

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2019 AND 2018

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

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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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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.

An independent member of Baker Tilly International

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, 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 28, 2019

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

ASSETS	2019	2018
Cash	\$ 6,285,237	\$ 3,502,933
Cash - restricted	75,217	75,180
Bond reserve funds - restricted cash	4,114,600	15,996,841
Grants receivable	191,445	619,100
Prepaid expenses and other assets	518,199	718,461
Property and equipment, net	2,688,646	2,802,312
Construction in progress	15,857,977	2,618,924
TOTAL ASSETS	\$ 29,731,321	\$ 26,333,751
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,087,522	\$ 527,003
Accrued interest expense	158,588	121,443
Bonds payable	17,449,847	17,405,962
Due to NYC Department of Education	74,031	3,993
Deferred rent	339,099	384,881
Capital lease obligation	-	2,889
	19,109,087	18,446,171
NET ASSETS		
Net assets - without donor restrictions	10,622,234	7,887,580
TOTAL LIABILITIES AND NET ASSETS	\$ 29,731,321	\$ 26,333,751

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
OPERATING REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 16,717,486	\$ 15,337,727
Government grants and contracts	2,879,781	2,232,337
Contributions and other grants	129,300	157,740
Interest income	81,448	15,194
Net assets released from restrictions	-	9,500
	<u>19,808,015</u>	<u>17,752,498</u>
EXPENSES		
Program services	14,245,054	12,082,618
Management and general	2,551,733	2,137,557
Fundraising	276,574	409,436
	<u>17,073,361</u>	<u>14,629,611</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,734,654</u>	<u>3,122,887</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Net assets released from restrictions	-	(9,500)
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>-</u>	<u>(9,500)</u>
CHANGE IN NET ASSETS	2,734,654	3,113,387
NET ASSETS - BEGINNING OF YEAR	<u>7,887,580</u>	<u>4,774,193</u>
NET ASSETS - END OF YEAR	<u>\$ 10,622,234</u>	<u>\$ 7,887,580</u>

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, 2019

	No. of Positions	Program Services			Supporting Services		2019
		General Education	Special Education	Total Program	Management and General	Fundraising	
Personnel services costs:							
Administrative staff personnel	38	\$ 1,494,598	\$ 331,644	\$ 1,826,242	\$ 849,327	\$ 160,325	\$ 2,835,894
Instructional personnel	99	4,716,837	1,528,748	6,245,585	-	-	6,245,585
Non-instructional personnel	10	-	-	-	424,059	-	424,059
Total salaries and wages	147	6,211,435	1,860,392	8,071,827	1,273,386	160,325	9,505,538
Payroll taxes and employee benefits		1,145,985	343,235	1,489,220	234,935	29,579	1,753,734
Retirement benefits		109,293	32,734	142,027	22,406	2,821	167,254
Legal fees		-	-	-	19,896	-	19,896
Accounting / Audit services		-	-	-	139,319	-	139,319
Professional fees - other		357,868	108,579	466,447	193,154	25,436	685,037
Building and land rent / lease		1,129,321	338,244	1,467,565	231,518	29,149	1,728,232
Repairs and maintenance		34,550	10,348	44,898	7,083	892	52,873
Insurance		122,622	36,727	159,349	25,138	3,165	187,652
Utilities		145,197	43,488	188,685	29,766	3,748	222,199
Supplies / Materials		223,107	72,278	295,385	267	34	295,686
Non-capitalized equipment / furnishings		55,179	16,527	71,706	11,312	1,424	84,442
Staff development		174,015	52,119	226,134	35,674	4,492	266,300
Student and staff recruitment		56,201	17,840	74,041	3,125	393	77,559
Technology		120,886	36,557	157,443	21,864	2,753	182,060
Food services		263,965	85,552	349,517	-	-	349,517
Student services		300,651	97,442	398,093	13,508	-	411,601
Office expense		69,177	20,719	89,896	106,685	1,786	198,367
Depreciation and amortization		404,390	121,119	525,509	82,903	10,438	618,850
Interest expense		-	-	-	80,131	-	80,131
Other		20,727	6,585	27,312	19,663	139	47,114
		\$ 10,944,569	\$ 3,300,485	\$ 14,245,054	\$ 2,551,733	\$ 276,574	\$ 17,073,361

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, 2018

	No. of Positions	Program Services			Supporting Services		2018
		General Education	Special Education	Total Program	Management and General	Fundraising	
Personnel services costs:							
Administrative staff personnel	30	\$ 1,155,739	\$ 247,658	\$ 1,403,397	\$ 808,539	\$ 167,508	\$ 2,379,444
Instructional personnel	93	4,300,305	1,165,471	5,465,776	-	-	5,465,776
Non-instructional personnel	10	-	-	-	298,849	-	298,849
Total salaries and wages	133	5,456,044	1,413,129	6,869,173	1,107,388	167,508	8,144,069
Payroll taxes and employee benefits		979,028	253,571	1,232,599	198,709	30,057	1,461,365
Retirement benefits		101,675	26,334	128,009	20,637	3,122	151,768
Legal fees		-	-	-	18,302	-	18,302
Accounting / Audit services		-	-	-	84,827	-	84,827
Professional fees - other		397,478	104,436	501,914	144,754	57,389	704,057
Building and land rent / lease		886,856	229,698	1,116,554	180,001	27,228	1,323,783
Repairs and maintenance		58,317	15,104	73,421	11,836	1,790	87,047
Insurance		44,462	11,516	55,978	9,024	1,365	66,367
Utilities		115,927	30,025	145,952	23,529	3,559	173,040
Supplies / Materials		278,896	75,571	354,467	271	41	354,779
Non-capitalized equipment / furnishings		69,523	18,007	87,530	14,111	2,134	103,775
Staff development		197,562	51,169	248,731	40,098	6,065	294,894
Student and staff recruitment		34,269	8,876	43,145	6,955	1,052	51,152
Technology		108,874	28,355	137,229	19,459	2,943	159,631
Food services		305,775	82,871	388,646	-	-	388,646
Student services		117,167	31,755	148,922	-	92,051	240,973
Office expense		-	-	-	99,822	-	99,822
Depreciation and amortization		400,523	103,737	504,260	81,292	12,297	597,849
Interest expense		-	-	-	55,955	-	55,955
Other		36,518	9,570	46,088	20,587	835	67,510
		\$ 9,588,894	\$ 2,493,724	\$ 12,082,618	\$ 2,137,557	\$ 409,436	\$ 14,629,611

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOLSTATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 20,224,260	\$ 17,432,626
Cash received from interest income	81,448	15,194
Cash paid to employees and suppliers	<u>(15,658,482)</u>	<u>(13,875,949)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,647,226</u>	<u>3,571,871</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(505,184)	(1,556,338)
Construction in progress	(13,239,053)	(1,885,878)
Deposit	<u>-</u>	<u>350,000</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(13,744,237)</u>	<u>(3,092,216)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bond proceeds	-	18,111,180
Bond issuance costs	-	(711,624)
Payments for capital lease obligations	<u>(2,889)</u>	<u>(18,300)</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(2,889)</u>	<u>17,381,256</u>
NET (DECREASE) INCREASE IN CASH	(9,099,900)	17,860,911
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	<u>19,574,954</u>	<u>1,714,043</u>
CASH AND CASH - RESTRICTED - END OF YEAR	<u>\$ 10,475,054</u>	<u>\$ 19,574,954</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 2,734,654	\$ 3,113,387
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	618,850	597,849
Deferred rent	(45,782)	41,562
Bond premium	(3,775)	-
Amortization of bond issuance costs	47,660	6,406
Changes in operating assets and liabilities:		
Grants receivable	427,655	(196,895)
Prepaid expenses and other assets	200,262	(129,081)
Accounts payable and accrued expenses	560,519	241,075
Accrued salaries and other payroll related expenses	-	(125,592)
Accrued interest expense	37,145	121,443
Due to (from) NYC Department of Education	<u>70,038</u>	<u>(98,283)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,647,226</u>	<u>\$ 3,571,871</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash and Cash - Restricted Consist of:		
Cash	\$ 6,285,237	\$ 3,502,933
Cash - restricted	75,217	75,180
Bond reserve funds - restricted cash	<u>4,114,600</u>	<u>15,996,841</u>
Total	<u>\$ 10,475,054</u>	<u>\$ 19,574,954</u>
Cash paid for interest (net of capitalized interest)	<u>\$ 27,561</u>	<u>\$ 22,568</u>

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 by the Board of Regents of the University of the State of New York. On January 12, 2015, the School received a three year extension to their charter term to June 30, 2018. On March 12, 2018, the School received their second extension to June 30, 2021.

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 operates classes for students in the fifth through twelfth grades.

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.

The School's primary sources of income are from government funding.

The New York City Department of Education ("NYCDOE") provides free lunches and 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").

Cash - Restricted

The State University of New York requires an escrow account of \$75,000 to be held aside to cover debts in the event of the School's dissolution. As of June 30, 2019 and 2018, the School had restricted cash of \$75,217 and \$75,180, respectively.

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 \$191,445 and \$619,100 at June 30, 2019 and 2018, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary at June 30, 2019 and 2018. Such estimate is based on management's assessment of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions and historical information.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Transfers of cash or other assets or settlement of liabilities that are both voluntary and nonreciprocal are recognized as contributions. Reciprocal transfers in which each party receives and sacrifices goods or services with approximate commensurate value are recognized as exchange transactions; see Revenue Recognition – Exchange Transactions” below.

Contributions may either be conditional or unconditional. A contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity and other stipulations related to the contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the School fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as refundable advances.

Unconditional contributions may or may not be subject to donor-imposed restrictions. Donor-imposed restrictions limit the use of the donated assets, but are less specific than donor-imposed conditions. Net assets incorporating contributions with or without donor restrictions are defined as follows:

Net Assets with Donor Restrictions consist of contributions and other inflows of assets whose use is subject to donor-imposed restrictions that are more specific than broad limits reflecting the nature of the not-for-profit entity, the environment in which it operates and the purposes specified in its articles of incorporation or bylaws or comparable documents. Donor-imposed restrictions may be temporary in nature, such as stipulating that resources may be used only after a specified date or limited to specific programs or services. Certain donor-imposed restrictions are perpetual in nature.

Net Assets without Donor Restrictions consist of contributions and other inflows of assets whose use is not subject to donor-imposed restrictions. This net asset category includes both contributions not subject to donor restrictions and exchange transactions, such as state and local per pupil operating revenue.

Contributions subject to donor restrictions are recognized in changes in net assets with donor restrictions. When a purpose restriction is satisfied or when a time restriction expires, the contribution is reported as net assets released from restrictions and is recognized in changes in net assets without donor restrictions. 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 statements of financial position.

Revenue from federal, state and local government grants and contracts are recognized when qualifying expenditures are incurred and billable. Other unconditional contributions without donor restrictions are recognized as revenue or support in changes in net assets without donor restrictions when received or promised.

Revenue Recognition – Exchange Transactions

The School adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) on July 1, 2018 using the modified retrospective method applied to all contracts not completed as of the date of adoption. The modified retrospective adoption method requires the School to record a transition adjustment for the new revenue standard, if any, as a cumulative effect adjustment to beginning net assets as of the date of adoption. Therefore, any comparative information has not been adjusted. No adjustment to the School's beginning net assets was required as a result of adopting Topic 606.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition – Exchange Transactions (continued)

The School applies Topic 606 to exchange transactions related to state and local per pupil operating revenue as well as government grants and contracts. Payments made by the state and federal government are third party funding arrangements of this transaction between the School and individual pupils. Under U.S. GAAP, these arrangements are exchange transactions between the School and the student, funded by the state and local governments.

The School receives public per-pupil funding based on the number of attending students that it serves over the academic period and the basic charter school tuition rate for the school district of residence. The School calculates the number of full-time equivalent (“FTE”) students from each district of residence. All students who are identified to need special education services have an Individualized Education Program (“IEP”), formalized for each student’s unique needs. Based on this IEP, each student is categorized into one of three levels of service, as follows: 0 – 20% service; 20 – 60% service, or 60% or more service required. The basic tuition rate per FTE is prescribed by the New York State Education Department (“NYSED”). The special education funding rate is determined by the NYSED from historical data by school districts on an annual basis.

The School recognizes state and local per pupil operating revenue ratably over the academic period or enrollment period (if shorter than the academic period), based on time elapsed.

Topic 606 requires the recognition of revenue upon the transfer of control of promised products or services to customers in an amount that reflects the consideration expected to be received in exchange for those products or services. Revenue is recognized net of allowances for returns.

Revenue from state and local government contracts is recorded at the transaction price, which is determined by the funding agencies based on the number of students enrolled and is recognized when services are performed in accordance with the charter agreement. Revenue is subject to periodic review and revision by the funding agencies after the reporting year. The funding agencies may request return of funds as a result of noncompliance by the School. As of October 28, 2019, no such requests have been received and, accordingly, the financial statements includes no provision for the possible disallowance or refund.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 90 days.

Cost of Revenue

Cost of revenue consists of student education costs.

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 (Note 4). The School has established a \$1,000 threshold above which assets are evaluated to be capitalized. Leasehold improvements and capital lease equipment 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. Construction in progress is not depreciated 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, 2019 and 2018.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. Expenses that can be directly identified with the program or supporting service are reported as expenses of those functional areas. Other expenses are allocated among program and supporting services based upon benefits received.

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.

Debt Issuance Costs

The School presents debt issuance costs as a reduction in the carrying amount of the debt in the statements of financial position. Costs incurred in connection with the borrowing are capitalized and amortized over the life of the loan using the effective interest method.

Subsequent Events

The School has evaluated events through October 28, 2019, which is the date the financial statements were available to be issued.

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 income tax examinations for fiscal years before 2016.

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.

The School is subject to tax reportable on Form 990T consisting of unrelated business income if they have provided pre-tax transportation benefits to employees.

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.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adopted Accounting Pronouncements

Financial Statement Presentation

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The School has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the School reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions. The adoption of this update had no other material effect on the School’s financial position and changes in net assets. In addition, the School has elected to continue to present a reconciliation in the statement of cash flows consistent with the indirect method.

Contributions

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The update provides guidance in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional or not. The adoption of this update had no effect on School’s financial position and changes in net assets.

Revenue Recognition

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606). The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current recognition guidance, including industry-specific guidance. The core principle of the revenue recognition standard is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this update had no effect on School’s financial position and changes in net assets. See Revenue Recognition – Exchange Transactions above.

Recent Accounting Pronouncement

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. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. The School is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the School’s financial condition due to the recognition of a right-of-use asset and related lease liability. The School does not anticipate the update having a material effect on the School’s results of operations or cash flows, though such an effect is possible.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncement (continued)

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the School's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The School is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021, with early application permitted.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. This reclassification had no effect on previously reported change in net assets.

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES

The School maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The School's management meets monthly to address projected cash flows to meet its operational expenditures. The School's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	2019	2018
Cash	\$ 6,285,237	\$ 3,502,933
Cash - restricted	75,217	75,180
Bond reserve funds - restricted cash	4,114,600	15,996,841
Grants receivable	191,445	619,100
Total financial assets	10,666,499	20,194,054
Less amounts unavailable for general expenditures within one year due to:		
Restricted by contract with time or purpose	(4,189,817)	(16,072,021)
Total financial assets available to management for general expenditures within one year	\$ 6,476,682	\$ 4,122,033

At June 30, 2019 and 2018, the School has no board designated net assets.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

4. PROPERTY AND EQUIPMENT

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

	2019	2018	Estimated Useful Life
Furniture and fixtures	\$ 881,357	\$ 874,217	3 years
Equipment and computers	986,469	940,955	3 years
Capital lease equipment	169,310	169,310	Life of lease
Leasehold improvements	3,667,799	3,215,269	Life of lease
	5,704,935	5,199,751	
Less: accumulated depreciation and amortization, including accumulated amortization on capital leases of \$169,310 and \$166,546 as of June 30, 2019 and 2018, respectively	(3,016,289)	(2,397,439)	
	\$ 2,688,646	\$ 2,802,312	

Depreciation and amortization expense amounted to \$618,850 and \$597,849 for the years ended June 30, 2019 and 2018, respectively, including amortization expense on capital leases of \$2,764 and \$18,300 for the years ended June 30, 2019 and 2018, respectively.

5. BONDS PAYABLE

The School is a conduit bond obligor for \$17,560,000 Series 2018A Bonds (the "2018A Bonds") and \$435,000 Taxable Series 2018B (the "2018B bonds") Bonds. The 2018A Bonds were issued on May 15, 2018 with a maturity date of May 1, 2048 and interest rates ranging from 4.875% to 5.50%. The 2018B Bonds were issued on May 15, 2018 with a maturity date of May 1, 2022 and interest rate of 5.95%. The proceeds from 2018A Bonds and 2018B Bonds will be used to build, renovate and improve a future rental facility, pay for the costs of issuance and to fund several reserve bank accounts. At June 30, 2019, there is a total of \$4,114,600 in the reserve accounts (\$1,935,479 Project Reserve fund, \$1,229,354 2018A Bonds debt service, \$30,454 2018B Bonds debt service, \$899,861 2018A Bonds interest reserve, \$1 2018B Cost of Issuance and \$19,451 2018B Bonds interest reserve). At June 30, 2018, there is a total of \$15,996,841 in the reserve accounts (\$12,910,450 Project Reserve fund, \$1,225,724 2018A Bonds debt service, \$30,364 2018B Bonds debt service, \$1,785,083 2018A Bonds interest reserve, \$1,000 2018B Cost of Issuance and \$44,220 2018B Bonds interest reserve). The reserve funds are recorded as restricted cash in the accompanying statements of financial position.

The School incurred issuance costs of \$711,624 and collected a Bond premium of \$116,687 in connection with 2018A Bonds and 2018B Bonds, which are amortized over the life of the Bonds. The amortization of the debt issuance costs for the years ended June 30, 2019 and 2018 amounted to \$47,660 and \$6,406, respectively, and is included in interest expense on the accompanying statements of functional expenses. The accumulated amortization amounted to \$54,066 and \$6,406 for the years ended June 30, 2019 and 2018, respectively.

The School capitalizes approximately 96.99% of interest on the 2018A Bonds and 2018B Bonds towards construction of a new location (Note 6). The capitalized interest amounted to \$919,326 and \$95,606 for the years ended June 30, 2019 and 2018, respectively, and is included in the accompanying statements of financial position under construction in progress.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

5. BONDS PAYABLE (CONTINUED)

Long-term debt consists of the following at June 30,:

	2019	2018
Series 2018A Bonds	\$ 17,560,000	\$ 17,560,000
Taxable Series 2018B Bonds	435,000	435,000
	17,995,000	17,995,000
Less: Unamortized bond premium	112,405	116,180
Less: Unamortized debt issue costs	(657,558)	(705,218)
	<u>\$ 17,449,847</u>	<u>\$ 17,405,962</u>

Aggregate maturities of bonds payable for each of the succeeding five years are as follows as of June 30,:

2020	\$ -
2021	300,000
2022	320,000
2023	335,000
2024	355,000
Thereafter	<u>16,685,000</u>
	17,995,000
Unamortized bond premium	<u>112,405</u>
Total	<u>\$ 18,107,405</u>

6. CONSTRUCTION IN PROGRESS

The School began construction of a new location in 2018. Construction in progress amounted to \$15,857,977 and \$2,618,924 at June 30, 2019 and 2018, respectively. As of June 30, 2019, the School has a construction commitment totaling approximately \$1,847,000.

7. 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, 2019 and 2018, pension expense for the School was \$167,254 and \$151,768, respectively.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

8. COMMITMENTS

The School has a lease with the Roman Catholic Church of the Good Shepherd of New York City that expired on June 30, 2019. The School took possession of this space in August 2012. Annual lease payments amounted to \$626,130 and \$417,420 for the years ended June 30, 2019 and 2018, respectively.

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. The lease was modified with Friends of Inwood Academy for Leadership Charter School, Inc. ("Friends of IAL"), a related party of the school. Annual lease payments amounted to \$1,093,134 and \$780,000 for the years ended June 30, 2019 and 2018, 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.

Friends of IAL entered into a lease with 3896 10th Ave Associates. On April 12, 2018, the School entered into a sub-lease agreement with Friends of IAL for the premises located at 3896 10th Avenue from July 1, 2019 through June 30, 2061. The future minimum rental and lease payment schedule includes amounts the School is contingently liable to Friends of IAL.

Total future minimum rental and lease payments are as follows:

<u>June 30,</u>	Operating <u>Leases</u>
2020	\$ 3,456,050
2021	3,456,050
2022	3,456,050
2023	3,456,050
2024	3,616,494
Thereafter	<u>84,531,733</u>
	<u>\$ 101,972,427</u>

Rent expense and occupancy costs for the years ended June 30, 2019 and 2018 was \$1,728,232 and \$1,323,783, respectively, which is included in the accompanying statements of functional expenses under building and land rent / lease.

9. 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.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

10. 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 insured limit of \$250,000.

The School received approximately 90% and 91% of its total revenue from per pupil funding from the NYCDOE during the years ended June 30, 2019 and 2018, respectively.

Two major grantors accounted for approximately 82% and 90% of grants receivable at June 30, 2019 and 2018, respectively.

Two vendors accounted for approximately 51% of accounts payable for each of the years ended June 30, 2019 and 2018.

SUPPLEMENTARY INFORMATION

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed-through from New York State Education Department			
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021184690	\$ 447,073
Supporting Effective Instruction State Grant (Title II)	84.367	0147184690	41,045
English Language Acquisition Grants (Title IIIA)	84.365	0293184690	14,168
Student Support and Academic Enrichment Grants (Title IV)	84.424	204194690	29,646
Total U.S. Department of Education			<u>531,932</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through New York State Education Department			
Child Nutrition Cluster			
School Breakfast Program (SBP)	10.553	310600860966	35,085
National School Lunch Program (NSLP)	10.555	310600860966	331,009
Total U.S. Department of Agriculture			<u>366,094</u>
Total Expenditures of Federal Awards			<u>\$ 898,026</u>

The accompanying notes are an integral part of this schedule.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Inwood Academy for Leadership Charter School (a not-for-profit organization) (the "School") under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because this Schedule presents only a selected portion of the operations of the School, it is not intended and does not present the financial position, changes in net assets or cash flows of the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available and when applicable.

3. SUB-RECIPIENTS

Of the federal expenditures presented in the Schedule, the School provided no federal awards to sub-recipients.

4. INDIRECT COST RATE

The School has a negotiated rate with various federal programs and allocates indirect costs based upon the portion of expenses incurred by the program. The School has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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, 2019, 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 28, 2019.

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 2019-01.

We noted certain matters that we reported to management of the School in a separate letter dated October 28, 2019.

Inwood Academy for Leadership Charter School’s Response to Finding

The School’s response to finding 2019-01 identified in our audit is described in the accompanying corrective action plan. 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.



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 28, 2019

Independent Auditor's Report on Compliance With Major Federal Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance

To the Board of Trustees
Inwood Academy for Leadership Charter School

Report on Compliance for the Major Federal Program

We have audited Inwood Academy for Leadership Charter School's (the "School") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2019. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal award applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance")*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, Inwood Academy for Leadership Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Inwood Academy for Leadership Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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Report on Internal Control over Compliance (Continued)

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
October 28, 2019

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on whether the financial statements were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weakness (es) identified?	Yes _____	No <u> √ </u> _____
Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes _____	None reported <u> √ </u> _____
Noncompliance material to financial statements noted?	Yes <u> √ </u> _____	No _____

Federal Awards

Type of auditor’s report issued on compliance for major program: Unmodified

Internal control over major program:

Material weakness (es) identified?	Yes _____	No <u> √ </u> _____
Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes _____	None reported <u> √ </u> _____
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes _____	No <u> √ </u> _____

Identification of Major Program:

<u>Name of Federal Program</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Title I Grants to Local Educational Agencies (LEAs)	84.010	\$ 447,073

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee: _____ Yes X No

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2019

SECTION II – FINANCIAL STATEMENT FINDING

Finding: 2019-01

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 36 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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV – VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

Finding: 2019-01

We acknowledge the finding regarding noncompliance with teacher certification requirements during fiscal year 2019. Inwood Academy for Leadership Charter School actively monitors teacher certification and is committed to achieving compliance. Inwood has implemented initiatives for its teachers to obtain or renew certification. The School intends to increase enforcement of its certification compliance policy, and will consider and implement additional corrective initiatives to achieve compliance.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2019

FINANCIAL STATEMENT FINDING

Finding: 2018-01

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 19 teachers that were uncertified.

Current Status:

The finding has not been corrected, see Finding No. 2019-01.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

OCTOBER 28, 2019



October 28, 2019

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, 2019 and are prepared to issue our report thereon dated October 28, 2019. 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 9, 2019, 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 2019.

C. Auditor Independence:

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

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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.

Financial Statement Presentation

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The School has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the School reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions. The adoption of this update had no other material effect on the School’s financial position and changes in net assets. In addition, the School has elected to continue to present a reconciliation in the statement of cash flows consistent with the indirect method.

Contributions

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The update provides guidance in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional or not. The adoption of this update had no effect on School’s financial position and changes in net assets.

Revenue Recognition

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current recognition guidance, including industry-specific guidance. The core principle of the revenue recognition standard is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this update had no effect on School’s financial position and changes in net assets.

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, 2019, Inwood Academy for Leadership Charter School recorded grant and other receivables of \$191,445. 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 9 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 five audit adjustments given by the School, which increased net assets by approximately \$115,000.

In the prior year, there were four audit adjustments given by the School, which decreased net assets by approximately \$30,000.

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 28, 2019.

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 (Certifications):

We noted that the School did not meet the requirement of certification for 36 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