

I-LEAD CHARTER SCHOOL – READING

FINANCIAL STATEMENTS

Year Ended June 30, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
I-LEAD Charter School – Reading
Reading, Pennsylvania

We have audited the accompanying statement of financial position of I-LEAD Charter School – Reading (a nonprofit organization) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 the 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 I-LEAD Charter School – Reading 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 March 19, 2013, on our consideration of I-LEAD Charter School – Reading'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 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.

Dreslin and Company, Inc.

March 19, 2013

I-LEAD CHARTER SCHOOL - READING
Statement of Financial Position
June 30, 2012

ASSETS

CURRENT ASSETS

Cash	\$ 206,888
Accounts Receivable	198,114
State and Federal Subsidies Receivable	158,109
Other Receivables	16,240
Prepaid Expenses	<u>21,652</u>

TOTAL CURRENT ASSETS 601,003

PROPERTY AND EQUIPMENT

Leasehold Improvements	71,378
Furniture, Fixtures, and Equipment	<u>7,148</u>

Total Property and Equipment	78,526
<u>Less: Accumulated Depreciation</u>	<u>(24,383)</u>

PROPERTY AND EQUIPMENT - NET 54,143

TOTAL ASSETS \$ 655,146

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable - Grey Areas	\$ 166,000
Accounts Payable - Other	93,191
Due to Related Party	174,640
Accrued Expenses	124,514
Payroll Withholding Liabilities	7,529
Current Portion of Long-term Debt	<u>124,453</u>

TOTAL CURRENT LIABILITIES 690,327

LONG-TERM DEBT (Net of Current Maturities) 71,883

TOTAL LIABILITIES 762,210

NET ASSETS

Unrestricted (Deficit) (107,064)

TOTAL NET ASSETS (Deficit) (107,064)

TOTAL LIABILITIES AND NET ASSETS (Deficit) \$ 655,146

The accompanying notes are an integral part of these financial statements.

I-LEAD CHARTER SCHOOL - READING
Statement of Activities
For the Year Ended June 30, 2012

UNRESTRICTED NET ASSETS

Unrestricted Revenues		
Local-source Revenues		
Program Service Fees		
Receipts from Other Local Educational Agencies	\$ 2,188,723	
Other	63,345	
Contributions	74,323	
Interest Income	671	
State-source Revenues	133,160	
Federal-source Revenues	192,150	<u> </u>
TOTAL UNRESTRICTED REVENUES		<u>2,652,372</u>
 Expenses		
Program Services	1,721,008	
Supporting Services		
Management and General	623,752	
Fundraising	29,240	<u> </u>
TOTAL EXPENSES		<u>2,374,000</u>
CHANGE IN NET ASSETS		278,372
 NET ASSETS (DEFICIT) - BEGINNING OF YEAR		<u>(385,436)</u>
 NET ASSETS (DEFICIT) - END OF YEAR		<u><u>\$ (107,064)</u></u>

The accompanying notes are an integral part of these financial statements.

I-LEAD CHARTER SCHOOL - READING
Statement of Functional Expenses
For the Year Ended June 30, 2012

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 1,014,734	\$ 333,390	\$ 22,750	\$ 1,370,874
Employee Benefits	244,376	72,614	6,370	323,360
Purchased Professional and Technical Services	63,243	24,202	-	87,445
Purchased Property Services	137,379	69,806	-	207,185
Other Purchased Services	24,121	38,834	-	62,955
Supplies	212,410	31,739	120	244,269
Depreciation	18,049	6,334	-	24,383
Interest Expense	-	20,711	-	20,711
Other Expenses	6,696	26,122	-	32,818
Total Expenses	\$ 1,721,008	\$ 623,752	\$ 29,240	\$ 2,374,000

I-LEAD CHARTER SCHOOL - READING
Statement of Cash Flows
For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 278,372
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	24,383
(Increase) in Current Assets:	
Accounts Receivable	(198,114)
State and Federal Subsidies Receivable	(158,109)
Other Receivables	(16,240)
Prepaid Expenses	(21,652)
Increase in Current Liabilities:	
Accounts Payable	39,191
Due to Related Party	39,643
Accrued Expenses	100,195
Payroll Withholding Liabilities	<u>7,529</u>
Net Cash Provided by Operating Activities	<u>95,198</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Property and Equipment	<u>(78,526)</u>
Net Cash (Used) by Investing Activities	<u>(78,526)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Long-term Debt	69,000
Repayment of Long-term Debt	<u>(33,345)</u>
Net Cash (Used) by Financing Activities	<u>35,655</u>
Net Increase in Cash	52,327
CASH - BEGINNING OF YEAR	<u>154,561</u>
CASH - END OF YEAR	<u><u>\$ 206,888</u></u>
SUPPLEMENTAL DISCLOSURES	
Interest Paid	\$ 20,711

The accompanying notes are an integral part of these financial statements.

I-LEAD CHARTER SCHOOL – READING NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

I-LEAD Charter School – Reading (“ILCS”) is a nonprofit organization, incorporated under the laws of Pennsylvania in 2010, that operates a charter school located in Reading, Pennsylvania. ILCS serves youth disconnected from school with the opportunity to re-engage in their education and transition successfully into adulthood. Currently, ILCS serves students enrolled in grades nine through twelve.

The operations of ILCS are governed by The Institute for Leadership Education, Advancement and Development, Inc. (I-LEAD, Inc.), a related party. Pursuant to ILCS’s by-laws, I-LEAD, Inc. appoints the members of the ILCS’s board. The President and CEO of I-LEAD, Inc. serves as the Board Chair of ILCS. Two executives of I-LEAD, Inc. serve on the Board of ILCS, along with community members.

ILCS’s primary source of revenue is from local educational agencies (LEAs) for education provided to students from the paying LEA. ILCS and Reading School District are parties to a three-year Charter Agreement effective July 1, 2011 through June 30, 2014.

Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Presentation of financial position and activities

ILCS 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. ILCS has no temporarily or permanently restricted net assets as of June 30, 2012.

Maintenance of Accounting Records

Although ILCS’s financial statements are presented in accordance with generally accepted accounting principles applicable to nonprofit entities, ILCS is required to submit certain financial reports to the Pennsylvania Department of Education (PDE). In order to comply with certain PDE reporting requirements, ILCS maintains its accounting records in accordance with the *Manual of Accounting and Financial Reporting for PA Public Schools* (the Manual) maintained by the Pennsylvania Office of the Budget. The Manual provides guidance regarding the classification of revenues and expenses by functional classification (for which the Manual describes as “functions”) and by natural expense classification (for which the Manual describes as “objects”).

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Program services, as reported in the statement of activities and the statement of functional expenses, include the following functions as described in the Manual: Instruction, student support services, instructional staff support services, pupil personnel support services, student transportation, and non-instructional services. Management and general supporting services, as reported in the statement of activities and the statement of functional expenses, include the following functions as described in the Manual: support services – administration, support services – business, operation and maintenance of plant, central services, and other support services.

Accounting Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on the nature of the account receivable, management believes all accounts are fully collectible; accordingly, there is no allowance for doubtful accounts as of June 30, 2012. ILCS does not charge interest on outstanding balances.

State and Federal Subsidies

ILCS receives state and federal subsidies from the Pennsylvania Department of Education. These subsidies received in support of ILCS's programs are recognized as revenue as related expenses are incurred.

Inventories

Inventory items such as books and other supplies are charged to expense when purchased.

Property and Equipment

Property and equipment are carried at cost if purchased. Maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. Donor-restricted contributions whose restrictions are satisfied in the same period are reported as unrestricted. For the year ended June 30, 2012, all contributions have been recorded as unrestricted net assets.

Unconditional contributions are recognized as revenue when the related promise to give is received. Conditional contributions are recognized as revenue when the conditions are satisfied.

Income Taxes

ILCS qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision or liability for income taxes is required.

2. CASH AND INVESTMENTS

Cash includes amounts in demand deposits. ILCS maintains its cash balances in two financial institutions. The bank balances may at times exceed federally insured limits. As of June 30, 2012, ILCS had no uninsured cash balances.

3. ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due from local educational agencies (LEAs) for education provided to students from the paying LEA. Accounts receivable consists of the following as of June 30, 2012:

Reading School District	\$ 188,605
Other LEAs	<u>9,509</u>
Total Accounts Receivable	<u>\$ 198,114</u>

4. STATE AND FEDERAL SUBSIDIES RECEIVABLE

The following is a summary of state and federal subsidies receivable as of June 30, 2012.

State Subsidies:	
Rental Subsidy	\$ 40,401
Retirement	34,314
Other	194
Federal Subsidies:	
Title I - Improving Basic Programs	69,681
Title II - Improving Teacher Quality	10,262
Other	<u>3,257</u>
Total	<u>\$ 158,109</u>

5. PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended June 30, 2012 was as follows:

	Balance - <u>7/1/11</u>	<u>Additions</u>	<u>Disposals</u>	Balance - <u>6/30/12</u>
Leasehold Improvements	\$ -	\$ 71,378	\$ -	\$ 71,378
Furniture, Fixtures, and Equipment	<u>-</u>	<u>7,148</u>	<u>-</u>	<u>7,148</u>
Total Property and Equipment	-	78,526	-	78,526
Less: Accumulated Depreciation	<u>-</u>	<u>(24,383)</u>	<u>-</u>	<u>(24,383)</u>
Property and Equipment - Net	<u>\$ -</u>	<u>\$ 54,143</u>	<u>\$ -</u>	<u>\$ 54,143</u>

ILCS uses certain property and equipment that is owned by I-LEAD, Inc. ILCS does not pay I-LEAD, Inc. for the use of this property and equipment.

6. ACCOUNTS PAYABLE – GREY AREAS

In 2009, I-LEAD, Inc. contracted with Grey Areas, an educational consultant, to assist in the development of the charter school. Total costs incurred under this contract totaled \$250,000. As of June 30, 2012, ILCS owed Grey Areas a total of \$166,000.

7. DUE TO RELATED PARTY

In connection with the start-up cost of ILCS, I-LEAD, Inc. has made direct expenditures on behalf of ILCS and has provided ILCS with unsecured interest-free loans for all expenditures paid on behalf of ILCS. As of June 30, 2012, ILCS owed I-LEAD, Inc. a total of \$174,640, payable on demand.

8. ACCRUED EXPENSES

Accrued expenses totaling \$124,514 as of June 30, 2012 include salaries and benefits totaling \$122,514 and accrued utilities totaling \$2,000.

9. LONG-TERM DEBT

Loan Payable – Community First Fund

ILCS has an outstanding loan with Community First Fund. The initial principal amount of the loan, secured on June 3, 2011, was \$250,000. Payment terms consist of seven consecutive monthly payments of interest at 8% beginning August 15, 2011, and twenty-two consecutive monthly payments of \$12,266 including interest at 8% beginning on March 15, 2012 and ending on December 15, 2013. The balance of the loan was \$196,336 as of June 30, 2012. Interest expense totaled \$20,711 for the year ended June 30, 2012.

As of June 30, 2012, future maturities of long-term debt were as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2013	\$ 124,453
2014	<u>71,883</u>
Total	<u><u>\$ 196,336</u></u>

10. RECEIPTS FROM OTHER LOCAL EDUCATIONAL AGENCIES

ILCS's primary source of revenue is from local educational agencies (LEAs) for education provided to students from the paying LEA. Revenue received from other local educational agencies totaled \$2,188,723 for the year ended June 30, 2012, of which \$2,142,125 was derived from Reading School District.

11. PROGRAM SERVICE FEES

Program Service Fees totaling \$50,000 were derived from a contract with I-LEAD, Inc. to provide services to students to assist them in earning their GED. The original source of the revenue was from County of Berks, Pennsylvania.

12. FINANCIAL REPORTING

Although these financial statements are presented in accordance with generally accepted accounting principles applicable to nonprofit entities, ILCS is required to submit certain financial reports to the Pennsylvania Department of Education (PDE) prepared in accordance with accounting standards applicable to state and local governments. For each fiscal year of operations, ILCS is required to submit an Annual Financial Report (AFR) to the Pennsylvania Department of Education. The AFR is prepared on a fund basis in accordance with accounting principles applicable to state and local governments. Within ILCS's AFR, only current financial assets and liabilities are included in the balance sheet, and only revenues and expenses that affect current financial resources are reported in the statement of revenues, expenditures, and changes in fund balance.

The following is a reconciliation between the amounts reported in these financial statements and the amounts reported in the AFR.

	Financial Statements	Reconciling Items		AFR
		Property & Equipment	Long-term Debt	
Current Assets	\$ 601,003	\$ -	\$ -	\$ 601,003
Property and Equipment - Net	54,143	(54,143)	-	-
Total Assets	<u>655,146</u>	<u>(54,143)</u>	<u>-</u>	<u>601,003</u>
Current Portion of Long-term Debt	124,453	-	(124,453)	-
Other Current Liabilities	565,874	-	(294,081)	271,793
Long-term Debt	71,883	-	(71,883)	-
Total Liabilities	<u>762,210</u>	<u>-</u>	<u>(490,417)</u>	<u>271,793</u>
Net Assets (Deficit) / Fund Balance	<u>\$ (107,064)</u>	<u>\$ (54,143)</u>	<u>\$ 490,417</u>	<u>\$ 329,210</u>
Total Revenues / Total Revenues and Other Sources	\$ 2,652,372	\$ -	\$ 87,403	\$ 2,739,775
Total Expenses / Total Expenditures	<u>2,374,000</u>	<u>54,143</u>	<u>63,664</u>	<u>2,491,807</u>
Change in Net Assets / Excess of Revenues Over Expenditures	278,372	(54,143)	23,739	247,968
Net Assets (Deficit) / Fund Balance - 7/1/11	<u>(385,436)</u>	<u>-</u>	<u>466,678</u>	<u>81,242</u>
Net Assets (Deficit) / Fund Balance - 6/30/12	<u>\$ (107,064)</u>	<u>\$ (54,143)</u>	<u>\$ 490,417</u>	<u>\$ 329,210</u>

13. OPERATING LEASE COMMITMENTS

ILCS leases its facilities in Reading, Pennsylvania. The lease was initiated in 2011 and expires on August 1, 2014. As of June 30, 2012, the monthly base rental was \$12,812. Rent paid under this lease totaled \$140,926 for the year ended June 30, 2012, and is included in purchased property services expense in the statement of functional expenses. In addition, ILCS leases certain office equipment under non-cancelable leases. Rent paid under these leases totaled \$15,951 for the year ended June 30, 2012, and is also included in purchased property services in the statement of functional expenses. Minimum annual rental commitments under non-cancelable leases with initial or remaining terms in excess of one year are as follows as of June 30, 2012:

Year Ending June 30	Total
2013	\$ 192,610
2014	204,441
2015	<u>24,926</u>
Total	<u>\$ 421,977</u>

14. EMPLOYEES' RETIREMENT PLAN:

ILCS participates in the Public School Employees' Retirement System (the "System") (PSERS), which is a governmental cost sharing multiple-employer defined benefit plan. Under the plan, ILCS is required to make contributions to the System based on the gross earnings of all eligible employees, which includes all employees.

The pension program is wholly administered by the statewide, autonomous PSERS with offices in Harrisburg, Pennsylvania. ILCS has no responsibility or authority for the operation and administration of the pension program, nor has it any related liability except for current contribution requirements. A brief statement of the terms of the retirement plan follows:

Benefits

Retirement and disability; legislative mandated ad hoc cost-of-living adjustments; healthcare insurance premium assistance to qualifying annuitants.

Authority

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended).

Annual Financial Report

The System issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg, PA 17101-1905. The report also is available in the publications section of the PSERS website at www.psers.state.pa.us.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth.

Contribution Rates

Member Contributions

Active members who joined the System prior to July 22, 1983 contributed at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001 contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2012, the rate of employer contribution was 8.65% of covered payroll. The 8.65% rate is composed of a pension contribution of 8.0% for pension benefits and 0.65% for healthcare insurance premium assistance. The employer's current-year covered payroll was \$1,267,144 and total payroll was \$1,370,873. Retirement expenditures totaled \$109,539 for the year ended June 30, 2012, which represented 100% of the required contribution.

15. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time although management expects such amount, if any, to be immaterial.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 19, 2013, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2012 that required recognition or disclosure in the financial statements.

DRESLIN AND COMPANY, INC.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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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*

To the Board of Directors of
I-LEAD Charter School - Reading
Reading, Pennsylvania

We have audited the financial statements of I-LEAD Charter School – Reading (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated March 19, 2013. 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

Management of I-LEAD Charter School – Reading is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered I-LEAD Charter School – Reading’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 I-LEAD Charter School – Reading’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over financial reporting.

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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether I-LEAD Charter School – Reading’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, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dreslin and Company, Inc.

March 19, 2013