

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenses – June 30, 2020	5
Statement of Functional Expenses – June 30, 2019	6
Statements of Cash Flows	7
Notes to Financial Statements	8 – 17
FEDERAL REPORT ON COMPLIANCE AND INTERNAL CONTROL	
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 <i>Government Auditing Standards</i>	18 – 19
Schedule of Findings and Responses	20
Schedule of Prior Audit Findings	21

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, 2020 and 2019, 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.

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, 2020 and 2019, 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.

Emphasis of Matter

As further discussed in Note 10 to the financial statements, a global pandemic has been declared by the World Health Organization as a result of the rapidly growing outbreak of the coronavirus, COVID-19. The extent and ultimate impact of COVID-19 on the School's operating and financial performance cannot be predicted at this time. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2020, 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 solely 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 effectiveness of the School's 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 20, 2020

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

ASSETS	2020	2019
Cash	\$ 8,002,410	\$ 6,285,237
Cash - restricted	75,248	75,217
Bond reserve funds - restricted cash	1,871,088	4,114,600
Grants receivable	592,050	191,445
Prepaid expenses and other assets	515,937	518,199
Property and equipment, net	18,692,393	2,688,646
Construction in progress	-	15,857,977
TOTAL ASSETS	\$ 29,749,126	\$ 29,731,321
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 781,173	\$ 1,087,522
Accrued interest expense	158,588	158,588
Bonds payable, net	17,492,515	17,449,847
Due to NYC Department of Education	-	74,031
Deferred rent	386,338	339,099
TOTAL LIABILITIES	18,818,614	19,109,087
NET ASSETS		
Net assets - without donor restrictions	10,915,306	10,622,234
Net assets - with donor restrictions	15,206	-
TOTAL NET ASSETS	10,930,512	10,622,234
TOTAL LIABILITIES AND NET ASSETS	\$ 29,749,126	\$ 29,731,321

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOLSTATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
OPERATING REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 18,815,162	\$ 16,717,486
Government grants and contracts	3,450,063	2,879,781
Contributions and other grants	61,838	109,300
Interest income	68,303	81,448
	<u>22,395,366</u>	<u>19,788,015</u>
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of program restrictions	<u>324,738</u>	<u>20,000</u>
TOTAL OPERATING REVENUE WITHOUT DONOR RESTRICTIONS	<u>22,720,104</u>	<u>19,808,015</u>
EXPENSES		
Program services	18,273,506	14,245,054
Management and general	3,822,238	2,551,733
Fundraising	331,288	276,574
	<u>22,427,032</u>	<u>17,073,361</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>293,072</u>	<u>2,734,654</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Donations	339,944	20,000
Net assets released from restrictions	<u>(324,738)</u>	<u>(20,000)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>15,206</u>	<u>-</u>
CHANGE IN NET ASSETS	308,278	2,734,654
NET ASSETS - BEGINNING OF YEAR	<u>10,622,234</u>	<u>7,887,580</u>
NET ASSETS - END OF YEAR	<u>\$ 10,930,512</u>	<u>\$ 10,622,234</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, 2020

		Program Services			Supporting Services		2020
		General Education	Special Education	Total Program	Management and General	Fundraising	
Personnel services costs:	No. of Positions						
Administrative staff personnel	38	\$ 1,766,817	\$ 403,363	\$ 2,170,180	\$ 902,921	\$ 168,788	\$ 3,241,889
Instructional personnel	99	5,252,643	1,653,601	6,906,244	-	-	6,906,244
Non-instructional personnel	10	-	-	-	338,000	-	338,000
Total salaries and wages	147	7,019,460	2,056,964	9,076,424	1,240,921	168,788	10,486,133
Payroll taxes and employee benefits		1,358,353	398,048	1,756,401	240,134	32,663	2,029,198
Retirement benefits		171,111	50,142	221,253	30,250	4,114	255,617
Legal fees		-	-	-	8,422	-	8,422
Accounting / Audit services		-	-	-	155,330	-	155,330
Professional fees - other		444,932	131,223	576,155	209,752	25,255	811,162
Building and land rent / lease		2,345,116	687,206	3,032,322	414,577	56,390	3,503,289
Repairs and maintenance		101,324	29,692	131,016	17,912	2,436	151,364
Insurance		117,398	34,402	151,800	20,754	2,823	175,377
Utilities		179,384	52,566	231,950	31,712	4,313	267,975
Supplies / Materials		661,584	203,874	865,458	35,729	4,860	906,047
Non-capitalized equipment / furnishings		37,563	11,007	48,570	6,640	903	56,113
Staff development		214,426	62,835	277,261	37,907	5,156	320,324
Student and staff recruitment		41,335	12,903	54,238	896	122	55,256
Technology		149,428	44,265	193,693	22,541	3,066	219,300
Food services		177,948	56,020	233,968	-	-	233,968
Student services		223,849	70,471	294,320	26,998	-	321,318
Office expense		104,369	30,584	134,953	191,220	2,510	328,683
Depreciation and amortization		743,965	218,009	961,974	131,520	17,889	1,111,383
Interest expense		-	-	-	998,031	-	998,031
Other		24,135	7,615	31,750	992	-	32,742
		\$ 14,115,680	\$ 4,157,826	\$ 18,273,506	\$ 3,822,238	\$ 331,288	\$ 22,427,032

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

		Program Services			Supporting Services		2019
		General Education	Special Education	Total Program	Management and General	Fundraising	
Personnel services costs:	No. of Positions						
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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 22,192,371	\$ 20,224,260
Cash paid to employees and suppliers	(21,529,829)	(15,658,482)
Cash received from interest income	68,303	81,448
NET CASH PROVIDED BY OPERATING ACTIVITIES	730,845	4,647,226
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,257,153)	(505,184)
Construction in progress	-	(13,239,053)
NET CASH USED IN INVESTING ACTIVITIES	(1,257,153)	(13,744,237)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for capital lease obligations	-	(2,889)
NET DECREASE IN CASH	(526,308)	(9,099,900)
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	10,475,054	19,574,954
CASH AND CASH - RESTRICTED - END OF YEAR	\$ 9,948,746	\$ 10,475,054
 Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 308,278	\$ 2,734,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,111,383	618,850
Deferred rent	47,239	(45,782)
Bond premium	(3,669)	(3,775)
Amortization of debt issuance costs	46,337	47,660
Changes in operating assets and liabilities:		
Grants receivable	(400,605)	427,655
Prepaid expenses and other assets	2,262	200,262
Accounts payable and accrued expenses	(306,349)	560,519
Accrued interest expense	-	37,145
Due (to) from NYC Department of Education	(74,031)	70,038
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 730,845	\$ 4,647,226
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Non-cash investing activities:		
Construction in progress placed into service and included in property and equipment	\$ 15,857,977	\$ -
Cash and Cash - Restricted Consist of:		
Cash	\$ 8,002,410	\$ 6,285,237
Cash - restricted	75,248	75,217
Bond reserve funds - restricted cash	1,871,088	4,114,600
Total	\$ 9,948,746	\$ 10,475,054
Cash paid for interest (net of capitalized interest)	\$ 947,856	\$ 27,561

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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 source of income is 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").

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 two classes of net assets – with donor restrictions or without donor restrictions – be displayed in a statement of financial position and that the amount of change in each of those classes of net assets be displayed in a statement of activities.

These classes 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.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash - Restricted

The Board of Regents of 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, 2020 and 2019, the School had restricted cash of \$75,248 and \$75,217, 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 \$592,050 and \$191,445 at June 30, 2020 and 2019, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary at June 30, 2020 and 2019. 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.

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.

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.

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 applies the accounting standard *Revenue from Contracts With Customers* ("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.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition – Exchange Transactions (continued)

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 20, 2020, 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.

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 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, 2020 and 2019.

Advertising

The School expenses advertising costs as incurred. The School incurred \$55,256 and \$77,559 of advertising costs for the years ended June 30, 2020 and 2019, respectively, which is included in the accompanying statements of functional expenses under student and staff recruitment.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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 20, 2020, 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 2017.

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.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Lease Accounting

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, lessor accounting, and disclosures related to accounting changes and error corrections.

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.

In June 2020, the FASB issued an accounting standards update which defers the required effective date of the update for one year. As a result, entities may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within those fiscal years. The School has elected the deferral and is currently evaluating the effect the update will have on its financial statements.

Contributed Nonfinancial Assets

In September 2020, the FASB issued an accounting standards update which amends guidance for not-for-profit entities that receive contributed nonfinancial assets. The update requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement of activities, and to disclose information regarding each type of contributed nonfinancial assets. The update is to be applied on a retrospective basis and is effective for annual reporting periods beginning after June 15, 2021, and for interim reporting periods beginning after June 15, 2022. The School is currently evaluating the effect the update will have on its financial statements.

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 statements of financial position date for general expenditures are as follows:

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019****3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES (CONTINUED)**

	2020	2019
Cash	\$ 8,002,410	\$ 6,285,237
Cash - restricted	75,248	75,217
Bond reserve funds - restricted cash	1,871,088	4,114,600
Grants receivable	<u>592,050</u>	<u>191,445</u>
Total financial assets	10,540,796	10,666,499
Less amounts unavailable for general expenditures within one year due to:		
Restricted by contract with time or purpose	<u>(1,946,336)</u>	<u>(4,189,817)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 8,594,460</u>	<u>\$ 6,476,682</u>

At June 30, 2020 and 2019, the School had no board designated net assets.

4. PROPERTY AND EQUIPMENT

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

	2020	2019	Estimated Useful Life
Furniture and fixtures	\$ 952,046	\$ 881,357	3 years
Equipment and computers	1,184,314	986,469	3 years
Capital lease equipment	-	169,310	Life of lease
Leasehold improvements	<u>20,683,705</u>	<u>3,667,799</u>	Life of lease
	22,820,065	5,704,935	
Less: accumulated depreciation and amortization	<u>(4,127,672)</u>	<u>(3,016,289)</u>	
	<u>\$ 18,692,393</u>	<u>\$ 2,688,646</u>	

Depreciation and amortization expense amounted to \$1,111,383 and \$618,850 for the years ended June 30, 2020 and 2019, respectively, including amortization expense on capital leases of \$2,764 for the year ended June 30, 2019. During the year ended June 30, 2020, once the lease concluded, capital lease equipment was transferred to equipment and computers.

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 were used to build, renovate and improve a rental facility, pay for the costs of issuance and to fund several reserve bank accounts.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

5. BONDS PAYABLE (CONTINUED)

The reserve accounts consist of the following at June 30,:

	2020	2019
2018A and 2018B Bonds interest	\$ 84,312	\$ -
2018A and 2018B Bonds principal	25,000	-
Project Reserve Fund	502,608	1,935,479
2018A Bonds debt service	1,225,797	1,229,354
2018B Bonds debt service	30,366	30,454
2018A Bonds interest reserve	4	899,861
2018B Bonds interest reserve	-	19,451
Bonds Repair and Replacement reserve	3,000	-
2018B Cost of Issuance	1	1
	\$ 1,871,088	\$ 4,114,600

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, 2020 and 2019 amounted to \$46,337 and \$47,660, respectively, and is included in interest expense on the accompanying statements of functional expenses. The accumulated amortization of the debt issuance costs amounted to \$100,403 and \$54,066 for the years ended June 30, 2020 and 2019, respectively. The amortization of the Bond premium for the years ended June 30, 2020 and 2019 amounted to \$3,669 and \$3,775, respectively, and is included in interest expense on the accompanying statements of functional expenses. The accumulated amortization of the Bond premium amounted to \$7,951 and \$4,282 for the years ended June 30, 2020 and 2019, respectively.

The School capitalized approximately 96.99% of interest on the 2018A Bonds and 2018B Bonds towards construction of the rental facility noted above. The capitalized interest amounted to \$919,326 for the year ended June 30, 2019 and is included in the accompanying statement of financial position under construction in progress. There was no capitalized interest for the year ended June 30, 2020.

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

	2020	2019
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	108,736	112,405
Less: Unamortized debt issue costs	(611,221)	(657,558)
	\$ 17,492,515	\$ 17,449,847

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

5. BONDS PAYABLE (CONTINUED)

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

2021	\$ 300,000
2022	320,000
2023	335,000
2024	355,000
2025	370,000
Thereafter	16,315,000
	<hr/>
	\$ 17,995,000

6. CONSTRUCTION IN PROGRESS

The School began construction of a rental facility in 2018. Construction in progress amounted to \$15,857,977 at June 30, 2019. During the year ended June 30, 2020, the School placed the construction in progress into service as leasehold improvements. The School does not have any future commitments relating to construction as of June 30, 2020.

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, 2020 and 2019, pension expense for the School was \$255,617 and \$167,254, respectively, which is included in retirement benefits in the accompanying statements of functional expenses.

8. COMMITMENTS

The School had a lease with the Roman Catholic Church of the Good Shepherd of New York City that expired on June 30, 2019 and was not renewed. Annual lease payments amounted to \$626,130 for the year ended June 30, 2019.

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 \$1,277,000 and \$1,093,134 for the years ended June 30, 2020 and 2019, respectively.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

8. COMMITMENTS (CONTINUED)

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 effective July 1, 2019 through June 30, 2061. Annual lease payments amounted to \$2,179,050 for the year ended June 30, 2020. The future minimum rental and lease payment schedule includes amounts the School is contingently liable to Friends of IAL.

As part of the lease agreement, the School was required to pay a security deposit of \$500,000, which is included in the statements of financial position under prepaid expenses and other assets.

Total future minimum rental and lease payments are as follows:

<u>June 30,</u>	<u>Operating Leases</u>
2021	\$ 3,456,050
2022	3,456,050
2023	3,456,050
2024	3,616,494
2025	2,179,050
Thereafter	<u>82,352,683</u>
	<u>\$ 98,516,377</u>

Rent expense and occupancy costs for the years ended June 30, 2020 and 2019 was \$3,503,289 and \$1,728,232, respectively, which is included in the accompanying statements of functional expenses under building and land rent / lease.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of purpose restricted grants to be used for school trips and equipment totaling \$15,206 for the year ended June 30, 2020.

10. 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.

The charter for the School is up for renewal in June 2021. Although the School anticipates that this renewal will be granted by the authorizers, no assurance can be provided that this will occur.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The impact of the outbreak of the COVID-19 coronavirus continues to rapidly evolve. The School cannot reasonably estimate the duration and severity of this pandemic; however, economic uncertainties have arisen which could have a material adverse impact on the School's activities, its financial position and its cash flows. The School believes they are taking appropriate actions to mitigate the negative impact.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

11. 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 83% and 90% of its total revenue from per pupil funding from the NYCDOE during the years ended June 30, 2020 and 2019, respectively.

Three major grantors accounted for approximately 89% of grants receivable at June 30, 2020. Two major grantors accounted for approximately 82% of grants receivable at June 30, 2019.

One vendor accounted for approximately 66% of accounts payable at June 30, 2020. Two vendors accounted for approximately 51% of accounts payable at June 30, 2019.



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, 2020, 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 20, 2020.

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 2020-01.

We noted certain matters that we reported to management of the School in a separate letter dated October 20, 2020.

Inwood Academy for Leadership Charter School's Response to Finding

The School's response to finding 2020-01 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.

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 20, 2020

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2020

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:	<u>Unmodified</u>	
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 _____

SECTION II – FINANCIAL STATEMENT FINDING

Finding: 2020-01

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 41 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: Due to various external factors, management has been unable to consistently recruit and retain the requisite numbers of certified teachers in order to be in compliance with 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 review its hiring and recruitment procedures and retention policies so as to be in compliance with the NYSED teacher qualification requirements.

SECTION III – VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

Finding: 2020-01

We acknowledge the finding regarding noncompliance with teacher certification requirements during fiscal year 2020. 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, 2020

FINANCIAL STATEMENT FINDING

Finding: 2019-01

Condition: The School is required to be in compliance with the New York State Education Department requirements. The teacher certification exemption allows charter schools to have up to 15 uncertified teachers. The School had 36 teachers that were uncertified.

Current Status:

The finding has not been corrected, see Finding No. 2020-01.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

OCTOBER 20, 2020

October 20, 2020

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, 2020 and are prepared to issue our report thereon dated October 20, 2020. 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 27, 2020, 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 2020.

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, 2020, Inwood Academy for Leadership Charter School recorded grant and other receivables of \$592,050. 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 10 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 that increased net assets by approximately \$202,000 and three reclassifying entries with no effect on net assets that were proposed and corrected during the period. The most significant adjustments were as follows:

1. To record Special Charter School Aid funding receivable from the NYCDOE for \$184,886;
2. To adjust Title I funding related to July and August 2019 for \$48,464;
3. To reclass expenses related to preparation of classrooms and offices with plexiglass to fixed assets for \$61,123;
4. To correct depreciation expense due to formula error for \$9,913; and
5. To correct depreciation expense related to construction retainage that were paid out in requisitions during the year for \$13,980;

In the prior year, there were five audit adjustments given by the School, which increased net assets by approximately \$115,000.

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 20, 2020.

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 41 teachers during our preliminary payroll testing, with 5 of the 41 teachers being certified after June 30, 2020. 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