INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

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MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Inwood Academy for Leadership Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Inwood Academy for Leadership Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inwood Academy for Leadership Charter School as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Inwood Academy for Leadership Charter School's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 07, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, on our consideration of Inwood Academy for Leadership Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Inwood Academy for Leadership Charter School's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 26, 2017

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

ASSETS		**2017**		**2016**
Cash	$	1,638,900	$	807,950
Cash - restricted		75,143		75,106
Grants receivable		422,205		455,232
Prepaid expenses and other assets		589,380		13,944
Property and equipment, net		1,843,823		2,136,104
Construction in progress		733,046		46,523
Deposit		350,000		-
	$	**5,652,497**	**$**	**3,534,859**

LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	$	285,928	$	257,521
Accrued salaries and other payroll related expenses		125,592		198,399
Due to NYC Department of Education		102,276		9,925
Deferred rent		343,319		304,116
Capital lease obligation		21,189		66,632
		878,304		836,593
NET ASSETS				
Unrestricted		4,764,693		2,698,266
Temporarily restricted		9,500		-
		4,774,193		2,698,266
	$	**5,652,497**	**$**	**3,534,859**

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
OPERATING REVENUE AND SUPPORT				
State and local per pupil operating revenue	$ 13,688,308	$ -	$ 13,688,308	$ 11,491,775
Government grants and contracts	1,562,333	-	1,562,333	1,340,215
Contributions and other grants	113,362	9,500	122,862	130,637
Interest income	516	-	516	49
	15,364,519	9,500	15,374,019	12,962,676
EXPENSES				
Program services	11,326,339	-	11,326,339	10,278,183
Management and general	1,811,459	-	1,811,459	1,419,992
Fundraising	160,294	-	160,294	134,299
	13,298,092	-	13,298,092	11,832,474
CHANGE IN NET ASSETS	2,066,427	9,500	2,075,927	1,130,202
NET ASSETS - BEGINNING OF YEAR	2,698,266	-	2,698,266	1,568,064
NET ASSETS - END OF YEAR	**$ 4,764,693**	**$ 9,500**	**$ 4,774,193**	**$ 2,698,266**

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

		Program Services			Supporting Services			
		General Education	Special Education	Total Program	Management and General	Fundraising	2017	2016
Personnel services costs:	**No. of Positions**							
Administrative staff personnel	25	$ 863,100	$ 220,816	$ 1,083,916	$ 628,702	$ 95,425	$ 1,808,043	$ 1,681,468
Instructional personnel	99	4,223,115	1,191,537	5,414,652	15,331	1,704	5,431,687	4,616,191
Non-instructional personnel	10	-	-	-	265,082	-	265,082	202,470
Total salaries and wages	134	5,086,215	1,412,353	6,498,568	909,115	97,129	7,504,812	6,500,129
Payroll taxes and employee benefits		1,034,345	287,220	1,321,565	184,881	19,752	1,526,198	1,309,363
Retirement benefits		87,814	24,384	112,198	15,696	1,677	129,571	162,823
Legal fees		-	-	-	41,616	-	41,616	7,778
Accounting / Audit services		-	-	-	99,043	-	99,043	136,209
Professional fees - other		264,113	72,841	336,954	149,167	8,427	494,548	472,775
Building and land rent / lease		845,649	234,872	1,080,521	152,018	16,241	1,248,780	1,236,483
Repairs and maintenance		57,017	15,836	72,853	10,250	1,095	84,198	85,440
Insurance		42,902	11,916	54,818	7,712	824	63,354	52,429
Utilities		98,892	27,466	126,358	17,777	1,899	146,034	133,710
Non-capitalized equipment / furnishings		64,275	17,852	82,127	11,554	1,234	94,915	72,042
Staff development		142,710	39,637	182,347	25,654	2,741	210,742	170,717
Student and staff recruitment		28,742	7,983	36,725	5,167	552	42,444	24,024
Technology		113,678	31,573	145,251	20,435	2,183	167,869	178,942
Supplies / Materials		195,298	52,242	247,540	294	33	247,867	214,823
Food services		313,779	83,907	397,686	-	-	397,686	347,205
Student services		143,417	38,827	182,244	-	-	182,244	148,552
Office expense		-	-	-	90,106	-	90,106	82,638
Bank and interest expense		-	-	-	-	-	-	7,077
Depreciation and amortization		324,543	90,139	414,682	58,342	6,233	479,257	482,402
Other		26,633	7,269	33,902	12,632	274	46,808	6,913
		$ 8,870,022	**$ 2,456,317**	**$ 11,326,339**	**$ 1,811,459**	**$ 160,294**	**$ 13,298,092**	**$ 11,832,474**

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	$ 15,498,881	$ 12,641,173
Cash received from interest income	516	49
Cash paid to employees and suppliers	(13,399,505)	(11,301,047)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,099,892	1,340,175
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(186,976)	(538,399)
Construction in progress	(686,523)	(46,523)
Deposit	(350,000)	-
NET CASH USED IN INVESTING ACTIVITIES	(1,223,499)	(584,922)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for capital lease obligations	(45,443)	(52,067)
NET INCREASE IN CASH	830,950	703,186
CASH - BEGINNING OF YEAR	807,950	104,764
CASH - END OF YEAR	**$ 1,638,900**	**$ 807,950**
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 2,075,927	$ 1,130,202
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	479,257	482,402
Deferred rent	39,203	91,227
Changes in operating assets and liabilities:		
Cash - restricted	(37)	(48)
Grants receivable	33,027	(295,322)
Prepaid expenses and other assets	(575,436)	(7,957)
Accounts payable and accrued expenses	28,407	(11,051)
Accrued salaries and other payroll related expenses	(72,807)	(23,146)
Due to NYC Department of Education	92,351	(26,132)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 2,099,892**	**$ 1,340,175**
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Equipment acquired by incurring capital lease obligations	$ -	$ 49,750

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

1. NATURE OF THE ORGANIZATION

Inwood Academy for Leadership Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on December 15, 2009 to operate a charter school pursuant to Article 56 of the Educational Law of the State of New York. The School was granted a provisional charter on December 15, 2009, valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School's charter was renewed during the year for a three and a half year term until June 30, 2018.

The School opened its doors in the Fall of 2010 in Upper Manhattan with a rigorous academic program and a highly structured and supportive school culture. The School is uniquely designed to empower students in Inwood and Washington Heights to become agents for change through community-focused leadership, character development and college preparedness.

The School, as determined by the Internal Revenue Service, is exempt from Federal income tax under section 501(a) of the Internal Revenue Code ("IRC") as an organization described in Section 501(c)(3) of the IRC and under the corresponding provisions of the New York State tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC.

In fiscal year 2017, the School operated classes for students in the fifth through eleventh grades. In fiscal year 2016, the School operated classes for students in the fifth through tenth grades.

The New York City Department of Education ("NYCDOE") provides free transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the School's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

The School has no permanently restricted net assets at June 30, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash - Restricted

The State University of New York requires an escrow account of $75,143 to be held aside at June 30, 2017 to cover debts in the event of the School's dissolution.

Grants Receivable

Grants receivable represent unconditional promises to give. Grants receivable that are expected to be collected within one year and recorded at net realizable value are $422,205 and $455,232 at June 30, 2017 and 2016, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary at June 30, 2017 and 2016. Such estimate is based on management's assessments of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

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

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred, if any, are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

The School receives a substantial portion of its support and revenue from the NYCDOE. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a $1,000 threshold above which assets are evaluated to be capitalized. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. Property and equipment acquired with certain government contract funds is recorded as expenses pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. No depreciation is recorded on construction in progress until placed into service.

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the years ended June 30, 2017 and 2016.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The School expenses advertising costs as incurred. The School incurred no advertising costs for the years ended June 30, 2017 and 2016.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Subsequent Events

The School has evaluated events through October 26, 2017, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2017 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2016 are presented. As a result, the June 30, 2016 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2016 information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, disclosure and transition.

The School files informational returns in the federal jurisdiction. With few exceptions, the School is no longer subject to Federal, state, or local income tax examinations for fiscal years before 2014.

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts paid. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the School would classify it as "Interest Expense." The School would classify penalties in connection with underpayments of income tax as "Other Expense."

Deferred Rent

In accordance with U.S. GAAP, rent expense is recognized on a straight-line basis over the life of the lease, including future escalations of rent, rather than in accordance with lease payments. Deferred rent represents the adjustment to future rents as a result of using the straight-line method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the effect the update will have on its financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30,:

	2017	2016	Estimated Useful Life
Furniture and fixtures	$ 764,707	$ 758,638	3 years
Equipment and computers	687,228	646,576	3 years
Capital lease equipment	169,310	169,310	Life of lease
Leasehold improvements	2,022,168	1,881,913	Life of lease
	3,643,413	3,456,437	
Less: accumulated depreciation and amortization, including accumulated amortization on capital leases of $147,979 and $107,590 as of June 30, 2017 and 2016, respectively	(1,799,590)	(1,320,333)	
	$ 1,843,823	$ 2,136,104	

Depreciation and amortization expense amounted to $479,257 and $482,402 for the years ended June 30, 2017 and 2016, respectively, including amortization expense on capital leases of $40,389 and $53,673 for the years ended June 30, 2017 and 2016, respectively.

4. CONSTRUCTION IN PROGRESS

In 2016, the School began performing due diligence and evaluating conditions for a new location. Construction in progress amounted to $733,046 and $46,523 at June 30, 2017 and 2016, respectively. The School deposited a construction escrow amount of $350,000 related to an agreement with 3896 10th Ave Associates during the year ended June 30, 2017.

5. PENSION PLAN

The School has a 403(b) profit sharing plan (the “Plan”) which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan either on the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contributions. The Plan provides for the School to contribute up to 5% of an employee’s salary. The School contribution becomes fully vested after the employee completes one year of service. For the years ended June 30, 2017 and 2016, pension expense for the School was $128,742 and $162,822, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are both purpose and time restricted and consisted of $9,500 for the College Career Readiness program for the year ended June 30, 2017.

7. COMMITMENTS

The School has a lease with The Roman Catholic Church of the Good Shepherd of New York City that will expire on June 30, 2018. The School took possession of this space in August 2012. Annual lease payments amounted to $417,420 during each of the years ended June 30, 2017 and 2016.

On June 19, 2014, the School entered into a lease with The Roman Catholic Church of St. Jude. The lease period is from July 1, 2014 through June 30, 2024. The School took possession of this space in July 2014. Annual lease payments amounted to $780,000 and $740,000 during the years ended June 30, 2017 and 2016, respectively.

The School entered into one capital lease in 2016 for computers for a total commitment of $49,750 during the year ended June 30, 2016.

On May 2017, the School entered into a lease with 3896 10th Ave Associates. The lease period is from September 30, 2017 through October 1, 2047. There were no related lease payments for the year ended June 30, 2017.

Total future minimum rental and lease payments are as follows:

June 30,	Operating Leases	Capital Leases
2018	$ 1,690,170	$ 19,761
2019	1,534,000	3,293
2020	1,534,000	-
2021	1,534,000	-
2022	1,534,000	-
Thereafter	22,255,689	-
	$ 30,081,859	23,054
Less interest expense		1,865
Net minimum obligations under capital leases		$ 21,189

8. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.

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

9. CONCENTRATIONS

Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation (“FDIC”) insured limit of $250,000.

The School received approximately 92% of its total revenue from per pupil funding from the NYCDOE during the year ended June 30, 2017. The School received approximately 90% of its total revenue from per pupil funding from the NYCDOE during the year ended June 30, 2016.

Two major grantors accounted for approximately 89% and 77% of grants receivable at June 30, 2017 and 2016, respectively.

Three vendors accounted for approximately 41% and 51% of accounts payable at June 30, 2017 and 2016, respectively.

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Trustees
Inwood Academy for Leadership Charter School

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Inwood Academy for Leadership Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as finding 2017-01.

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the School in a separate letter dated October 26, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
October 26, 2017

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness (es) identified?	yes _____	no ___√___
Significant deficiency (ies) identified that are not considered to be material weaknesses?	yes _____	no ___√___
Noncompliance material to financial statements noted?	yes ___√___	no _____

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

SECTION II – COMPLIANCE FINDING

Finding: 2017-01

Criteria and condition: The School is required to be in compliance with the New York State Education Department ("NYSED") requirements. The teacher certification exemption allows Charter Schools to have up to 15 uncertified teachers. The School had 16 teachers that were uncertified.

Context: NYSED requires the School to have no more than 15 uncertified teachers, with the provision that five of these teachers be teaching math, science, computer science, technology, or career and technical education, with the remaining ten teachers not restricted.

Cause: Inadequate management oversight of NYSED requirements.

Effect: The School can be under additional scrutiny from the New York City Department of Education for not being in compliance with the NYSED requiring teachers to be qualified through certification.

Recommendation: We recommend the School be in compliance with the NYSED teacher qualification requirements.

CORRECTIVE ACTION PLAN
JUNE 30, 2017

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:

Finding: 2017-01

We recognize and agree with the finding regarding the noncompliance with teacher certification requirements during fiscal year 2017. Throughout the fiscal/academic year, two teachers were pending professional certification (under review for NYSED). Had those teachers cleared, Inwood Academy for Leadership Charter School would have been compliant.

Inwood Academy for Leadership Charter School

Communication With Those Charged With Governance

October 26, 2017

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

October 26, 2017

To the Board of Trustees of
Inwood Academy for Leadership Charter School

We have audited the financial statements of Inwood Academy for Leadership Charter School (the "School") for the year ended June 30, 2017 and are prepared to issue our report thereon dated October 26, 2017. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

A. Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter April 25, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Inwood Academy for Leadership Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in July 2017.

C. Auditor Independence:

We affirm that MBAF CPA's, LLC is independent with respect to Inwood Academy for Leadership Charter School.

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Inwood Academy for Leadership Charter School are described in Note 2 to the financial statements. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Allowance for Doubtful Accounts:
As of June 30, 2017, Inwood Academy for Leadership Charter School recorded grant and other receivables of $422,205. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures, we concur with management's conclusion.

Depreciation:
Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful lives of the assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

Functional Statement Allocation:
Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Risk Management in Note 8 to the financial statements which describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Except as made known to you, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and uncorrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

There were four audit adjustments (which includes one given by the School) that decreased income by approximately $60,500. The current year's adjustments were as follows:

1. To accrue legal expenses for approximately $21,200.

2. Provided by client entry to record severance pay expense of employee, which decreased net income by approximately $39,500.

Proposed and Uncorrected:

There were no entries that were proposed and uncorrected due to immateriality.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 26, 2017.

J. Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

K. Other Audit Findings or Issues:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR ENHANCING OPERATING EFFICIENCY

Compliance Testing:

We noted that the School did not meet the requirement of certification for 16 teachers during our preliminary payroll testing. NYSED requires the School to have a maximum of 15 uncertified teachers provided that five of these teachers are teaching math, science, computer science, technology, or career and technical education, with the remaining ten teachers not restricted. The School can be under additional scrutiny from the New York City Department of Education for not being in compliance with the NYSED requiring teachers to be qualified through certification. We recommended for the School to be in compliance with the NYSED teacher qualification requirements.

Property, Plant and Equipment Testing:

Our testing of property plant and equipment revealed a capitalization policy of $1,000 which leads to a larger number of inconsequential items being capitalized. We recommend that the School consider raising the threshold between $3,000 to $5,000. We also found that assets were being capitalized according to invoice amounts. We recommend that the determination to expense or capitalize assets be done by individual items not by invoice.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Board of Trustees, finance committee and management of Inwood Academy for Leadership Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MBAF CPAs, LLC

MBAF CPA's, LLC