

**INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL
FINANCIAL STATEMENTS**

**PERIOD FROM DECEMBER 15, 2009
(DATE OF INCEPTION)
TO JUNE 30, 2011**

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL
TABLE OF CONTENTS
June 30, 2011

	Page
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10
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>	11-12



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Inwood Academy for Leadership Charter School (the "School") as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the period from December 15, 2009 (date of inception) to June 30, 2011. These financial statements are the responsibility of the School's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inwood Academy for Leadership Charter School as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2011 on our consideration of the 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 on 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* and should be considered in assessing the results of our audit.

MBAF-ERE CPAs, LLC

New York, NY
October 18, 2011

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2011

Assets:

Cash	\$	350,734
Cash - restricted		29,364
Grants and other receivables		12,075
Property and equipment, net		24,068
Construction in progress		123,147

Total Assets	\$	539,388
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Liabilities and Net Assets:

Liabilities:

Accounts payable and accrued expenses	\$	49,933
Accrued salary and other payroll related expenses		71,970
Due to New York City Department of Education		15,038

Total Liabilities		136,941
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Net assets:

Unrestricted		239,015
Temporarily restricted		163,432

Total Net Assets		402,447
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Total Liabilities and Net Assets	\$	539,388
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The accompanying notes are an integral part of these financial statements.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Period from December 15, 2009 (date of inception) to June 30, 2011	Unrestricted	Temporarily Restricted	Total
Operating revenue:			
State and local per pupil operating revenue	\$ 1,668,332	\$ -	\$ 1,668,332
Government grants and contracts	236,725	-	236,725
School lunch	1,461	-	1,461
Total operating revenue	1,906,518	-	1,906,518
Expenses:			
Program services			
General education	1,248,776	-	1,248,776
Special education	191,095	-	191,095
Management and general	491,003	-	491,003
Fundraising	11,515	-	11,515
Total operating expenses	1,942,389	-	1,942,389
Deficit from school operations	(35,871)	-	(35,871)
Support and other income:			
Contributions and other grants	269,174	163,432	432,606
Interest income	39	-	39
Miscellaneous income	5,673	-	5,673
Total support and other income	274,886	163,432	438,318
Change in net assets	239,015	163,432	402,447
Net assets – beginning of period	-	-	-
Net assets - end of period	\$ 239,015	\$ 163,432	\$ 402,447

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

Period from December 15, 2009 (date of inception) to June 30, 2011

	Program Services			Supporting Services		
	General Education	Special Education	Total Program	Management and General	Fundraising	Total
Salaries	\$ 720,334	\$ 103,395	\$ 823,729	\$ 286,149	\$ 4,467	\$ 1,114,345
Payroll taxes and benefits received	160,902	38,114	199,016	45,333	2,096	246,445
Classroom supplies and instructional materials	109,510	8,813	118,323	-	-	118,323
Professional fees	41,583	9,458	51,041	88,976	1,126	141,143
Legal	-	-	-	865	-	865
Advertising and recruiting	9,590	-	9,590	422	1,374	11,386
Staff professional development	28,787	-	28,787	7,200	-	35,987
Travel	3,250	1,000	4,250	700	50	5,000
Insurance	11,745	3,614	15,359	2,530	181	18,070
Student food services	4,836	-	4,836	-	-	4,836
Student educational services	31,619	-	31,619	-	-	31,619
Office expense	17,831	5,486	23,317	21,774	274	45,365
Telephone and internet	3,582	1,102	4,684	771	55	5,510
Gymnasium rental	10,000	-	10,000	-	-	10,000
Repairs and maintenance	4,158	1,280	5,438	896	64	6,398
Board development	-	-	-	16,833	886	17,719
Furniture and fixtures - non-capitalizable	30,091	4,690	34,781	3,283	235	38,299
Copier lease	3,599	1,107	4,706	775	55	5,536
Technology, infrastructure and software	47,701	10,064	57,765	7,045	503	65,313
Postage and delivery	714	220	934	154	11	1,099
Printing and photocopying	2,848	876	3,724	613	44	4,381
Interest expense	-	-	-	1,118	-	1,118
Bank fees and finance charges	-	-	-	4,253	-	4,253
Depreciation	6,096	1,876	7,972	1,313	94	9,379
Total expenses	\$ 1,248,776	\$ 191,095	\$ 1,439,871	\$ 491,003	\$ 11,515	\$ 1,942,389

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF CASH FLOWS

Period from December 15, 2009 (date of inception) to June 30, 2011

Cash flows from operating activities:	
Change in net assets	\$ 402,447
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	9,379
Changes in operating assets and liabilities:	
Cash - restricted	(29,364)
Grants and other receivable	(12,075)
Accounts payable and accrued expenses	49,933
Accrued salary and payroll related expenses	71,970
Due to New York City Department of Education	15,038
Net cash provided by operating activities	507,328
Cash flows from investing activities:	
Purchase of property and equipment	(33,447)
Construction in progress	(123,147)
Net cash used in investing activities	(156,594)
Cash flows from financing activities:	
Proceeds from line of credit	25,000
Repayments on line of credit	(25,000)
Proceeds from loan	50,000
Repayments of loan	(50,000)
Net cash provided by financing activities	-
Net increase in cash	350,734
Cash - beginning of period	-
Cash - end of period	\$ 350,734
Supplementary information:	
Cash paid during the year for:	
Interest	\$ 1,118
Income Taxes	\$ -

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

- 1. NATURE OF THE ORGANIZATION:** Inwood Academy for Leadership Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on December 15, 2009 to operate a charter school pursuant to Article 56 of the Educational Law of the State of New York. The School was granted a provisional charter on December 15, 2009, valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School 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 is exempt from Federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

In fiscal year 2011, the School operated classes for students in the fifth grade.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students. The School covers the cost of lunches for children not entitled to free lunches.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting.

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. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

Cash

For the purpose of presentation in the statement of cash flows, cash is defined as those amounts included in the statement of financial position in cash. Cash consists of nine checking accounts and an escrow account of \$29,364 held aside for contingency purposes as required by NYCDOE.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give. Grants and other receivables that are expected to be collected within one year and recorded at net realizable value are \$12,075 at June 30, 2011. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary as of June 30, 2011. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

The carrying value of the grants and other receivables approximates fair value. Management reviews those receivables due in more than one year for impairment and none was determined as of June 30, 2011.

Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. The School has established a \$10,000 threshold above which assets are capitalized. 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.

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 period ended June 30, 2011.

Planned Maintenance

Costs related to planned major maintenance are expensed as incurred.

Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement. Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Functional Allocation of Expenses

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

among program and supporting service classifications using bases determined by management to be reasonable.

Advertising

The School expenses advertising costs as incurred. The School incurred \$4,382 of advertising costs for the period ended June 30, 2011.

Estimates

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

Subsequent Events

The School has evaluated events through October 18, 2011 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, accounting in interim periods, disclosure and transition.

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 tax as "Other Expense."

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 accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

The School files informational returns in the United States federal and New York State jurisdictions. The School is subject to U.S. federal, state, or local income tax examinations by tax authorities for the fiscal year ended 2011 and for the period ended 2010.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

- 3. PROPERTY AND EQUIPMENT:** Property and equipment consist of the following as of June 30, 2011:

			Estimated Useful Lives
Furniture and fixtures	\$ 14,662		3 years
Equipment and computers	18,785		3 years
	33,447		
Less: accumulated depreciation	(9,379)		
	\$ 24,068		

Depreciation expense for the period ended June 30, 2011 was \$9,379.

- 4. CONSTRUCTION IN PROGRESS:** As of June 30, 2011, the School was in the process of working with Baer Architects on the design for a new school location. Total construction in progress amounted to \$123,147 and is reflected in the accompanying statement of financial position.
- 5. LINE OF CREDIT:** On September 30, 2010, the School obtained a secured revolving \$25,000 line of credit only to be used for emergency operating needs. The line holds an interest rate of 4% above prime per annum and there was no outstanding balance on June 30, 2011. Total interest expense incurred was \$368. The entire \$25,000 was drawn down by the School and paid back prior to June 30, 2011.
- 6. LOAN PAYABLE:** On April 30, 2010, the School obtained a \$50,000 loan for opening and operating the School from Fund for the City of New York, with 1.5% service fee. The loan was paid back on August 30, 2010 and there was no outstanding balance on June 30, 2011. Total service fee paid for the period ended June 30, 2011 is \$750.
- 7. DUE TO NYC DEPARTMENT OF EDUCATION:** During the period ended June 30, 2011, the NYCDOE overpaid the School Per Pupil grant funds by \$15,038. Accordingly, a liability in the amount of \$15,038 is reflected in the accompanying statement of financial position.
- 8. TEMPORARILY RESTRICTED NET ASSETS:** Temporarily restricted net assets are purpose restricted and consist of the following at June 30, 2011:

Charter School Start-up expenses	\$ 163,432
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- 9. PENSION PLAN:** Effective November 15, 2010, the School adopted 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 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 contribution. The Plan provides for the School to contribute up to 5% of an employee's salary. The School contribution does not become vested until its first year when it becomes fully vested. For the period ended June 30, 2011, pension expense for the School was \$26,433 which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

- 10. COMMITMENTS:** The School has executed a contract with Baer Architecture Group to design and construct in two phases, a new facility. The total amounts due upon phase I and phase II are \$287,200 and \$179,200, respectively. As part of phase I, \$123,147 has been paid to Baer Architecture Group during the period ended June 30, 2011. Future payments are as follows:

June 30,	
2012	\$ -
2013	164,053
2014	-
2015	179,200
<u>Total</u>	<u>\$ 343,253</u>

- 11. 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 protect itself from such risks and self insured on others.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

- 12. AGREEMENT FOR SCHOOL FACILITY:** The School has entered into a verbal agreement with the NYCDOE for dedicated and shared space at PS 152, a New York City public school located at 93 Nagle Ave, New York, New York at a cost of \$1 per year. This amount has not been recorded in accordance with industry standards. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the period ended June 30, 2011, the School did not incur overtime permit fees.

The School also rented gymnasium space from YMHA of Inwood, for the period ended June 30, 2011. Total rent expense was \$10,000.

- 13. CONCENTRATIONS:**
- A. Financial instruments that potentially subject the School to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 through 2013.
 - B. The School received approximately 71% of its total revenue from per pupil funding from the NYCDOE.
 - C. Three major grantors accounted for 100% of grants and other receivables for the fiscal year ended June 30, 2011.
 - D. One vendor accounted for 100% of accounts payable for the fiscal year ended June 30, 2011.

**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 the financial statements of Inwood Academy for Leadership Charter School (the "School") as of and for the period from December 15, 2009 (date of inception) to June 30, 2011, and have issued our report thereon dated October 18, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School in a separate letter dated October 18, 2011.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

MBHF-ERE CPAs, LLC

New York, NY
October 18, 2011