

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2017)

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

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NDEPENDENT AUDITOR’S REPORT

To the Board of Trustees
Inwood Academy for Leadership Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Inwood Academy for Leadership Charter School (the “School”), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

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

Report on Summarized Comparative Information

We have previously audited Inwood Academy for Leadership Charter School's 2017 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 24, 2018, 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 24, 2018

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2017)

| ASSETS | 2018 | 2017 |
|---|----------------------|---------------------|
| Cash | \$ 3,502,933 | \$ 1,638,900 |
| Cash - restricted | 75,180 | 75,143 |
| Bond reserve funds - restricted cash | 15,996,841 | - |
| Grants receivable | 619,100 | 422,205 |
| Prepaid expenses and other assets | 718,461 | 589,380 |
| Property and equipment, net | 2,802,312 | 1,843,823 |
| Construction in progress | 2,618,924 | 733,046 |
| Deposit | - | 350,000 |
| | <u>\$ 26,333,751</u> | <u>\$ 5,652,497</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 527,003 | \$ 285,928 |
| Accrued salaries and other payroll related expenses | - | 125,592 |
| Accrued interest expense | 121,443 | - |
| Bonds payable | 17,405,962 | - |
| Due to NYC Department of Education | 3,993 | 102,276 |
| Deferred rent | 384,881 | 343,319 |
| Capital lease obligation | 2,889 | 21,189 |
| | <u>18,446,171</u> | <u>878,304</u> |
| NET ASSETS | | |
| Unrestricted | 7,887,580 | 4,764,693 |
| Temporarily restricted | - | 9,500 |
| | <u>7,887,580</u> | <u>4,774,193</u> |
| | <u>\$ 26,333,751</u> | <u>\$ 5,652,497</u> |

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

| | Unrestricted | Temporarily Restricted | 2018 | 2017 |
|---|----------------------------|-----------------------------------|----------------------------|----------------------------|
| OPERATING REVENUE AND SUPPORT | | | | |
| State and local per pupil operating revenue | \$ 15,337,727 | \$ - | \$ 15,337,727 | \$ 13,688,308 |
| Government grants and contracts | 2,232,337 | - | 2,232,337 | 1,562,333 |
| Contributions and other grants | 157,740 | - | 157,740 | 122,862 |
| Interest income | 15,194 | - | 15,194 | 516 |
| Net assets released from restrictions | 9,500 | (9,500) | - | - |
| | <u>17,752,498</u> | <u>(9,500)</u> | <u>17,742,998</u> | <u>15,374,019</u> |
| EXPENSES | | | | |
| Program services | 12,082,618 | - | 12,082,618 | 11,326,339 |
| Management and general | 2,137,557 | - | 2,137,557 | 1,811,459 |
| Fundraising | 409,436 | - | 409,436 | 160,294 |
| | <u>14,629,611</u> | <u>-</u> | <u>14,629,611</u> | <u>13,298,092</u> |
| CHANGE IN NET ASSETS | 3,122,887 | (9,500) | 3,113,387 | 2,075,927 |
| NET ASSETS - BEGINNING OF YEAR | <u>4,764,693</u> | <u>9,500</u> | <u>4,774,193</u> | <u>2,698,266</u> |
| NET ASSETS - END OF YEAR | <u>\$ 7,887,580</u> | <u>\$ -</u> | <u>\$ 7,887,580</u> | <u>\$ 4,774,193</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, 2018
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

| | No. of Positions | Program Services | | | Supporting Services | | 2018 | 2017 |
|---|---------------------|----------------------|----------------------|----------------------|---------------------------|-------------------|----------------------|----------------------|
| | | 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 | \$ 1,808,043 |
| Instructional personnel | 93 | 4,300,305 | 1,165,471 | 5,465,776 | - | - | 5,465,776 | 5,431,687 |
| Non-instructional personnel | 10 | - | - | - | 298,849 | - | 298,849 | 265,082 |
| Total salaries and wages | 133 | 5,456,044 | 1,413,129 | 6,869,173 | 1,107,388 | 167,508 | 8,144,069 | 7,504,812 |
| Payroll taxes and employee benefits | | 979,028 | 253,571 | 1,232,599 | 198,709 | 30,057 | 1,461,365 | 1,526,198 |
| Retirement benefits | | 101,675 | 26,334 | 128,009 | 20,637 | 3,122 | 151,768 | 129,571 |
| Legal fees | | - | - | - | 18,302 | - | 18,302 | 41,616 |
| Accounting / Audit services | | - | - | - | 84,827 | - | 84,827 | 99,043 |
| Professional fees - other | | 397,478 | 104,436 | 501,914 | 144,754 | 57,389 | 704,057 | 494,548 |
| Building and land rent / lease | | 886,856 | 229,698 | 1,116,554 | 180,001 | 27,228 | 1,323,783 | 1,248,780 |
| Repairs and maintenance | | 58,317 | 15,104 | 73,421 | 11,836 | 1,790 | 87,047 | 84,198 |
| Insurance | | 44,462 | 11,516 | 55,978 | 9,024 | 1,365 | 66,367 | 63,354 |
| Utilities | | 115,927 | 30,025 | 145,952 | 23,529 | 3,559 | 173,040 | 146,034 |
| Supplies / Materials | | 278,896 | 75,571 | 354,467 | 271 | 41 | 354,779 | 94,915 |
| Non-capitalized equipment / furnishings | | 69,523 | 18,007 | 87,530 | 14,111 | 2,134 | 103,775 | 210,742 |
| Staff development | | 197,562 | 51,169 | 248,731 | 40,098 | 6,065 | 294,894 | 42,444 |
| Student and staff recruitment | | 34,269 | 8,876 | 43,145 | 6,955 | 1,052 | 51,152 | 167,869 |
| Technology | | 108,874 | 28,355 | 137,229 | 19,459 | 2,943 | 159,631 | 247,867 |
| Food services | | 305,775 | 82,871 | 388,646 | - | - | 388,646 | 397,686 |
| Student services | | 117,167 | 31,755 | 148,922 | - | 92,051 | 240,973 | 182,244 |
| Office expense | | - | - | - | 99,822 | - | 99,822 | 90,106 |
| Depreciation and amortization | | 400,523 | 103,737 | 504,260 | 81,292 | 12,297 | 597,849 | 479,257 |
| Interest expense | | - | - | - | 55,955 | - | 55,955 | 10,066 |
| Other | | 36,518 | 9,570 | 46,088 | 20,587 | 835 | 67,510 | 36,742 |
| | | \$ 9,588,894 | \$ 2,493,724 | \$ 12,082,618 | \$ 2,137,557 | \$ 409,436 | \$ 14,629,611 | \$ 13,298,092 |

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2018
 (WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

| | 2018 | 2017 |
|---|-----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from operating revenue and support | \$ 17,432,626 | \$ 15,498,881 |
| Cash received from interest income | 15,194 | 516 |
| Cash paid to employees and suppliers | <u>(13,875,949)</u> | <u>(13,399,468)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>3,571,871</u> | <u>2,099,929</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (1,556,338) | (186,976) |
| Construction in progress | (1,885,878) | (686,523) |
| Deposit | <u>350,000</u> | <u>(350,000)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(3,092,216)</u> | <u>(1,223,499)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Bond proceeds | 18,111,180 | - |
| Bond issuance costs | (711,624) | - |
| Payments for capital lease obligations | <u>(18,300)</u> | <u>(45,443)</u> |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | <u>17,381,256</u> | <u>(45,443)</u> |
| NET INCREASE IN CASH | 17,860,911 | 830,987 |
| CASH AND CASH - RESTRICTED - BEGINNING OF YEAR | <u>1,714,043</u> | <u>883,056</u> |
| CASH AND CASH - RESTRICTED - END OF YEAR | <u>\$ 19,574,954</u> | <u>\$ 1,714,043</u> |
| Reconciliation of change in net assets to net cash provided by operating activities: | | |
| Change in net assets | \$ 3,113,387 | \$ 2,075,927 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 597,849 | 479,257 |
| Deferred rent | 41,562 | 39,203 |
| Amortization of bond issuance costs | 6,406 | - |
| Changes in operating assets and liabilities: | | |
| Grants receivable | (196,895) | 33,027 |
| Prepaid expenses and other assets | (129,081) | (575,436) |
| Accounts payable and accrued expenses | 241,075 | 28,407 |
| Accrued salaries and other payroll related expenses | (125,592) | (72,807) |
| Accrued interest expense | 121,443 | - |
| Due (from) to NYC Department of Education | <u>(98,283)</u> | <u>92,351</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 3,571,871</u> | <u>\$ 2,099,929</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash and Cash - Restricted Consist of: | | |
| Cash | \$ 3,502,933 | \$ 1,638,900 |
| Cash - restricted | 75,180 | 75,143 |
| Bond reserve funds - restricted cash | <u>15,996,841</u> | <u>-</u> |
| Total | <u>\$ 19,574,954</u> | <u>\$ 1,714,043</u> |

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 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. The School was issued a renewal to the original charter for five years expiring on June 30, 2018. The School is currently in the process of renewing their charter for another 3 years 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.

In fiscal year 2018, the School operated classes for students in the fifth through twelfth grades. In fiscal year 2017, the School operated classes for students in the fifth through eleventh 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 New York City Department of Education ("NYCDOE") provides free transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

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

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

These classes are defined as follows:

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

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

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

The School has no permanently restricted net assets at June 30, 2018 and 2017.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018 and 2017, the School had restricted cash of \$75,180 and \$75,143, 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 \$619,100 and \$422,205 at June 30, 2018 and 2017, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary at June 30, 2018 and 2017. 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.

Revenue Recognition

During the year ended June 30, 2018, the School's revenue consisted primarily of two sources: (a) revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement, and (b) revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred, if any, are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

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

Effective July 1, 2016, the School adopted Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers," which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The standard requires the school to recognize revenue in an amount that reflects the consideration it expects to be entitled to in exchange for the services provided by the School. The adoption of this update did not have an effect on the School's financial position, change in net assets or cash flows.

Revenue is recognized upon providing promised services to students in an amount that reflects the consideration expected to be received in exchange for those services. The contracts can include various combinations of services, which are generally capable of being distinct and accounted for as separate performance obligations. All services provided are deemed to be one performance obligation.

Revenue is recorded at the net per student rate, which is the transaction price. The School does not offer refunds, rebates or credits to students in the normal course of business. The impact of variable consideration has not been material.

Revenue generated from New York State funding is recognized as the related services has been provided.

Payment terms and conditions generally include a requirement of payment every two months with a true-up at the year end.

Cost of Revenue

Cost of revenue consist of student education costs.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Deferred revenue includes payments received in advance of performance under the contract. Such amounts are recognized as revenue pursuant to the School's revenue recognition policies. At June 30, 2018, deferred revenue primarily represents overpayment of per pupil revenue received from NYCDOE.

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, 2018 and 2017.

Functional Allocation of Expenses

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

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 statement 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 24, 2018, which is the date the financial statements were available to be issued.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Financial Information

The June 30, 2018 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2017 are presented. As a result, the June 30, 2017 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2017 information should be read in conjunction with the School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Income Taxes

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

The School files informational returns in the federal jurisdiction. With few exceptions, the School is no longer subject to Federal, state, or local income tax examinations for fiscal years before 2015.

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.

Adoption of Accounting Pronouncement

In fiscal year 2018, the School adopted the accounting standards update which amends the cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-year and end-of-year total amounts shown on the statement of cash flows. The School adopted the update retrospectively for fiscal year 2017. The adoption of this update had no effect on the School's change in net assets or cash flows.

Recent Accounting Pronouncements

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 update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years, with early application permitted. 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 position 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, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

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

In June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within these annual periods, with early adoption permitted. The School is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its financial statements.

3. PROPERTY AND EQUIPMENT

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

| | 2018 | 2017 | Estimated Useful Life |
|---|---------------------|---------------------|--------------------------|
| Furniture and fixtures | \$ 874,217 | \$ 764,707 | 3 years |
| Equipment and computers | 940,955 | 687,228 | 3 years |
| Capital lease equipment | 169,310 | 169,310 | Life of lease |
| Leasehold improvements | 3,215,269 | 2,022,168 | Life of lease |
| | <u>5,199,751</u> | <u>3,643,413</u> | |
| Less: accumulated depreciation and amortization, including accumulated amortization on capital leases of \$166,279 and \$147,979 as of June 30, 2018 and 2017, respectively | <u>(2,397,439)</u> | <u>(1,799,590)</u> | |
| | <u>\$ 2,802,312</u> | <u>\$ 1,843,823</u> | |

Depreciation and amortization expense amounted to \$597,849 and \$479,257 for the years ended June 30, 2018 and 2017, respectively, including amortization expense on capital leases of \$18,300 and \$40,389 for the years ended June 30, 2018 and 2017, respectively.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4. 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, 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 statement 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 in the year ended June 30, 2018 amounted to \$6,406, and is included in interest expense on the accompanying statement of activities. The accumulated amortization as of June 30, 2018 was \$6,406.

Long-term debt at June 30, 2018 consists of the following:

| | |
|------------------------------------|-----------------------------|
| Series 2018A Bonds | \$ 17,560,000 |
| Taxable Series 2018B Bonds | <u>435,000</u> |
| | 17,995,000 |
| Less: Unamortized bond premium | 116,180 |
| Less: Unamortized debt issue costs | <u>(705,218)</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,:

| | |
|--------------------------|-----------------------------|
| 2019 | \$ - |
| 2020 | - |
| 2021 | 300,000 |
| 2022 | 320,000 |
| 2023 | 335,000 |
| Thereafter | <u>17,040,000</u> |
| | 17,995,000 |
| Unamortized bond premium | <u>116,180</u> |
| Total | <u>\$ 18,111,180</u> |

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

5. CONSTRUCTION IN PROGRESS

The School has begun construction of a new location. Construction in progress amounted to \$2,618,924 and \$733,046 at June 30, 2018 and 2017, respectively. The School deposited a construction escrow amount of \$350,000 related to an agreement with 3896 10th Ave Associates during the year ended June 30, 2017. During the year ended June 30, 2018, the builder refunded the \$350,000 deposit back to the School. As of June 30, 2018, the School has a construction commitment totaling approximately \$11,967,000.

6. 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, 2018 and 2017, pension expense for the School was \$151,768 and \$129,571, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are both purpose and time restricted and consisted of \$9,500 for the College Career Readiness program for the year ended June 30, 2017. There were no temporarily restricted net assets for the year ended June 30, 2018.

8. COMMITMENTS

The School has a lease with The Roman Catholic Church of the Good Shepherd of New York City that will expire on June 30, 2019. The School took possession of this space in August 2012. Annual lease payments amounted to \$417,420 during each of the years ended June 30, 2018 and 2017.

On June 19, 2014, the School entered into a lease with The Roman Catholic Church of St. Jude. The lease period is from July 1, 2014 through June 30, 2024. The School took possession of this space in July 2014. Annual lease payments amounted to \$780,000 during each of the years ended June 30, 2018 and 2017.

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 Inwood Academy for Leadership Charter School, Inc. ("Friends of IAL"), a related party of the School, entered into a lease with 3896 10th Ave Associates. The lease period is from November 1, 2018 through October 31, 2060. The School intends to enter into a lease for that property with Friends of IAL for the entire lease period. At October 24, 2018, the School and Friends of IAL have no formal lease agreement and the School made no related lease payments. The future minimum rental and lease payment schedule includes amounts School is contingently liable to Friends of IAL.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

8. COMMITMENTS (CONTINUED)

Total future minimum rental and lease payments are as follows:

| <u>June 30,</u> | <u>Operating Leases</u> | <u>Capital Leases</u> |
|--|-----------------------------|---------------------------|
| 2019 | \$ 1,941,130 | \$ 3,031 |
| 2020 | 1,534,000 | - |
| 2021 | 1,534,000 | - |
| 2022 | 1,534,000 | - |
| 2023 | 1,534,000 | - |
| Thereafter | <u>38,162,471</u> | <u>-</u> |
| | <u>\$ 46,239,601</u> | 3,031 |
| Less interest expense | | <u>142</u> |
| Net minimum obligations under capital leases | | <u>\$ 2,889</u> |

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.

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 ("FDIC") insured limit of \$250,000.

The School received approximately 91% of its total revenue from per pupil funding from the NYCDOE during the year ended June 30, 2018. The School received approximately 92% of its total revenue from per pupil funding from the NYCDOE during the year ended June 30, 2017.

Two major grantors accounted for approximately 90% and 89% of grants receivable at June 30, 2018 and 2017, respectively.

Two vendors accounted for approximately 51% of accounts payable for the year ended June 30, 2018. Three vendors accounted for approximately 41% of accounts payable for the year ended June 30, 2017.

SUPPLEMENTARY INFORMATION

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

| FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM | FEDERAL CFDA NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES |
|---|------------------------------------|---|---------------------------------|
| <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 | \$ 361,322 |
| Improving Teacher Quality State Grants (Title II) | 84.367 | 0147184690 | 148,243 |
| TITLE IIIA, LEP | 84.365 | 0293184690 | 16,800 |
| Total from U.S. Department of Education | | | <u><u>526,365</u></u> |
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Passed-through from New York State Education Department | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program (SBP) (Cluster) | 10.553 | 310600860966 | \$ 36,679 |
| National School Lunch Program (NSLP) (Lunch) (Cluster) | 10.555 | 310600860966 | 242,918 |
| National School Lunch Program (NSLP) (Snack) (Cluster) | 10.555 | 310600860966 | 48,648 |
| Total Child Nutrition Cluster | | | <u><u>328,245</u></u> |
| Total Expenditures of Federal Awards | | | <u><u>\$ 854,610</u></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 FOR THE YEAR ENDED JUNE 30, 2018

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, 2018. 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.



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, 2018, 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 24, 2018.

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 2018-01.

We noted certain matters that we reported to management of the School in a separate letter dated October 24, 2018.

Inwood Academy for Leadership Charter School's Response to Finding

The School's response to finding 2018-01 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.

An Independent Member of Baker Tilly International

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 24, 2018



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 Directors
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, 2018. 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 terms and conditions of its federal awards 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, 2018.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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.

An Independent Member of Baker Tilly International

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. 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 24, 2018

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness (es) identified? Yes _____ No __√__

Significant deficiency (ies) identified that are not considered to be material weaknesses? Yes _____ No __√__

Noncompliance material to financial statements noted? Yes __√__ No _____

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 __√__

Significant deficiency (ies) identified that are not considered to be material weaknesses? Yes _____ No __√__

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(b)? Yes _____ No __√__

Identification of Major Program:

| <u>Name of Federal Program</u> | <u>CFDA Number</u> | <u>Expenditures</u> |
|--------------------------------|--------------------|---------------------|
| Title I | 84.010 | \$ 361,322 |

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, 2018

SECTION II – COMPLIANCE FINDING

Finding: 2018-01

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 19 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.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS JUNE 30, 2018

SECTION II – COMPLIANCE FINDING

Finding: 2017-01

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

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

Cause: Inadequate management oversight of NYSED requirements.

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

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

CORRECTIVE ACTION PLAN
JUNE 30, 2018

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:

Finding: 2018-01

We recognize and agree with the finding regarding the noncompliance with teacher certification requirements during fiscal year 2018. Inwood Academy for Leadership Charter School (the "School"), consistently monitors the numbers of uncertified teachers. The School has continued to reach out to teachers whose certificates are expired or are uncertified to encourage them to renew and/or update their status.