

Innovative Schools Development Corporation

Financial Statements
June 30, 2009 and 2008

With
Report of Independent Auditors

Innovative Schools Development Corporation
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June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Innovative Schools Development Corporation
Wilmington, Delaware

We have audited the accompanying statements of financial position of Innovative Schools Development Corporation (a nonprofit organization) as of June 30, 2009 and the related statements of activities, functional expenses, and cash flows for the years 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. The financial statements of Innovative Schools Development Corporation as of June 30, 2009 were audited by other auditors; whose report dated March 16, 2009 expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Innovative Schools Development Corporation as of June 30, 2009 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.

Cetrulo & Morgan Group, LLC

Wilmington, Delaware
September 11, 2009



Innovative Schools Development Corporation
Statements of Financial Position
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Cash	\$ 60,638	\$ 20,176
Accounts receivable	52,177	27,747
Accrued interest receivable	1,447	4,940
Prepaid expenses	9,557	5,419
Total current assets	<u>123,819</u>	<u>58,282</u>
Certificates of deposit	5,200,000	5,200,000
Property and equipment, net of accumulated depreciation	<u>22,898</u>	<u>34,439</u>
Total assets	<u><u>\$ 5,346,717</u></u>	<u><u>\$ 5,292,721</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 16,741	\$ 33,570
Accrued expenses	18,025	17,726
Line of credit	50,000	-
Demand note payable	325,000	255,000
Total current liabilities	<u>409,766</u>	<u>306,296</u>
Sponsor loan payable	<u>5,200,000</u>	<u>5,200,000</u>
Total liabilities	5,609,766	5,506,296
Net assets (deficit):		
Unrestricted	(307,549)	(213,575)
Temporarily restricted	44,500	-
Total net assets (deficit)	<u>(263,049)</u>	<u>(213,575)</u>
Total liabilities and net assets (deficit)	<u><u>\$ 5,346,717</u></u>	<u><u>\$ 5,292,721</u></u>

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation
Statement of Activities
Year Ended June 30, 2009
(with Summarized Totals for 2008)

	2009			Total 2008
	Unrestricted	Temporarily Restricted	All Funds Total	
Revenue and Other Support:				
Grants	\$ 100,000	\$ -	\$ 100,000	\$ 100,000
Contributions	-	100,000	100,000	-
Noncash contributions	207,783	-	207,783	363,486
Loan guaranty fees	130,720	-	130,720	58,250
Service fees	289,623	-	289,623	170,568
Miscellaneous income	1,323	-	1,323	333
Interest income	133,130	-	133,130	199,136
Total revenue and other support, net	<u>862,579</u>	<u>100,000</u>	<u>962,579</u>	<u>891,773</u>
Net assets released from restriction	<u>55,500</u>	<u>(55,500)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>918,079</u>	<u>44,500</u>	<u>962,579</u>	<u>891,773</u>
Expenses				
Program services	883,735		883,735	984,638
Management and general	<u>128,318</u>		<u>128,318</u>	<u>380,720</u>
Total expenses	<u>1,012,053</u>	<u>-</u>	<u>1,012,053</u>	<u>1,365,358</u>
Change in net assets	(93,974)	44,500	(49,474)	(473,585)
Net assets (deficit), beginning of year	<u>(213,575)</u>	<u>-</u>	<u>(213,575)</u>	<u>260,010</u>
Net assets (deficit), end of year	<u>\$ (307,549)</u>	<u>\$ 44,500</u>	<u>\$ (263,049)</u>	<u>\$ (213,575)</u>

Innovative Schools Development Corporation
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions and other support	\$ 597,236	\$ 368,972
Cash paid to employees and suppliers	(813,373)	(968,001)
Interest received	136,623	204,339
Interest paid	(24)	(4,529)
Net cash used by operating activities	<u>(79,538)</u>	<u>(399,219)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit	-	(1,250,000)
Purchase of property and equipment	-	(18,185)
Net cash used by investing activities	<u>-</u>	<u>(1,268,185)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	50,000	-
Proceeds from sponsor loans payable	-	1,250,000
Proceeds from demand note payable	70,000	255,000
Net cash provided by financing activities	<u>120,000</u>	<u>1,505,000</u>
NET INCREASE (DECREASE) IN CASH	40,462	(162,404)
CASH, BEGINNING OF YEAR	<u>20,176</u>	<u>182,580</u>
CASH, END OF YEAR	<u><u>\$ 60,638</u></u>	<u><u>\$ 20,176</u></u>

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS</u>		
<u>TO NET CASH USED BY OPERATING ACTIVITIES</u>		
Change in net assets	\$ (49,474)	\$ (473,585)
Adjustments to reconcile net assets to net cash used by operating activities:		
Depreciation	11,541	13,566
(Increase) decrease in:		
Accounts receivable	(24,430)	39,821
Interest receivable	3,493	5,203
Prepaid expenses	(4,138)	8,328
Increase (decrease) in:		
Accounts payable	(16,829)	17,925
Accrued expenses	299	(10,477)
	<u>\$ (79,538)</u>	<u>\$ (399,219)</u>

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose - The mission of Innovative Schools Development Corporation (the Organization) is to promote student achievement and enhance educational choice through training, technical expertise and facility financing options.

The Organization has a Loan Guaranty Program that provides selected charter and innovative schools with the capital resources they need by satisfying lenders' needs with a limited guaranty that is generally equivalent to the amount of equity a lender normally requires. The Organization's guaranty funding, provided through Sponsor Loan Agreements, is maintained in an undivided Loan Guaranty Fund and invested through a trustee pursuant to an Investment Agreement. The Loan Guaranty Fund is pledged through individual Guaranty Agreements to support loans made to individual charter school borrowers. The Organization also enters into a Master Agreement with each borrower for whom a loan is guaranteed. The Master Agreement requires the borrower to provide the Organization with ongoing relevant information about the school and its financial and educational performance. It also provides the Organization with certain rights in the event that loan payments are unable to be paid.

The Organization also provides experienced underwriting of charter school loans and ongoing loan oversight, which includes an annual risk assessment of each guaranteed loan.

The Organization's bylaws provide that there shall be only a single member of the Corporation: Rodel Charitable Corporation - DE, a Delaware nonstock corporation. The Member has rights as detailed in the bylaws, including the right to appoint the Board of Directors.

Basis of Accounting - The Organization prepares its financial statements in accordance with U.S. generally accepted accounting principles, which involves the application of the accrual method of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation - In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations", the Organization 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. In addition, the Organization is required to present a statement of cash flows.

Property and Equipment and Depreciation - Property and equipment are carried at acquisition cost or, if donated, at fair market value on the date of receipt. Depreciation of property and equipment is provided by use of the straight-line method over the estimated useful lives of the assets. It is not the Organization's policy to imply time restrictions expiring over the useful lives of donated assets. In the absence of donor imposed restrictions on the use of assets, gifts of long-term assets are reported as unrestricted support.

Contributions - In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made", contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Unconditional promises to make contributions are recorded as support in the period the Organization receives the promise. Promises to make contributions which are expected to be paid over a period in excess of one year are discounted and recorded at their present value. Conditional promises to make contributions are recorded as support in the period the condition is met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of Donor Restrictions - Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Donated Services - Amounts have been reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation.

Income Taxes - The Organization qualifies as a private foundation organization under Section 509 (a) (1) of the Internal Revenue code.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the "Statement of Activities". Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising - The Organization expenses advertising costs as they are incurred.

2. PROPERTY AND EQUIPMENT

Major classifications of property and equipment are as follows at June 30,

	2009	2008
Computers & Equipment	\$ 64,812	\$ 64,812
Furniture & Fixtures	5,583	5,583
Software	6,057	6,057
	76,452	76,452
Less: accumulated depreciation	53,554	42,013
Total	\$ 22,898	\$ 34,439

Depreciation expense for the years ended December 31, 2009 and 2008 was \$11,541 and \$13,566, respectively.

Innovative Schools Development Corporation
Notes to Financial Statements
June 30, 2009 and 2008

3. LINE OF CREDIT

Innovative Schools Development has a revolving line of credit with WSFS Bank in the amount of 250,000. The line bears interest at the bank's prime rate plus .75% (4.75% as of June 30, 2009). The line of credit is due on demand and is collateralized by virtually all assets of the organization. The outstanding balance on the line on credit was \$50,000 as of June 30, 2009.

4. DEMAND NOTE PAYABLE

	<u>2009</u>	<u>2008</u>
Note payable to Rodel Charitable Foundation of Delaware, payable upon demand (180 day notice requirement). Bearing interest at prime plus 0.75% (5.75% at June 30, 2009), calculated quarterly and subsequently granted to the Organization as a contribution.	\$ 180,000	\$ 180,000
Note payable to Rodel Charitable Foundation of Delaware, payable upon demand (180 day notice requirement). Total amount available to draw of \$175,000. Bearing interest at prime plus 2% (7% at June 30, 2009), calculated quarterly and subsequently granted to the Organization as a contribution.	<u>145,000</u>	<u>75,000</u>
	<u>\$ 325,000</u>	<u>\$ 255,000</u>

5. SPONSOR LOANS PAYABLE

	<u>2009</u>	<u>2008</u>
Note payable to Rodel Charitable Foundation of Delaware. Note is interest-free with principal payable June 2017. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term. Upon each five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it.	\$ 1,000,000	\$ 1,000,000

Innovative Schools Development Corporation
Notes to Financial Statements
June 30, 2009 and 2008

5. SPONSOR LOANS PAYABLE (CONTINUED)

	<u>2009</u>	<u>2008</u>
Note payable to Bank of America - note is interest-free with principal payable June 2017. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term, provided it shall not have defaulted in its obligations and covenants under the loan agreement. Loan proceeds must be maintained in a deposit account with Bank of America, or any affiliate thereof specified by the Sponsor. Upon each five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it.	1,800,000	1,800,000
Notes payable to Longwood Foundation - notes are interest-free with principal of \$1,000,000 payable June 2017 and principal of \$1,000,000 payable December 2021. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term, provided it shall not have defaulted in its obligations and covenants under the loan agreement. Upon the initial four-year anniversary and each five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it.	2,000,000	2,000,000
Notes payable to Welfare Foundation - notes are interest-free with principal of \$150,000 payable June 2017 and principal of \$250,000 payable December 2021. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term, provided it shall not have defaulted in its obligations and covenants under the loan agreement. Upon the initial five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it.	<u>400,000</u>	<u>400,000</u>
	<u>\$ 5,200,000</u>	<u>\$ 5,200,000</u>

5. SPONSOR LOANS PAYABLE (CONTINUED)

At June 30, 2009, future maturities of sponsor loans payable are as follows:

Year ending June 30:

2017	\$ 3,950,000
2021	<u>1,250,000</u>
	<u>\$ 5,200,000</u>

All Sponsor Loan Agreements acknowledge that, to the extent that the term of any outstanding guaranty obligation of the Organization exists at the time of the expiration of these Agreements, the Agreements shall be automatically extended until the last outstanding loan guaranty obligation is released. In addition, each Agreement entitles the Sponsor to appoint one member of the Board of Directors of the Organization.

The Sponsor loans payable and note payable are interest-free. Generally accepted accounting principles require that interest expense and contribution revenue be reported in connection with loans of cash to not-for-profit organizations that are interest free. Accordingly, \$207,783 and \$354,954 is reflected in the statement of activities for the years ended June 30, 2009 and 2008, respectively, as noncash contribution and interest expense.

6. LOAN GUARANTEES

Maurice J. Moyer Academy, Inc.

On January 26, 2006, the Organization entered into a Guaranty Agreement with Wilmington Savings Fund Society, FSB, ("WSFS"), a Delaware banking corporation. The Organization agreed to guaranty a \$650,000 revolving credit loan facility between WSFS and Moyer Academy Charter School, Inc. ("Moyer Academy"). The loan amount was subsequently increased to \$850,000, the amount guaranteed remained at \$650,000. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This was a guaranty of payment and not of collection only, and in the event of the default of Moyer Academy in the due and punctual payment of its loan obligation, WSFS was not to be required to proceed first against Moyer Academy before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty Moyer Academy's loan, the organization and Moyer Academy entered into a Master Agreement. The Organization's guaranty was secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of Moyer Academy. The Organization's Security Agreement was senior in lien and priority to WSFS's Security interest under the Loan Documents. The Master Agreement entitled the Organization to approve the appointment of any new member of Moyer Academy's Board of Directors and to appoint a member of Moyer Academy's Board of Directors. In addition, the Organization was to be named as an additional insured on Moyer Academy's insurance policies. On August 31st of each year that the Master Agreement was in effect, Moyer Academy was to pay the Organization a fee equal to 1.5% of the then outstanding amount of the guaranty.

6. LOAN GUARANTEES (CONTINUED)

On February 15, 2008, the Organization entered into a Guaranty Agreement with The Reinvestment Fund, ("TRF") a Pennsylvania not-for-profit. The Organization agreed to guaranty a \$900,000 loan between TRF and Sills/Moyer Education Foundation, Inc. ("Sills/Moyer"). The loan amount was subsequently increased to \$1,000,000. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This is a guaranty of payment and not of collection only, and in the event of the default of Moyer Academy in the due and punctual payment of its loan obligation, TRF shall not be required to proceed first against Moyer Academy before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty loan, the Organization and Sills/Moyer entered into an amended Master Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of Moyer Academy. The Organization's Security Agreement is senior in lien and priority to WSFS's security interest under the Loan Documents. The Master Agreement entitles the Organization to approve the appointment of any new member of Moyer Academy's Board of Directors and to appoint a member of Moyer Academy's Board of Directors. In addition, the Organization is to be named as an additional insured on Moyer Academy's insurance policies. On August 31st of each year that the Master Agreement is in effect, Moyer Academy shall pay the Organization a fee equal to 1.5% of the then outstanding amount of the guaranty.

As of June 30, 2009, the Organization's outstanding loan guaranty to The Reinvestment Fund for Sills/Moyer Education Foundation, Inc. amounted to \$1,000,000.

Odyssey Charter School, Inc.

On January 27, 2006, the Organization entered into a Guaranty Agreement with PRE Holding II, LLC, ("PRE Holding"), a Delaware limited liability company. The Organization agreed to guaranty one year of rent under a Lease Agreement between PRE Holding and Odyssey Charter School, Inc. ("Odyssey"), in an aggregate amount not to exceed \$270,000 (the "Cap"). The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. The guaranty shall expire on January 31, 2013 or upon the payment of the Cap by the Organization to PRE Holding. This is a guaranty of payment and not of collection only, and in the event of the default of Odyssey in the due and punctual payment of its loan obligation, PRE Holding shall not be required to proceed first against Odyssey before resorting to and proceeding against the Organization for payment.

On March 14, 2006, the Organization entered into a Guaranty Agreement with Delaware Sterling Bank & Trust Company, ("Sterling Bank"), a Delaware banking corporation. The Organization agreed to guaranty a \$330,000 loan between Sterling Bank and Odyssey. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This is a guaranty of payment and not of collection only, and in the event of the default of Odyssey in the due and punctual payment of its loan obligation, Sterling Bank shall not be required to proceed first against Odyssey before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty Odyssey's lease obligations and loan, the Organization and Odyssey entered into a Master Agreement. The Organization's guaranty shall be secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement and the further agreement by Odyssey to assign its interest under its Lease to the Organization, and granting the Organization a security interest in the property of Odyssey. The Organization's Security Agreement is senior in lien and priority to Sterling

6. LOAN GUARANTEES (CONTINUED)

Bank's security interest under the Loan Documents. The Master Agreement entitles the Organization to approve the appointment of any new member of Odyssey's Board of Directors and to appoint a member of Odyssey's Board of Directors. On August 31st of each year that the Agreement is in effect, Odyssey shall pay the Organization a fee equal to 1.5% of the then outstanding amount of the guaranty.

As of June 30, 2009, the Organization's outstanding loan guaranty to PRE Holding and Sterling Bank for Odyssey Charter School, Inc. amounted to \$600,000.

Family Foundations Academy

On February 17, 2006, the Organization entered into a Guaranty Agreement with Wilmington Savings Fund Society, FSB, ("WSFS"), a Delaware Banking Corporation. The Organization agreed to guaranty an \$800,000 construction line of credit between WSFS and Family Foundations Academy, ("FFA"). The guaranteed amount was secured by certain funds retained in a trust account held by the Organization.

On May 26, 2006, as the result of FFA's decision to refinance its bank borrowing in conjunction with the construction of a permanent facility, the Organization agreed to enter into a new Guaranty Agreement with WSFS which included cancellation of the earlier Guaranty Agreement. Under this new agreement, the Organization agreed to guaranty \$1,100,000 (the "FFA Cap") of a \$4,300,000 loan between WSFS and FFA. Per the Guaranty Agreement, WSFS may increase the FFA Cap to \$2,350,000 by providing written notice which releases the guarantee obligation pursuant to the Guaranty and Suretyship Agreement dated June 8, 2004 related to a guaranty of \$1,250,000 of a \$3,000,000 loan between WSFS and Delaware Military Academy, Inc. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This is a guaranty of payment and not of collection only, and in the event of the default of FFA in the due and punctual payment of its loan obligation, WSFS shall not be required to proceed first against FFA before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty a portion of FFA's loan, the Organization and FFA entered into a Master Agreement. The Organization's guaranty shall be secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of FFA. The Organization's Security Agreement is junior in lien and priority to WSFS's security interest under the Loan Documents. The Master Agreement entitles the Organization to approve the appointment of any new member of FFA's Board of Directors and to appoint a member of FFA's Board of Directors. In addition, the Organization is to be named as an additional insured on FFA's insurance policies. Upon execution of the Master Agreement, FFA paid the Organization a fee of \$43,000, equal to 1.0% of the amount of the loan. On August 31st of each year that the Master Agreement is in effect, FFA shall pay the Organization a fee equal to the greater of \$16,500 or 1.5% of the then outstanding amount of the guaranty.

As of June 30, 2009, the Organization's outstanding loan guaranty to WSFS for Family Foundations Academy amounted to \$2,350,000.

6. LOAN GUARANTEES (CONTINUED)

Delaware College Prep Academy

On July 31, 2008, the Organization entered into a Guaranty Agreement with Tatonka Capital Corporation. The organization agreed to guaranty a \$ 1,500,000 loan between Tatonka Capital and Delaware College Prep Academy ("DCPA"). The guaranteed amount was secured by certain funds retained in a trust account held by the Organization.

As a condition of the Organization agreeing to guaranty Delaware College Prep's loan, the organization and DCPA entered into a Master Agreement. The Organization's guaranty was secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of DCPA. The Organization's Security Agreement was senior in lien and priority to Tatonka Capital Corporation under the Loan Documents. The Master Agreement entitled the Organization to approve the appointment of any new member of Delaware College Prep's Board of Directors and to appoint a member of Delaware College Prep's Board of Directors. In addition, the Organization was to be named as an additional insured on Delaware College Prep's insurance policies.

As of June 30, 2009, the Organization's outstanding loan guaranty to Tatonka Capital Corporation for Delaware College Prep Academy amounted to \$750,000.

7. TRUST INDENTURE AND AGREEMENT

On March 12, 2003, the Organization entered into a Trust Indenture and Agreement with Wells Fargo Delaware Trust Company, a Delaware Bank Corporation ("Trustee") whereby, the Trustee has transferred the funds held by the Organization within their Loan Guaranty Fund ("the Fund") to be held in trust, known as The ISDC Trust ("the Trust"). Under the Agreement, the Trustee has the responsibility of maintaining an adequate value of funds held in trust in order to fulfill the Organization's outstanding loan guarantees at all times. The Trustee has no responsibility with respect to the administration of the Trust, the investment or management of the Fund, or the satisfaction of any of the Organization's obligations to any lenders. The Trustee's responsibility for custody and maintenance of the Fund shall be discharged by execution and performances of the Investment Agreement among the Organization, Trustee and various lending institutions. Additional contributions to the Fund may be transferred, from time to time, to the Trustee by the Organization and may be invested under any preexisting Investment Agreement or such alternative investments as are allowed by the Agreement.

8. RELATED PARTY TRANSACTIONS

The spouse of the Secretary of the Organization's Board of Directors is a senior partner for the Organization's legal counsel. Total services provided by that Firm amounted to \$23,243 and \$34,068 for the years ended June 30, 2009 and 2008, respectively.

Innovative Schools Development Corporation
Notes to Financial Statements
June 30, 2009 and 2008

9. RETIREMENT PLAN

The Organization has established a defined contribution retirement plan covering substantially all employees who qualify as to length of service. The Organization contributes a lump sum payment between 0% and 4% to the plan which is determined based on the Organization's financial performance for the fiscal year. Eligible employees may contribute up to 10% of their before tax income and an unlimited amount of their after-tax income to the plan. The Organization elected not to contribute in calendar 2009 and 2008. Forfeitures and credits netted to a credit of \$4,474 for the year ended June 30, 2008.

10. CONCENTRATIONS

The Organization maintains cash balances at local banks. Accounts are insured by the Federal Deposit Insurance Company up to \$250,000.

Rodel Charitable Foundation-DE provided cash contributions totaling \$100,000 for the years ended June 30, 2009 and 2008, for program support.

Longwood Foundation, Inc. provided cash contributions totaling \$100,000 and \$-0-, for the years ended June 30, 2009 and 2008, respectively for operating and program support.

11. LEASE AGREEMENTS

The Organization entered into two agreements to lease office space. The leases provide for original annual rent of \$26,672 and \$4,501 respectively, including the Organization's share of property taxes and maintenance cost, adjusted annually.

Future minimum rents under the agreements are as follows:

2010	\$	26,672
2011		26,672
2012		26,672
2013		26,672
Thereafter		6,668
	\$	<u>113,356</u>

Total office rent expense for the years ended June 30, 2009 and 2008 amounted to \$ 26,740 and \$29,158.

The Organization also leases a copier through September 2011. Annual rental payments are \$3,336.

2010	\$	3,336
2011		3,336
	\$	<u>6,672</u>

Total equipment rent expense for the years ended June 30, 2009 and 2008 amounted to \$4,973 and \$3,996, respectively.

12. TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted by Longwood Foundation totaling \$44,500 and \$-0- at June 30, 2009 and 2008, respectively.

13. RECLASSIFICATION

Certain reclassifications have been made to the 2008 financial statements to confirm to current year presentation

Innovative Schools Development Corporation
Schedule of Functional Expenses
Year Ended June 30, 2009
(with Summarized Totals for 2008)

	2009		2008
	Program Services	Management and General	Total
Salaries	\$ 265,974	\$ 56,698	\$ 322,672
Payroll taxes	29,551	6,299	35,850
Employee benefits	50,680	10,803	61,483
Pension expense	-	-	-
Total salaries and related expenses	346,205	73,800	420,005
Accounting fees	-	13,838	13,838
Consulting fees	3,383	376	3,759
Data and telecom	4,888	931	5,819
Depreciation	-	11,541	11,541
Equipment rental	4,028	945	4,973
Human resource	8,684	8,684	17,368
Insurance	331	1,875	2,206
Interest expense	207,807	-	207,807
Legal fees	14,183	9,455	23,638
Miscellaneous	4,476	187	4,663
Office supplies	3,477	816	4,293
P/R and marketing	5,206	-	5,206
Printing & reproduction	1,712	190	1,902
Program expenses	250,458	-	250,458
Rent	21,659	5,081	26,740
Travel & entertainment	6,048	672	6,720
Trustee fees	1,500	-	1,500
Expense reimbursement	(310)	(73)	(383)
Total Expenses	\$ 883,735	\$ 128,318	\$ 1,012,053
			\$ 1,365,358

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation

Financial Statements
June 30, 2010 and 2009

With
Report of Independent Auditors

Innovative Schools Development Corporation
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June 30, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Innovative Schools Development Corporation
Wilmington, Delaware

We have audited the accompanying statements of financial position of Innovative Schools Development Corporation (a nonprofit organization) as of June 30, 2010 and 2009 and the related statements of activities, functional expenses, and cash flows for the years 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Innovative Schools Development Corporation as of June 30, 2010 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the years ended June 30, 2010 and 2009, on page 17, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cetrulo & Morgan Group, LLC

Wilmington, Delaware
October 26, 2010

Innovative Schools Development Corporation
Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash	\$ 61,959	\$ 60,638
Accounts receivable	85,240	52,177
Accrued interest receivable	-	1,447
Prepaid expenses	8,661	9,557
Total current assets	<u>155,860</u>	<u>123,819</u>
Certificates of deposit	5,200,000	5,200,000
Property and equipment, net of accumulated depreciation	<u>12,700</u>	<u>22,898</u>
Total assets	<u><u>\$ 5,368,560</u></u>	<u><u>\$ 5,346,717</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 61,571	\$ 16,741
Accrued expenses	18,025	18,025
Line of credit	25,000	50,000
Demand note payable	325,000	325,000
Total current liabilities	<u>429,596</u>	<u>409,766</u>
Sponsor loan payable	<u>5,200,000</u>	<u>5,200,000</u>
Total liabilities	5,629,596	5,609,766
Net assets (deficit):		
Unrestricted	(280,213)	(307,549)
Temporarily restricted	19,177	44,500
Total net assets (deficit)	<u>(261,036)</u>	<u>(263,049)</u>
Total liabilities and net assets (deficit)	<u><u>\$ 5,368,560</u></u>	<u><u>\$ 5,346,717</u></u>

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation
Statement of Activities
Year Ended June 30, 2010
(with Summarized Totals for 2009)

	2010			Total
	Unrestricted	Temporarily Restricted	All Funds Total	2009
Revenue and Other Support:				
Grants	\$ -	\$ -	\$ -	\$ 100,000
Contributions	50,000	29,177	79,177	100,000
Noncash contributions	222,517	-	222,517	207,783
Loan guaranty fees	380,841	-	380,841	130,720
Service fees	250,901	-	250,901	289,623
Miscellaneous income	-	-	-	1,323
Interest income	88,012	-	88,012	133,130
Total revenue and other support, net	992,271	29,177	1,021,448	962,579
Net assets released from restriction	10,000	(10,000)	-	-
Total revenue and other support	1,002,271	19,177	1,021,448	962,579
Expenses and Losses:				
Program services	861,583		861,583	883,735
Management and general	155,709		155,709	128,318
Loss from sale of asset	2,143		2,143	-
Total expenses	1,019,435	-	1,019,435	1,012,053
Change in net assets	(17,164)	19,177	2,013	(49,474)
Net assets (deficit), beginning of year	(263,049)	-	(263,049)	(213,575)
Net assets (deficit), end of year	<u>\$ (280,213)</u>	<u>\$ 19,177</u>	<u>\$ (261,036)</u>	<u>\$ (263,049)</u>

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation
Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions and other support	\$ 677,856	\$ 597,236
Cash paid to employees and suppliers	(740,114)	(813,373)
Interest received	89,459	136,623
Interest paid	(880)	(24)
Net cash used by operating activities	26,321	(79,538)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	(25,000)	50,000
Proceeds from demand note payable	-	70,000
Net cash provided by financing activities	(25,000)	120,000
NET INCREASE (DECREASE) IN CASH	1,321	40,462
CASH, BEGINNING OF YEAR	60,638	20,176
CASH, END OF YEAR	<u>\$ 61,959</u>	<u>\$ 60,638</u>

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS</u>		
<u>TO NET CASH USED BY OPERATING ACTIVITIES</u>		
Change in net assets	\$ 2,013	\$ (49,474)
Adjustments to reconcile net assets to net cash used by operating activities:		
Depreciation	8,491	11,541
Loss on disposal of asset	1,707	-
(Increase) decrease in:		
Accounts receivable	(33,063)	(24,430)
Interest receivable	1,447	3,493
Prepaid expenses	896	(4,138)
Increase (decrease) in:		
Accounts payable	44,830	(16,829)
Accrued expenses	-	299
	<u>\$ 26,321</u>	<u>\$ (79,538)</u>

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose - The mission of Innovative Schools Development Corporation (the Organization) is to promote student achievement and enhance educational choice through training, technical expertise and facility financing options.

The Organization has a Loan Guaranty Program that provides selected charter and innovative schools with the capital resources they need by satisfying lenders' needs with a limited guaranty that is generally equivalent to the amount of equity a lender normally requires. The Organization's guaranty funding, provided through Sponsor Loan Agreements, is maintained in an undivided Loan Guaranty Fund and invested through a trustee pursuant to an Investment Agreement. The Loan Guaranty Fund is pledged through individual Guaranty Agreements to support loans made to individual charter school borrowers. The Organization also enters into a Master Agreement with each borrower for whom a loan is guaranteed. The Master Agreement requires the borrower to provide the Organization with ongoing relevant information about the school and its financial and educational performance. It also provides the Organization with certain rights in the event that loan payments are unable to be paid.

The Organization also provides experienced underwriting of charter school loans and ongoing loan oversight, which includes an annual risk assessment of each guaranteed loan.

The Organization's bylaws provide that there shall be only a single member of the Corporation: Rodel Charitable Corporation - DE, a Delaware nonstock corporation. The Member has rights as detailed in the bylaws, including the right to appoint the Board of Directors.

Basis of Accounting - The Organization prepares its financial statements in accordance with U.S. generally accepted accounting principles, which involves the application of the accrual method of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation - In accordance with Statement of Financial Accounting Standards (SFAS) FASB ASC 958, "Financial Statements of Not-for-Profit Organizations", the Organization 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. In addition, the Organization is required to present a statement of cash flows.

Property and Equipment and Depreciation - Property and equipment are carried at acquisition cost or, if donated, at fair market value on the date of receipt. Depreciation of property and equipment is provided by use of the straight-line method over the estimated useful lives of the assets. It is not the Organization's policy to imply time restrictions expiring over the useful lives of donated assets. In the absence of donor imposed restrictions on the use of assets, gifts of long-term assets are reported as unrestricted support.

Contributions - In accordance with FASB ASC 958, "Accounting for Contributions Received and Contributions Made", contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Unconditional promises to make contributions are recorded as support in the period the Organization receives the promise. Promises to make contributions which are expected to be paid over a period in excess of one year are discounted and recorded at their present value. Conditional promises to make contributions are recorded as support in the period the condition is met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of Donor Restrictions - Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Allowance for Doubtful Accounts - The Organization has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained using the allowance method.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Donated Services - Amounts have been reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation.

Income Taxes - The Organization qualifies as a private foundation organization under Section 509 (a) (1) of the Internal Revenue code.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the "Statement of Activities". Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising - The Organization expenses advertising costs as they are incurred.

New Accounting Pronouncements - In September 2006, the FASB issued, "Fair Value Measurements" (FASB ASC 820). The Organization adopted (FASB ASC 820) at the beginning of their 2009 fiscal year, and there was no material impact to the financial statements. The Statement applies to all assets and liabilities that are being measured and reported on a fair value basis. The Statement requires a new disclosure that establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. The Statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

The Statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Innovative Schools Development Corporation
Notes to Financial Statements
June 30, 2010 and 2009

New Accounting Pronouncements (continued)

Level 3: Unobservable inputs that are not corroborated by market data.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("SFAS No. 159")(FASB ASC 825). SFAS No. 159 (FASB ASC 825) permits entities to choose to measure financial instruments and certain other items at fair value. Items eligible for fair value measurement option established by this statement are (i) recognized financial assets and financial liabilities (with some exceptions), (ii) firm commitments that would otherwise not be recognized at inception and that involve only financial instruments, (iii) nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services and (iv) host financial instruments resulting from separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument.

SFAS No. 159 (FASB ASC 825) is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Organization has concluded that it has complied with all necessary SFAS No. 159 (FASB ASC 825) requirements.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109 (FIN 48)(FASB ASC 740), that clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Organization's annual return. The Organization adopted the standard beginning in the year ended June 30, 2010. The Organizations annual return filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2006-2008. The Organization does not believe that there are any tax positions taken required to be reported under the pronouncement for the years ended June 30, 2010 and 2009.

2. PROPERTY AND EQUIPMENT

Major classifications of property and equipment are as follows at June 30,

	<u>2010</u>	<u>2009</u>
Computers & equipment	\$ 61,112	\$ 64,812
Furniture & fixtures	5,583	5,583
Software	<u>4,387</u>	<u>6,057</u>
	71,082	76,452
Less: accumulated depreciation	<u>58,382</u>	<u>53,554</u>
Total	<u>\$ 12,700</u>	<u>\$ 22,898</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$8,491 and \$11,541, respectively.

Innovative Schools Development Corporation
Notes to Financial Statements
June 30, 2010 and 2009

3. LINE OF CREDIT

Innovative Schools Development Corporation has a revolving line of credit with WSFS Bank in the amount of \$250,000. The line bears interest at the bank's prime rate plus .75% (3.25% as of June 30, 2010). The line of credit is due on demand and is collateralized by virtually all assets of the organization. The outstanding balance on the line on credit was \$25,000 as of June 30, 2010.

4. DEMAND NOTE PAYABLE

	<u>2010</u>	<u>2009</u>
Note payable to Rodel Charitable Foundation of Delaware, payable upon demand (180 day notice requirement). Bearing interest at prime plus 0.75% (4.00% at June 30, 2010), calculated quarterly and subsequently granted to the Organization as a contribution.	\$ 255,000	\$ 180,000
Note payable to Rodel Charitable Foundation of Delaware, payable upon demand (180 day notice requirement). Total amount available to draw of \$175,000. Bearing interest at prime plus 2% (5.25% at June 30, 2010), calculated quarterly and subsequently granted to the Organization as a contribution.	<u>70,000</u>	<u>145,000</u>
	<u>\$ 325,000</u>	<u>\$ 325,000</u>

5. SPONSOR LOANS PAYABLE

	<u>2010</u>	<u>2009</u>
Note payable to Rodel Charitable Foundation of Delaware. Note is interest-free with principal payable June 2012. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term. Upon each five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it.	\$ 1,000,000	\$ 1,000,000
Note payable to Bank of America - note is interest-free with principal payable June 2017. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term, provided it shall not have defaulted in its obligations and covenants under the loan agreement. Loan proceeds must be maintained in a deposit account with Bank of America,		

Innovative Schools Development Corporation
Notes to Financial Statements
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5. SPONSOR LOANS PAYABLE (CONTINUED)

or any affiliate thereof specified by the Sponsor. Upon each five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it.

1,800,000 1,800,000

Notes payable to Longwood Foundation - notes are interest-free with principal of \$1,000,000 payable June 2017 and principal of \$1,000,000 payable December 2021. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term, provided it shall not have defaulted in its obligations and covenants under the loan agreement. Upon the initial four-year anniversary and each five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it.

2,000,000 2,000,000

Notes payable to Welfare Foundation - notes are interest-free with principal of \$150,000 payable June 2017 and principal of \$250,000 payable December 2021. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term, provided it shall not have defaulted in its obligations and covenants under the loan agreement. Upon the initial five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it.

400,000 400,000

\$ 5,200,000 \$ 5,200,000

At June 30, 2010, future maturities of sponsor loans payable are as follows:

Year ending June 30:

2012	\$ 1,000,000
2017	2,950,000
2021	<u>1,250,000</u>
	<u>\$ 5,200,000</u>

All Sponsor Loan Agreements acknowledge that, to the extent that the term of any outstanding guaranty obligation of the Organization exists at the time of the expiration of these Agreements, the Agreements shall be automatically extended until the last outstanding loan guaranty obligation is released. In addition, each Agreement entitles the Sponsor to appoint one member of the Board of Directors of the Organization.

5. SPONSOR LOANS PAYABLE (CONTINUED)

The Sponsor loans payable and note payable are interest-free. Generally accepted accounting principles require that interest expense and contribution revenue be reported in connection with loans of cash to not-for-profit organizations that are interest free. Accordingly, \$222,517 and \$207,783 is reflected in the statement of activities for the years ended June 30, 2010 and 2009, respectively, as noncash contribution and interest expense.

6. LOAN GUARANTEES

Maurice J. Moyer Academy, Inc.

On January 26, 2006, the Organization entered into a Guaranty Agreement with Wilmington Savings Fund Society, FSB, ("WSFS"), a Delaware banking corporation. The Organization agreed to guaranty a \$650,000 revolving credit loan facility between WSFS and Moyer Academy Charter School, Inc. ("Moyer Academy"). The loan amount was subsequently increased to \$850,000, the amount guaranteed remained at \$650,000. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This was a guaranty of payment and not of collectability, and in the event of the default of Moyer Academy in the due and punctual payment of its loan obligation, WSFS was not to be required to proceed first against Moyer Academy before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty Moyer Academy's loan, the organization and Moyer Academy entered into a Master Agreement. The Organization's guaranty was secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of Moyer Academy. The Organization's Security Agreement was senior in lien and priority to WSFS's Security interest under the Loan Documents. The Master Agreement entitled the Organization to approve the appointment of any new member of Moyer Academy's Board of Directors and to appoint a member of Moyer Academy's Board of Directors. In addition, the Organization was to be named as an additional insured on Moyer Academy's insurance policies. On August 31st of each year that the Master Agreement was in effect, Moyer Academy was to pay the Organization a fee equal to 1.5% of the then outstanding amount of the guaranty.

On February 15, 2008, the Organization entered into a Guaranty Agreement with The Reinvestment Fund, ("TRF") a Pennsylvania not-for-profit. The Organization agreed to guaranty a \$900,000 loan between TRF and Sills/Moyer Education Foundation, Inc. ("Sills/Moyer"). The loan amount was subsequently increased to \$1,000,000. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This is a guaranty of payment and not of collectability, and in the event of the default of Moyer Academy in the due and punctual payment of its loan obligation, TRF shall not be required to proceed first against Moyer Academy before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty loan, the Organization and Sills/Moyer entered into an amended Master Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of Moyer Academy. The Organization's Security Agreement is senior in lien and priority to WSFS's security interest under the Loan Documents. The Master Agreement entitles the Organization to approve the appointment of any new member of Moyer Academy's Board of Directors and to appoint a member of Moyer Academy's Board of Directors. In addition, the Organization is to be named as an additional insured on Moyer Academy's insurance policies. On August 31st of each year

6. LOAN GUARANTEES (CONTINUED)

that the Master Agreement is in effect, Moyer Academy shall pay the Organization a fee equal to 1.5% of the then outstanding amount of the guaranty.

As of June 30, 2010, the Organization's outstanding loan guaranty to The Reinvestment Fund for Sills/Moyer Education Foundation, Inc. amounted to \$964,021.

Odyssey Charter School, Inc.

On January 27, 2006, the Organization entered into a Guaranty Agreement with PRE Holding II, LLC, ("PRE Holding"), a Delaware limited liability company. The Organization agreed to guaranty one year of rent under a Lease Agreement between PRE Holding and Odyssey Charter School, Inc. ("Odyssey"), in an aggregate amount not to exceed \$270,000 (the "Cap"). The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. The guaranty shall expire on January 31, 2013 or upon the payment of the Cap by the Organization to PRE Holding. This is a guaranty of payment and not of collectability, and in the event of the default of Odyssey in the due and punctual payment of its loan obligation, PRE Holding shall not be required to proceed first against Odyssey before resorting to and proceeding against the Organization for payment.

On March 14, 2006, the Organization entered into a Guaranty Agreement with Delaware Sterling Bank & Trust Company, ("Sterling Bank"), a Delaware banking corporation. The Organization agreed to guaranty a \$330,000 loan between Sterling Bank and Odyssey. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This is a guaranty of payment and not of collectability, and in the event of the default of Odyssey in the due and punctual payment of its loan obligation, Sterling Bank shall not be required to proceed first against Odyssey before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty Odyssey's lease obligations and loan, the Organization and Odyssey entered into a Master Agreement. The Organization's guaranty shall be secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement and the further agreement by Odyssey to assign its interest under its Lease to the Organization, and granting the Organization a security interest in the property of Odyssey. The Organization's Security Agreement is senior in lien and priority to Sterling

Bank's security interest under the Loan Documents. The Master Agreement entitles the Organization to approve the appointment of any new member of Odyssey's Board of Directors and to appoint a member of Odyssey's Board of Directors. On August 31st of each year that the Agreement is in effect, Odyssey shall pay the Organization a fee equal to 1.5% of the then outstanding amount of the guaranty.

As of June 30, 2010, the Organization's outstanding loan guaranty to PRE Holding and Sterling Bank for Odyssey Charter School, Inc. amounted to \$600,000.

6. LOAN GUARANTEES (CONTINUED)

Family Foundations Academy

On February 17, 2006, the Organization entered into a Guaranty Agreement with Wilmington Savings Fund Society, FSB, ("WSFS"), a Delaware Banking Corporation. The Organization agreed to guaranty an \$800,000 construction line of credit between WSFS and Family Foundations Academy, ("FFA"). The guaranteed amount was secured by certain funds retained in a trust account held by the Organization.

On May 26, 2006, as the result of FFA's decision to refinance its bank borrowing in conjunction with the construction of a permanent facility, the Organization agreed to enter into a new Guaranty Agreement with WSFS which included cancellation of the earlier Guaranty Agreement. Under this new agreement, the Organization agreed to guaranty \$1,100,000 (the "FFA Cap") of a \$4,300,000 loan between WSFS and FFA. Per the Guaranty Agreement, WSFS may increase the FFA Cap to \$2,350,000 by providing written notice which releases the guarantee obligation pursuant to the Guaranty and Suretyship Agreement dated June 8, 2004 related to a guaranty of \$1,250,000 of a \$3,000,000 loan between WSFS and Delaware Military Academy, Inc. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This is a guaranty of payment and not of collectability, and in the event of the default of FFA in the due and punctual payment of its loan obligation, WSFS shall not be required to proceed first against FFA before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty a portion of FFA's loan, the Organization and FFA entered into a Master Agreement. The Organization's guaranty shall be secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of FFA. The Organization's Security Agreement is junior in lien and priority to WSFS's security interest under the Loan Documents. The Master Agreement entitles the Organization to approve the appointment of any new member of FFA's Board of Directors and to appoint a member of FFA's Board of Directors. In addition, the Organization is to be named as an additional insured on FFA's insurance policies. Upon execution of the Master Agreement, FFA paid the Organization a fee of \$43,000, equal to 1.0% of the amount of the loan. On August 31st of each year that the Master Agreement is in effect, FFA shall pay the Organization a fee equal to the greater of \$16,500 or 1.5% of the then outstanding amount of the guaranty.

As of June 30, 2010, the Organization's outstanding loan guaranty to WSFS for Family Foundations Academy amounted to \$1,100,000.

6. LOAN GUARANTEES (CONTINUED)

Delaware College Prep Academy

On July 31, 2008, the Organization entered into a Guaranty Agreement with Tatonka Capital Corporation. The organization agreed to guaranty a \$ 1,500,000 loan between Tatonka Capital and Delaware College Prep Academy ("DCPA"). The guaranteed amount was secured by certain funds retained in a trust account held by the Organization.

As a condition of the Organization agreeing to guaranty Delaware College Prep's loan, the organization and DCPA entered into a Master Agreement. The Organization's guaranty was secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of DCPA. The Organization's Security Agreement was senior in lien and priority to Tatonka Capital Corporation under the Loan Documents. The Master Agreement entitled the Organization to approve the appointment of any new member of Delaware College Prep's Board of Directors and to appoint a member of Delaware College Prep's Board of Directors. In addition, the Organization was to be named as an additional insured on Delaware College Prep's insurance policies.

As of June 30, 2010, the Organization's outstanding loan guaranty to Tatonka Capital Corporation for Delaware College Prep Academy amounted to \$750,000.

7. TRUST INDENTURE AND AGREEMENT

On March 12, 2003, the Organization entered into a Trust Indenture and Agreement with Wells Fargo Bank, a Delaware Bank Corporation ("Trustee") whereby, the Trustee has transferred the funds held by the Organization within their Loan Guaranty Fund ("the Fund") to be held in trust, known as The ISDC Trust ("the Trust"). Under the Agreement, the Trustee has the responsibility of maintaining an adequate value of funds held in trust in order to fulfill the Organization's outstanding loan guarantees at all times. The Trustee has no responsibility with respect to the administration of the Trust, the investment or management of the Fund, or the satisfaction of any of the Organization's obligations to any lenders. The Trustee's responsibility for custody and maintenance of the Fund shall be discharged by execution and performances of the Investment Agreement among the Organization, Trustee and various lending institutions. Additional contributions to the Fund may be transferred, from time to time, to the Trustee by the Organization and may be invested under any preexisting Investment Agreement or such alternative investments as are allowed by the Agreement.

8. RELATED PARTY TRANSACTIONS

The spouse of the Secretary of the Organization's Board of Directors is a senior partner of Buchanan Ingersoll & Rooney for the Organization's legal counsel. Total services provided by that Firm amounted to \$0- and \$23,243 for the years ended June 30, 2010 and 2009, respectively.

9. RETIREMENT PLAN

The Organization has established a defined contribution retirement plan covering substantially all employees who qualify as to length of service. The Organization contributes a lump sum payment between 0% and 4% to the plan which is determined based on the Organization's financial performance for the fiscal year. Eligible employees may contribute up to 10% of their before tax income and an unlimited amount of their after-tax income to the plan. Pension expense was \$1,100 and \$-0- for the year ended June 30, 2010 and 2009, respectively. Forfeitures and credits netted to a forfeiture of \$925 for the year ended June 30, 2010.

10. CONCENTRATIONS

The Organization maintains its cash balances in bank deposit accounts, which, are insured by the federal Deposit Insurance Company up to \$250,000. The Organization considers the possibility of incurring losses on these accounts remote.

Rodel Charitable Foundation-DE provided cash contributions totaling \$50,000 and \$100,000 for the years ended June 30, 2010 and 2009, for operating and program support.

Longwood Foundation, Inc. provided cash contributions totaling \$-0- and \$100,000, for the years ended June 30, 2010 and 2009, respectively for operating and program support.

11. LEASE AGREEMENTS

The Organization entered into two agreements to lease office space. The leases provide for original annual rent of \$26,672 and \$4,501 respectively, including the Organization's share of property taxes and maintenance cost, adjusted annually.

Future minimum rents under the agreements are as follows:

2011	\$	26,672
2012		26,672
2013		26,672
Thereafter		6,668
	\$	<u>86,684</u>

Total office rent expense for the years ended June 30, 2010 and 2009 amounted to \$ 24,500 and \$26,740.

11. LEASE AGREEMENTS (CONTINUED)

The Organization also leases a copier through September 2011. Annual rental payments are \$3,336.

2011	\$ 3,336
	<u>\$ 3,336</u>

Total equipment rent expense for the years ended June 30, 2010 and 2009 amounted to \$5,547 and \$4,973, respectively.

12. TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted by Longwood Foundation totaling \$-0- and \$44,500 at June 30, 2010 and 2009, respectively.

Net assets were temporarily restricted by Gilliam Foundation for Ensemble project totaling \$19,176 and \$-0- at June 30, 2010 and 2009, respectively.

13. SUBSEQUENT EVENTS

To establish standards for reporting events that occur after the balance sheet date, but before financial statements are issued or are available to be issued, FASB released Statement of Financial Accounting Standards No. 165, *Subsequent Events* (SFAS 165)(FASB ASC 855) on May 28, 2009. The statement is effective for interim and annual periods ending after June 15, 2009. The statement defines:

- The period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.
- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements.
- The disclosures an entity should make about events or transactions that occurred after the balance sheet date.

In preparing the financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through October 26, 2010, the date the financial statements were available to be issued.

As of June 30, 2010, the Organization had no subsequent events as defined in FASB ASC 855.

Innovative Schools Development Corporation
Schedule of Functional Expenses
Year Ended June 30, 2010
(with Summarized Totals for 2009)

	2010		2009
	Program Services	Management and General	Total
Salaries	\$ 164,740	\$ 67,288	\$ 232,028
Payroll taxes	15,403	6,292	21,695
Employee benefits	30,901	12,622	43,523
Pension expense	781	319	1,100
Total salaries and related expenses	211,826	86,520	298,346
Accounting fees	-	10,389	10,389
Consulting fees	308,330	34,259	342,589
Data and telecom	5,799	1,104	6,903
Depreciation	-	8,491	8,491
Equipment rental	4,493	1,054	5,547
Human resource	73	73	145
Insurance	417	2,360	2,777
Interest expense	223,397	-	223,397
Legal fees	6,253	4,169	10,422
Miscellaneous	5,364	224	5,588
Office supplies	3,927	921	4,848
P/R and marketing	11,564	-	11,564
Printing & reproduction	1,410	157	1,567
Program expenses	46,652	-	46,652
Rent	19,805	4,646	24,450
Travel & entertainment	12,083	1,343	13,425
Other fees	192	-	192
Expense reimbursement	-	-	-
Total expenses	\$ 861,583	\$ 155,709	\$ 1,017,292
			\$ 1,012,053
			(383)

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation

Financial Statements
June 30, 2011 and 2010

With
Report of Independent Auditors

Innovative Schools Development Corporation
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June 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Innovative Schools Development Corporation
Wilmington, Delaware

We have audited the accompanying statements of financial position of Innovative Schools Development Corporation (a nonprofit organization) as of June 30, 2011 and 2010 and the related statements of activities and cash flows for the years 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Innovative Schools Development Corporation as of June 30, 2011 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the years ended June 30, 2011 and 2010, on page 18, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cetrulo & Morgan Group, LLC

Wilmington, Delaware
March 03, 2012

Innovative Schools Development Corporation
Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	455,992	\$ 61,959
Accounts receivable	84,934	85,240
Prepaid expenses	8,661	8,661
Total current assets	<u>549,587</u>	<u>155,860</u>
Guaranty fund - certificates of deposit	4,725,000	5,200,000
Reserve fund	5,000	-
Property and equipment, net of accumulated depreciation	<u>6,199</u>	<u>12,700</u>
Total assets	<u><u>\$ 5,285,786</u></u>	<u><u>\$ 5,368,560</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 66,768	\$ 61,571
Accrued expenses	12,525	18,025
Line of credit	-	25,000
Demand note payable	325,000	325,000
Total current liabilities	<u>404,293</u>	<u>429,596</u>
Sponsor loan payable	<u>4,725,000</u>	<u>5,200,000</u>
Total liabilities	5,129,293	5,629,596
Net assets (deficit):		
Unrestricted	(250,780)	(280,213)
Temporarily restricted	407,273	19,177
Total net assets (deficit)	<u>156,493</u>	<u>(261,036)</u>
Total liabilities and net assets (deficit)	<u><u>\$ 5,285,786</u></u>	<u><u>\$ 5,368,560</u></u>

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation
Statement of Activities
Year Ended June 30, 2011
(with Summarized Totals for 2010)

	2011			Total 2010
	Unrestricted	Temporarily Restricted	All Funds Total	
Revenue and Other Support:				
Grants	\$ 20,000	\$ -	\$ 20,000	\$ -
Contributions	476,516	571,720	1,048,236	79,177
Noncash contributions	191,073	-	191,073	222,517
Loan guaranty fees	196,332	-	196,332	380,841
Service fees	450,514	-	450,514	250,901
Miscellaneous income	1,596	-	1,596	-
Interest income	43,399	-	43,399	88,012
Total revenue and other support, net	1,379,430	571,720	1,951,150	1,021,448
Net assets released from restriction	183,624	(183,624)	-	-
Total revenue and other support	1,563,054	388,096	1,951,150	1,021,448
Expenses and Losses:				
Program services	1,277,732	-	1,277,732	861,583
Management and general	255,889	-	255,889	155,709
Loss from sale of asset	-	-	-	2,143
Total expenses	1,533,621	-	1,533,621	1,019,435
Change in net assets	29,433	388,096	417,529	2,013
Net assets (deficit), beginning of year	(280,213)	19,177	(261,036)	(263,049)
Net assets (deficit), end of year	\$ (250,780)	\$ 407,273	\$ 156,493	\$ (261,036)

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation
Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions and other support	\$ 1,716,984	\$ 677,856
Cash paid to employees and suppliers	(1,333,872)	(740,114)
Interest received	43,399	89,459
Interest paid	(1,453)	(880)
Net cash provided by operating activities	425,058	26,321
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from certificate of deposit	475,000	-
Deposit to reserve fund	(5,000)	-
Purchase of property and equipment	(1,025)	-
Net cash provided by investing activities	468,975	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of line of credit	(25,000)	(25,000)
Withdrawals from sponsor loans	(475,000)	-
Net cash used in financing activities	(500,000)	(25,000)
NET INCREASE IN CASH	394,033	1,321
CASH, BEGINNING OF YEAR	61,959	60,638
CASH, END OF YEAR	\$ 455,992	\$ 61,959

The accompanying notes are an integral part of the financial statements

Innovative Schools Development Corporation
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Change in net assets	\$ 417,529	\$ 2,013
Adjustments to reconcile net assets to net cash provided by operating activities:		
Depreciation	7,526	8,491
Gain on disposal of asset	-	1,707
(Increase) decrease in:		
Accounts receivable	306	(33,063)
Interest receivable	-	1,447
Prepaid expenses	-	896
Increase (decrease) in:		
Accounts payable	5,197	44,830
Accrued expenses	(5,500)	-
	<u>\$ 425,058</u>	<u>\$ 26,321</u>

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose - The mission of Innovative Schools Development Corporation (the Organization) is to promote student achievement and enhance educational choice through training, technical expertise and facility financing options.

The Organization has a Loan Guaranty Program that provides selected charter and innovative schools with the capital resources they need by satisfying lenders' needs with a limited guaranty that is generally equivalent to the amount of equity a lender normally requires. The Organization's guaranty funding, provided through Sponsor Loan Agreements, is maintained in an undivided Loan Guaranty Fund and invested through a trustee pursuant to an Investment Agreement. The Loan Guaranty Fund is pledged through individual Guaranty Agreements to support loans made to individual charter school borrowers. The Organization also enters into a Master Agreement with each borrower for whom a loan is guaranteed. The Master Agreement requires the borrower to provide the Organization with ongoing relevant information about the school and its financial and educational performance. It also provides the Organization with certain rights in the event that loan payments are unable to be paid.

The Organization also provides experienced underwriting of charter school loans and ongoing loan oversight, which includes an annual risk assessment of each guaranteed loan.

The Organization's bylaws provide that there shall be only a single member of the Corporation: Rodel Charitable Corporation - DE, a Delaware nonstock corporation. The Member has rights as detailed in the bylaws, including the right to appoint the Board of Directors.

Basis of Accounting - The Organization prepares its financial statements in accordance with U.S. generally accepted accounting principles, which involves the application of the accrual method of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation - Accounting principles generally accepted in the United States of America require the Organization 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.

Property and Equipment and Depreciation - Property and equipment are carried at acquisition cost or, if donated, at fair market value on the date of receipt. Depreciation of property and equipment is provided by use of the straight-line method over the estimated useful lives of the assets. It is not the Organization's policy to imply time restrictions expiring over the useful lives of donated assets. In the absence of donor imposed restrictions on the use of assets, gifts of long-term assets are reported as unrestricted support.

Guaranty Fund-Certificates of Deposit - Investments in the guaranty fund are reported at their fair market values in the statements of financial position and consist of certificates of deposit. The fair value of certificates of deposit approximates the carrying value, principally because of the maturity dates and the current terms applicable to each item.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserve Fund - In accordance with the Trust agreement, the Organization has established a reserve fund in the amount of \$5,000 as of June 30, 2011.

Contributions - Contributions received are recorded as unrestricted or temporarily restricted support depending on the existence or nature of any donor restrictions. Contributions are recognized when the donor makes an unconditional promise to give. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Recognition of Donor Restrictions - Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Allowance for Doubtful Accounts - The Organization has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained using the allowance method.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Donated Services - Amounts have been reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation.

Tax-exempt status - Innovative Schools Development Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 107(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization adopted accounting policies relating to uncertainty in income taxes. This policy requires organizations to recognize, measure, present, and disclose uncertain tax positions that have been or are expected to be taken, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of the application of these policies, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. As of June 30, 2011 and 2010, the Organization had no uncertain tax positions requiring disclosure. The Organization's open audit periods are the current and three preceding years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments, such as money market accounts, to be cash equivalents.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the "Statement of Activities". Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising - The Organization expenses advertising costs as they are incurred.

Fair Value Measurements - U.S. generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Subsequent Events - In preparing these financial statements, the Plan has evaluated events and transactions for potential recognition or disclosure through March 03, 2012, the date the financial statements were available to be issued. No such adjustments or disclosures were judged to be necessary at June 30, 2011.

2. PROPERTY AND EQUIPMENT

Major classifications of property and equipment are as follows at June 30,

	2011	2010
Computers & equipment	\$ 62,137	\$ 61,112
Furniture & fixtures	5,583	5,583
Software	4,387	4,387
	72,107	71,082
Less: accumulated depreciation	65,908	58,382
Total	<u>\$ 6,199</u>	<u>\$ 12,700</u>

Depreciation expense for the years ended December 31, 2011 and 2010 was \$7,526 and \$8,491, respectively.

Innovative Schools Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below presents the Organization's assets measured at fair value on a recurring basis by level within the fair value hierarchy (see Note 1)

Description	Fair Value Measurements at June 30, 2011 Using		
	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Certificates of deposit	\$ 4,725,000	\$ -	\$ -

Description	Fair Value Measurements at June 30, 2010 Using		
	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Certificates of deposit	\$ 5,200,000	\$ -	\$ -

4. LINE OF CREDIT

Innovative Schools Development Corporation has a revolving line of credit with WSFS Bank in the amount of \$250,000. The line bears interest at the bank's prime rate plus 1% (4.25% as of June 30, 2011). The line of credit is due on demand and is collateralized by virtually all assets of the organization. The outstanding balance on the line on credit was \$0- and \$25,000 as of June 30, 2011.

Innovative Schools Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

5. DEMAND NOTE PAYABLE

	<u>2011</u>	<u>2010</u>
Note payable to Rodel Charitable Foundation of Delaware, payable upon demand (180 day notice requirement). Bearing interest at prime plus 2% (5.25% at June 30, 2011), calculated quarterly and subsequently granted to the Organization as a contribution. The note is secured by certificates of deposit.	\$ 180,000	\$ 255,000
Note payable to Rodel Charitable Foundation of Delaware, payable upon demand (180 day notice requirement). Total amount available to draw of \$175,000. Bearing interest at prime plus 2% (5.25% at June 30, 2011), calculated quarterly and subsequently granted to the Organization as a contribution. The note is secured by certificates of deposit.	<u>145,000</u>	<u>70,000</u>
	<u>\$ 325,000</u>	<u>\$ 325,000</u>

6. SPONSOR LOANS PAYABLE

	<u>2011</u>	<u>2010</u>
Note payable to Rodel Charitable Foundation of Delaware. Note is interest-free with principal payable June 2012. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term. Upon each five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it. Secured by Certificates of Deposit.	\$ 525,000	\$ 1,000,000
Note payable to Bank of America - note is interest-free with principal payable June 2017. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term, provided it shall not have defaulted in its obligations and covenants under the loan agreement. Loan proceeds must be maintained in a deposit account with Bank of America, or any affiliate thereof specified by the Sponsor. Upon each five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it. Secured by Certificates of Deposit.	1,800,000	1,800,000

Innovative Schools Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

6. SPONSOR LOANS PAYABLE (CONTINUED)

Notes payable to Longwood Foundation - notes are interest-free with principal of \$1,000,000 payable June 2017 and principal of \$1,000,000 payable December 2021. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term, provided it shall not have defaulted in its obligations and covenants under the loan agreement. Upon the initial four-year anniversary and each five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it. Secured by Certificates of Deposit.

2,000,000	2,000,000
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Notes payable to Welfare Foundation - notes are interest-free with principal of \$150,000 payable June 2017 and principal of \$250,000 payable December 2021. The Organization, at its sole option, shall have the right to extend the term of the loan for an additional 15-year renewal term, provided it shall not have defaulted in its obligations and covenants under the loan agreement. Upon the initial five-year anniversary of the loan agreement, the Sponsor may request that its pro rata share of the unencumbered loan proceeds be returned to it. Secured by Certificates of Deposit.

<u>400,000</u>	<u>400,000</u>
<u>\$ 4,725,000</u>	<u>\$ 5,200,000</u>

At June 30, 2011, future maturities of sponsor loans payable are as follows:

Year ending June 30:

2012	\$ 525,000
2017	2,950,000
2021	<u>1,250,000</u>
	<u>\$ 4,725,000</u>

All Sponsor Loan Agreements acknowledge that, to the extent that the term of any outstanding guaranty obligation of the Organization exists at the time of the expiration of these Agreements, the Agreements shall be automatically extended until the last outstanding loan guaranty obligation is released. In addition, each Agreement entitles the Sponsor to appoint one member of the Board of Directors of the Organization.

The Sponsor loans payable and note payable are interest-free. Generally accepted accounting principles require that interest expense and contribution revenue be reported in connection with loans of cash to not-for-profit organizations that are interest free. Accordingly, \$191,073 and \$222,517 is reflected in the statement of activities for the years ended June 30, 2011 and 2010, respectively, as noncash contribution and interest expense.

7. LOAN GUARANTEES

Maurice J. Moyer Academy, Inc.

On February 15, 2008, the Organization entered into a Guaranty Agreement with The Reinvestment Fund, ("TRF") a Pennsylvania not-for-profit. The Organization agreed to guaranty a \$900,000 loan between TRF and Sills/Moyer Education Foundation, Inc. ("Sills/Moyer"). The loan amount was subsequently increased to \$1,000,000. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This is a guaranty of payment and not of collectability, and in the event of the default of Moyer Academy in the due and punctual payment of its loan obligation, TRF shall not be required to proceed first against Moyer Academy before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty loan, the Organization and Sills/Moyer entered into an amended Master Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of Moyer Academy. The Organization's Security Agreement is senior in lien and priority to WSFS's security interest under the Loan Documents. The Master Agreement entitles the Organization to approve the appointment of any new member of Moyer Academy's Board of Directors and to appoint a member of Moyer Academy's Board of Directors. In addition, the Organization is to be named as an additional insured on Moyer Academy's insurance policies. On August 31st of each year that the Master Agreement is in effect, Moyer Academy shall pay the Organization a fee equal to 1.5% of the then outstanding amount of the guaranty.

As of June 30, 2011, the Organization's outstanding loan guaranty to The Reinvestment Fund for Sills/Moyer Education Foundation, Inc. amounted to \$1,000,000.

Odyssey Charter School, Inc.

On January 27, 2006, the Organization entered into a Guaranty Agreement with PRE Holding II, LLC, ("PRE Holding"), a Delaware limited liability company. The Organization agreed to guaranty one year of rent under a Lease Agreement between PRE Holding and Odyssey Charter School, Inc. ("Odyssey"), in an aggregate amount not to exceed \$270,000 (the "Cap"). The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. The guaranty shall expire on January 31, 2013 or upon the payment of the Cap by the Organization to PRE Holding. This is a guaranty of payment and not of collectability, and in the event of the default of Odyssey in the due and punctual payment of its loan obligation, PRE Holding shall not be required to proceed first against Odyssey before resorting to and proceeding against the Organization for payment.

On March 14, 2006, the Organization entered into a Guaranty Agreement with Delaware Sterling Bank & Trust Company, ("Sterling Bank"), a Delaware banking corporation. The Organization agreed to guaranty a \$330,000 loan between Sterling Bank and Odyssey. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This is a guaranty of payment and not of collectability, and in the event of the default of Odyssey in the due and punctual payment of its loan obligation, Sterling Bank shall not be required to proceed first against Odyssey before resorting to and proceeding against the Organization for payment.

7. LOAN GUARANTEES (CONTINUED)

As a condition of the Organization agreeing to guaranty Odyssey's lease obligations and loan, the Organization and Odyssey entered into a Master Agreement. The Organization's guaranty shall be secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement and the further agreement by Odyssey to assign its interest under its Lease to the Organization, and granting the Organization a security interest in the property of Odyssey. The Organization's Security Agreement is senior in lien and priority to Sterling Bank's security interest under the Loan Documents. The Master Agreement entitles the Organization to approve the appointment of any new member of Odyssey's Board of Directors and to appoint a member of Odyssey's Board of Directors. On August 31st of each year that the Agreement is in effect, Odyssey shall pay the Organization a fee equal to 1.5% of the then outstanding amount of the guaranty.

As of June 30, 2011, the Organization's outstanding loan guaranty to PRE Holding and Sterling Bank for Odyssey Charter School, Inc. amounted to \$600,000.

Family Foundations Academy

On May 26, 2006, as the result of FFA's decision to refinance its bank borrowing in conjunction with the construction of a permanent facility, the Organization agreed to enter into a Guaranty Agreement with WSFS. Under this agreement, the Organization agreed to guaranty \$1,100,000 (the "FFA Cap") of a \$4,300,000 loan between WSFS and FFA. The guaranteed amount was secured by certain funds retained in a trust account held by the Organization. This is a guaranty of payment and not of collectability, and in the event of the default of FFA in the due and punctual payment of its loan obligation, WSFS shall not be required to proceed first against FFA before resorting to and proceeding against the Organization for payment.

As a condition of the Organization agreeing to guaranty a portion of FFA's loan, the Organization and FFA entered into a Master Agreement. The Organization's guaranty shall be secured by a Leasehold Mortgage, Assignment of Leases, and Security Agreement granting the Organization a security interest in the property of FFA. The Organization's Security Agreement is junior in lien and priority to WSFS's security interest under the Loan Documents. The Master Agreement entitles the Organization to approve the appointment of any new member of FFA's Board of Directors and to appoint a member of FFA's Board of Directors. In addition, the Organization is to be named as an additional insured on FFA's insurance policies. Upon execution of the Master Agreement, FFA paid the Organization a fee of \$43,000, equal to 1.0% of the amount of the loan. On August 31st of each year that the Master Agreement is in effect, FFA shall pay the Organization a fee equal to the greater of \$16,500 or 1.5% of the then outstanding amount of the guaranty.

As of June 30, 2011, the Organization's outstanding loan guaranty to WSFS for Family Foundations Academy amounted to \$1,100,000.

8. TRUST INDENTURE AND AGREEMENT

On March 12, 2003, the Organization entered into a Trust Indenture and Agreement with Wells Fargo Bank, a Delaware Bank Corporation ("Trustee") whereby, the Trustee has transferred the funds held by the Organization within their Loan Guaranty Fund ("the Fund") to be held in trust, known as The ISDC Trust ("the Trust"). Under the Agreement, the Trustee has the responsibility of maintaining an adequate value of funds held in trust in order to fulfill the Organization's outstanding loan guarantees at all times. The Trustee has no responsibility with respect to the administration of the Trust, the investment or management of the Fund, or the satisfaction of any of the Organization's obligations to any lenders. The Trustee's responsibility for custody and maintenance of the Fund shall be discharged by execution and performances of the Investment Agreement among the Organization, Trustee and various lending institutions. Additional contributions to the Fund may be transferred, from time to time, to the Trustee by the Organization and may be invested under any preexisting Investment Agreement or such alternative investments as are allowed by the Agreement.

9. RELATED PARTY TRANSACTIONS

The spouse of the Secretary of the Organization's Board of Directors is a senior partner of Buchanan Ingersoll & Rooney for the Organization's legal counsel. Total services provided by that Firm amounted to \$-0- for the years ended June 30, 2011 and 2010.

10. RETIREMENT PLAN

The Organization has established a defined contribution retirement plan covering substantially all employees who qualify as to length of service. The Organization contributes a lump sum payment between 0% and 4% to the plan which is determined based on the Organization's financial performance for the fiscal year. Eligible employees may contribute up to 10% of their before tax income and an unlimited amount of their after-tax income to the plan. Pension expense was \$-0- for the years ended June 30, 2011 and 2010. Forfeitures and credits netted to a forfeiture of \$3,255 for the year ended June 30, 2011.

11. CONCENTRATIONS

The Organization maintains cash and cash equivalents at various financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 and the Securities Investor Protection Corporation up to \$100,000. Beginning December 31, 2010, the FDIC implemented a new temporary program that provides unlimited coverage for funds held in noninterest-bearing transaction accounts at insured banks. In the normal course of business, the Organization's balances may exceed insured limits. The Organization considers the possibility of incurring losses on these accounts remote.

Rodel Charitable Foundation-DE provided cash contributions totaling \$470,000 and \$50,000 for the years ended June 30, 2011 and 2010, for operating and program support, and \$5,000 to fund a reserve required in the Trust agreement.

Longwood Foundation, Inc. provided cash contributions totaling \$296,971 and \$-0-, for the years ended June 30, 2011 and 2010, respectively for operating and program support.

Innovative Schools Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

12. LEASE AGREEMENTS

The Organization entered into two agreements to lease office space. The leases provide for original annual rent of \$26,672 and \$4,501 respectively, including the Organization's share of property taxes and maintenance cost, adjusted annually.

Future minimum rents under the agreements are as follows:

2012	\$	26,672
2013		26,672
2014		6,668
Thereafter		-
	\$	<u>60,012</u>

Total office rent expense for the years ended June 30, 2011 and 2010 amounted to \$ 30,346 and \$24,642.

The Organization also leases a copier through September 2011. Annual rental payments are \$3,336.

2012	\$	834
	\$	<u>834</u>

Total equipment rent expense for the years ended June 30, 2011 and 2010 amounted to \$7,957 and \$5,547, respectively.

13. TEMPORARILY RESTRICTED NET ASSETS - CONTRIBUTIONS

Temporarily restricted net assets are the part of the Organization's net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization that fulfill those stipulations. Temporarily restricted contributions were \$571,720 for the year ended June 30, 2011.

14. RELEASE OF NET ASSETS

Net assets released from prior restrictions by incurring expenses satisfying the restricted purposes specified by donors are as follows:

Ensemble program	\$	12,660
Delaware leadership program		162,934
Longwood solutions		3,030
Welfare NSD fund		5,000
	\$	<u>183,624</u>

15. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Ensemble program	\$	6,516
Delaware leadership program		3,787
Longwood solutions		296,970
Welfare NSD fund		95,000
Reserve fund		<u>5,000</u>
	\$	<u>407,273</u>

Innovative Schools Development Corporation
Schedule of Functional Expenses
Year Ended June 30, 2011
(with Summarized Totals for 2010)

	2011		2010
	Program Services	Management and General	Total
Salaries	\$ 297,916	\$ 121,684	\$ 419,600
Payroll taxes	23,121	9,444	32,565
Employee benefits	88,561	36,173	124,734
Pension expense	2,311	944	3,255
Total salaries and related expenses	411,909	168,245	580,154
Accounting fees	-	-	-
Bad debts	-	2,663	2,663
Consulting fees	465,953	51,773	517,726
Data and telecom	9,275	1,767	11,042
Depreciation	-	7,526	7,526
Equipment rental	6,445	1,512	7,957
Human resource	(206)	(206)	(412)
Insurance	430	2,439	2,869
Interest expense	192,526	-	192,526
Legal fees	4,865	3,244	8,109
Miscellaneous	18,343	764	19,107
Office supplies	16,132	3,784	19,916
P/R and marketing	50,596	-	50,596
Printing & reproduction	5,852	650	6,502
Program expenses	17,092	-	17,092
Rent	24,524	5,752	30,276
Travel & entertainment	53,785	5,976	59,761
Other fees	211	-	211
Total expenses	\$ 1,277,732	\$ 255,889	\$ 1,533,621
			\$ 1,017,292

The accompanying notes are an integral part of the financial statements

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Accrual Basis

Innovative Schools

Balance Sheet

As of June 30, 2011

	Jun 30, 11
ASSETS	
Current Assets	
Checking/Savings	
CD - Bank of America #2 x8463	800,000.00
CD - Bank of America #3 x8492	800,000.00
CD - Bank of America #4 x8544	800,000.00
CD - Bank of America #5 x3695	1,000,000.00
CD - WSFS #1 x0367	800,000.00
CD - WSFS #2 x4466	500,000.00
CD - WSFS #5	25,000.00
Money Market - Wells Fargo	5,000.00
Money Market - WSFS	452,825.11
WSFS - Checking	3,511.60
Total Checking/Savings	5,186,336.71
Accounts Receivable	
Accounts Receivable	84,933.70
Total Accounts Receivable	84,933.70
Other Current Assets	
Pass Through Exp (To Be Billed)	
Academy of Dover	0.05
Rodel	-0.46
Total Pass Through Exp (To Be Billed)	-0.41
Prepaid Expense	8,661.45
Total Other Current Assets	8,661.04
Total Current Assets	5,279,931.45
Fixed Assets	
Accumulated Depreciation	
A/D - Computers & Equipment	-56,387.00
A/D - Furniture & Fixtures	-5,133.00
A/D - Software	-4,388.00
Total Accumulated Depreciation	-65,908.00
Fixed Assets	
Computers & Equipment	62,136.55
Furniture & Fixtures	5,583.00
Software	4,386.82
Total Fixed Assets	72,106.37
Total Fixed Assets	6,198.37
TOTAL ASSETS	5,286,129.82

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Accrual Basis

Innovative Schools

Balance Sheet

As of June 30, 2011

	Jun 30, 11
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	61,716.16
Total Accounts Payable	61,716.16
Credit Cards	
Credit Card - American Express	3,371.10
Credit Card - Chase Amazon Card	958.99
Credit Card - FIA Mastercard	2,116.47
Total Credit Cards	6,446.56
Other Current Liabilities	
Accrued Expense	
Accr Exp - Audit	6,500.00
Accr Exp - Sick Time	4,975.00
Total Accrued Expense	11,475.00
Notes Payable - Rodel	325,000.00
Restricted Funding for Services	
Delaware Leadership Program	0.23
Longwood Solutions Grant	-0.50
Total Restricted Funding for Services	-0.27
Total Other Current Liabilities	336,474.73
Total Current Liabilities	404,637.45
Long Term Liabilities	
Sponsor Loans Payable	
Sponsor Loan Payable - Longwood	2,000,000.00
Sponsor Loan Payable - MBNA	1,800,000.00
Sponsor Loan Payable - Rodel	525,000.00
Sponsor Loan Payable - Welfare	400,000.00
Total Sponsor Loans Payable	4,725,000.00
Total Long Term Liabilities	4,725,000.00
Total Liabilities	5,129,637.45

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Accrual Basis

Innovative Schools
Balance Sheet
As of June 30, 2011

	Jun 30, 11
Equity	
Unrestricted Net Assets	-259,986.21
Net Income	416,478.58
Total Equity	156,492.37
TOTAL LIABILITIES & EQUITY	5,286,129.82