-3 *Absence of Capitalization Threshold - Continued*

Cause

The School, in the process of separating from its affiliated company, has failed to focus on the need to establish a capitalization threshold to limit the detail that would go into the fixed asset register, providing management with ease in the performance of its safeguarding and monitoring functions.

Recommendation

Management should consider establishing a capitalization threshold for property acquisitions. Such thresholds should be set at values that are parallel to the requirements of its federal funding sources and to the State of New York. The move will help preclude the inclusion of small valued items from the fixed asset register, allowing for an easier monitoring of assets and depreciation calculations.

Management's Response

The Board of Trustees voted unanimously on a \$500 capitalization threshold for property acquisitions.

07-4 *Absence of Formal Policies and Procedures Manual for Accounting and IT Functions*

Criteria

Policies and procedures serve as guides for employees in dispensing with their daily functions, responsibilities and duties.

Condition

It was noted during the audit that the School has no formal policies and procedures manual in place over the accounting and IT functions.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2007

Section I – Current Year Findings - Continued

07-4 *Absence of Formal Policies and Procedures Manual for Accounting and IT Functions - Continued*

Cause

The School, in the process of separating from its affiliated company, has had limited time within which to institute formal policies and procedures over accounting and IT functions.

Recommendation

The School's management and Board of Directors should prioritize the formulation of policies and procedures over the accounting, operations, and IT functions. Policies and procedures serve as the framework within which each member of the organization is to carry out their respective duties and responsibilities. In addition to this, the policies and procedures manual should also include a business and disaster recovery plan such that in the event of a breakdown in the accounting system of the IT network, members of the organization will have a roadmap that can help re-establish lost information and allow for continued operations.

Management's Response

The Board of Trustees, in its April 19, 2007 meeting, voted unanimously to engage Fiscal Management Associates to work with the CFO in formalizing a written fiscal policies and procedures manual. A draft of the fiscal policies and procedures manual is being reviewed by the Finance and Audit Committee and will be presented to the Board in the December 2007 meeting.

07-5 *File Maintenance*

Criteria

Supporting documents for cash disbursement transactions should be maintained.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2007

Section I – Current Year Findings - Continued

07-5 *File Maintenance - Continued*

Condition

The following deficiencies in documentation were noted during the test of 111 cash disbursement transactions:

- a. Four (4) of the samples amounting to \$30,242 were not supported with invoices, two (2) of which were paid based on the notation in the payment request form that invoices were to be provided, but none were subsequently attached;
- b. Six (6) of the samples amounting to \$4,289 were insufficiently supported by invoices. These samples were also expense reimbursements for an employee. Aggregate value of expense charges without supporting documents is \$218; and
- c. One (1) of the samples amounting to \$106,255 was not supported by any other documentation other than a copy of a check issued upon payment.

Cause

The previous company in charge of the Schools books and records could not locate the supporting documents required for the samples detailed above.

Recommendation

We recommend for management to impress upon employees the importance of ensuring that supporting documents are present and complete. Prior to payment, supporting documents are required to be presented, reviewed for accuracy and completeness to ensure that payments are adequately supported and expenditures are valid School expenditures.

Management's Response

The Board, in its December 21, 2006 meeting, discussed legally terminating Wildcat Service Corporation's (the previous company) management services and hiring a CFO to handle the School's accounting functions. In January 2007, the School hired a CFO and on March 1, 2007 formally terminated its business relationship with Wildcat Service Corporation. The School's existing accounting staff is diligent in reviewing proper supporting documentation prior to payment of invoices and payment requests.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2007

Section II – Status of Prior Year’s Findings and Recommendations

Item 06-1:

Condition

Currently, the School does not have an adequate level of accounting expertise to properly ensure that difficult and complex accounting transactions are properly recorded and to properly draft its financial statements and accompanying notes in accordance with generally accepted accounting principles.

Current Years Status

The condition has been resolved. The School has employed a Chief Financial Officer to oversee accounting functions.

Item 06-2:

Condition

During the year, the School did not reconcile the amounts owed to them from Wildcat Service Corp. Wildcat provided administration services to the School and the School rents space under Wildcat's lease. Wildcat also allocates costs (both personnel and other than personnel services) to the School.

Current Years Status

The matter is the subject of a civil case, the resolution of which is still uncertain as of the date of the audit report.

JOHN V. LINDSAY WILDCAT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

JUNE 30, 2007

Section II – Status of Prior Year’s Findings and Recommendations - Continued

Item 06-3:

Condition

Due to management turnover, certain analyses and reconciliations could not be located on a timely basis. This resulted in a delay in issuing the financial statements.

Current Years Status

The condition has been resolved. Account analyses and reconciliations were provided by the CFO for the June 30, 2007 audit.

Item 06-4:

Condition

Certain balance sheet accounts, such as receivables and payables, were not reconciled during the year and therefore numerous year-end adjustments were needed to be booked.

Current Years Status

The condition has been resolved. Account analyses and reconciliations were provided by the CFO for the June 30, 2007 audit.