

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2014

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2013)

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Inwood Academy for Leadership Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Inwood Academy for Leadership Charter School (the "School"), which comprise the statement of financial position as of June 30, 2014, 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 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, 2014, 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 2013 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, 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 30, 2014

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30 2014

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2013)

ASSETS	2014	2013
Cash	\$ 570,077	\$ 898,575
Cash - restricted	75,000	75,000
Grants receivable	13,485	18,267
Prepaid expenses and other assets	73,828	-
Property and equipment, net	419,259	280,736
Construction in progress	558,082	123,147
	<u>\$ 1,709,731</u>	<u>\$ 1,395,725</u>
 LIABILITIES AND NET ASSETS		
<hr/>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 209,396	\$ 100,719
Accrued salaries and other payroll related expenses	253,484	173,627
Deferred rent	16,737	-
	<u>479,617</u>	<u>274,346</u>
 NET ASSETS		
Unrestricted	1,225,114	1,121,379
Temporarily restricted	5,000	-
	<u>1,230,114</u>	<u>1,121,379</u>
	<u>\$ 1,709,731</u>	<u>\$ 1,395,725</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, 2014

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	Unrestricted	Temporarily Restricted	2014	2013
OPERATING REVENUE AND SUPPORT				
State and local per pupil operating revenue	\$ 7,230,724	\$ -	\$ 7,230,724	\$ 5,456,938
Government grants and contracts	351,959	-	351,959	316,338
Contributions and other grants	68,000	5,000	73,000	4,669
Interest income	736	-	736	970
Benefit income	5,820	-	5,820	8,893
Miscellaneous income	2,140	-	2,140	173
	<u>7,659,379</u>	<u>5,000</u>	<u>7,664,379</u>	<u>5,787,981</u>
EXPENSES				
Program	5,801,609	-	5,801,609	4,666,793
Management and general	1,654,196	-	1,654,196	966,036
Fundraising	99,839	-	99,839	73,400
	<u>7,555,644</u>	<u>-</u>	<u>7,555,644</u>	<u>5,706,229</u>
CHANGE IN NET ASSETS	<u>103,735</u>	<u>5,000</u>	<u>108,735</u>	<u>81,752</u>
NET ASSETS - BEGINNING OF YEAR	<u>1,121,379</u>	<u>-</u>	<u>1,121,379</u>	<u>1,039,627</u>
NET ASSETS - END OF YEAR	\$ <u>1,225,114</u>	\$ <u>5,000</u>	\$ <u>1,230,114</u>	\$ <u>1,121,379</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, 2014

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	Program Services			Supporting Services		2014	2013
	General Education	Special Education	Total Program	Management and General	Fundraising		
FUNCTIONAL EXPENSE							
Salaries	\$ 1,931,008	\$ 1,355,814	\$ 3,286,822	\$ 780,620	\$ 41,085	\$ 4,108,527	\$ 3,180,717
Payroll taxes and benefits received	458,671	322,045	780,716	185,420	9,759	975,895	618,386
Dues and subscriptions	1,537	1,025	2,562	641	-	3,203	-
Classroom supplies and instructional materials	82,896	113,945	196,841	-	-	196,841	165,165
Professional fees	-	-	-	199,850	-	199,850	77,889
Legal	-	-	-	1,226	-	1,226	10,416
Recruiting fees	-	-	-	-	-	-	67,352
Fundraising	-	-	-	-	6,085	6,085	-
Marketing and advertisement	14,551	4,365	18,916	9,895	291	29,102	643
Consultants	18,722	-	18,722	-	35,358	54,080	103,465
Staff professional development	-	-	-	-	-	-	13,785
Travel	-	-	-	-	-	-	190
Insurance	-	-	-	-	-	-	41,751
Student food services	135,349	33,837	169,186	-	-	169,186	91,003
Student educational services	-	-	-	-	-	-	73,400
School culture	68,538	17,134	85,672	-	-	85,672	-
Talent management	124,945	83,297	208,242	52,061	-	260,303	-
Enrichment program	266,758	66,689	333,447	37,050	-	370,497	-
Office expense	-	-	-	69,098	-	69,098	183,820
Rent	203,638	61,091	264,729	138,474	4,073	407,276	360,350
Repairs and maintenance	47,079	31,386	78,465	19,616	-	98,081	181,789
Gymnasium rental	-	-	-	5,641	-	5,641	17,455
Furniture and fixtures - non-capitalizable	-	-	-	-	-	-	102,015
Copier lease and related expenses	-	-	-	-	-	-	25,913
Technology and communication	81,766	54,510	136,276	34,069	-	170,345	153,883
Postage and delivery	1,628	488	2,116	1,107	33	3,256	33,758
Printing and photocopying	10,288	3,086	13,374	6,996	206	20,576	-
Board expenses	-	-	-	10,454	550	11,004	18,210
Bank fees and finance charges	-	-	-	11,002	-	11,002	1,083
Good Shepherd: facilities expense	30,218	9,065	39,283	20,548	604	60,435	-
Academic intervention	39,671	9,918	49,589	-	-	49,589	-
Bad debt expense	-	-	-	9,411	-	9,411	-
Depreciation	89,731	26,919	116,650	61,017	1,795	179,462	183,791
	\$ 3,606,994	\$ 2,194,615	\$ 5,801,609	\$ 1,654,196	\$ 99,839	\$ 7,555,644	\$ 5,706,229

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, 2014
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 7,669,161	\$ 5,906,422
Cash paid to employees and suppliers	<u>(7,244,739)</u>	<u>(5,534,776)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>424,422</u>	<u>371,646</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(752,920)</u>	<u>(304,145)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(752,920)</u>	<u>(304,145)</u>
NET (DECREASE) INCREASE IN CASH	(328,498)	67,501
CASH - BEGINNING OF YEAR	<u>898,575</u>	<u>831,074</u>
CASH - END OF YEAR	<u>\$ 570,077</u>	<u>\$ 898,575</u>
 Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 108,735	\$ 81,752
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	179,462	183,791
Changes in operating assets and liabilities:		
Cash - restricted	-	(33,900)
Grants receivable	4,782	118,441
Prepaid expenses and other assets	(73,828)	2,971
Accounts payable and accrued expenses	108,677	20,571
Accrued salaries and payroll related expenses	79,857	(1,980)
Deferred rent	<u>16,737</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 424,422</u>	<u>\$ 371,646</u>

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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 is currently in the process of renewing its charter.

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

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

In fiscal year 2014, the School operated classes for students in the fifth, sixth, seventh, and eighth grades. In fiscal year 2013, the School operated classes for students in the fifth, sixth, and seventh grades.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students. Starting in fiscal year 2011, the School began collecting money from children not entitled to free lunches to help defray the cost of school meals.

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, 2014.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash - Restricted

Cash consists of four checking accounts and an escrow account of \$75,000 held aside to cover debts in the event of the School's dissolution as required by the State University of New York.

Grants Receivable

Grants receivable represent amounts due from federal grants. Grants receivable that are expected to be collected within one year and recorded at net realizable value are \$13,485 and \$18,267 at June 30, 2014 and 2013, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary at June 30, 2014 and 2013. Such estimate is based on management's assessments of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

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

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

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

Premises Provided by Government Authorities

The School does not record any in-kind contributions and related costs with respect to dedicated and shared space provided to it by the NYCDOE as the premises are temporary in nature, is excess shared space whereby a fair value cannot be determined, and is industry practice.

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. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. Property and equipment acquired with certain government contract funds is recorded as expenses pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. No depreciation is recorded on construction in progress until placed into service.

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the years ended June 30, 2014 and 2013.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Advertising

The School expenses advertising costs as incurred. The School incurred \$0 and \$643 of advertising costs for the years ended June 30, 2014 and 2013, respectively.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through October 30, 2014, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2014 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, 2013 are presented. As a result, the June 30, 2013 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2013 information should be read in conjunction with the School's financial statements for the year ended June 30, 2013, 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. The School is subject to federal tax examinations by tax authorities for all fiscal years in which informational returns were filed.

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 tax as "Other Expense."

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2017 and in interim periods in annual periods beginning after December 15, 2018. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

Reclassification

The prior year statement of cash flows has been reclassified from the indirect method to the direct method in the current year financial statements. This reclassification had no effect on previously reported change in net assets.

3. PROPERTY AND EQUIPMENT

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

	2014	2013	Estimated Useful Life
Furniture and fixtures	\$ 145,940	\$ 93,185	3 years
Equipment and computers	342,650	168,937	3 years
Leasehold improvements	349,796	258,279	Life of lease
	<u>838,386</u>	<u>520,401</u>	
Less: accumulated depreciation	<u>(419,127)</u>	<u>(239,665)</u>	
	<u>\$ 419,259</u>	<u>\$ 280,736</u>	

Depreciation expense amounted to \$179,462 and \$183,791 for the years ended June 30, 2014 and 2013, respectively.

4. CONSTRUCTION IN PROGRESS

The School opened a new location at the Roman Catholic Church of St. Jude in August 2014 to provide classes for students in the fifth through eighth grades. Total construction in progress at June 30, 2014 amounted to \$558,082 and is reflected in the accompanying statement of financial position.

The School entered into a contract for capital improvements totaling \$98,000 as of June 30, 2014, of which \$26,399 has not been paid.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

5. PENSION PLAN

The School has a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan either 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 fiscal years ended June 30, 2014 and 2013, pension expense for the School was \$64,765 and \$52,570, respectively which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

6. COMMITMENTS

On January 3, 2012, the School entered into an executed lease with The Roman Catholic Church of the Good Shepherd of New York City. The lease commenced on July 1, 2012 and was set to expire on June 30, 2014. The lease has been renewed and will expire on June 30, 2018. The School took possession of this space in August 2012. Annual lease payments amounted to \$407,276 and \$360,350 during the years ended June 30, 2014 and 2013, respectively.

On June 19, 2014, the School entered into a lease with The Roman Catholic Church of St. Jude. The lease period is from July 1, 2014 through June 30, 2024. The School took possession of this space in July 2014.

The School leases equipment and a copier under a non-cancelable operating lease which will expire in November of 2015.

Total future minimum rental and lease payments are as follows:

<u>June 30,</u>	
2015	\$ 1,051,203
2016	1,159,895
2017	1,197,420
2018	1,197,420
2019	877,000
Thereafter	<u>4,495,187</u>
	<u>\$ 9,978,125</u>

7. 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.

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. The accompanying financial statements make no provision for the possible disallowance or refund because management believes that there are not any material liabilities to be recorded.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

8. 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. Approximately 12,000 square feet is allocated to the School. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the years ended June 30, 2014 and 2013, the School did not incur overtime permit fees.

9. CONCENTRATIONS

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

The School received approximately 94% of its total revenue from per pupil funding from the NYCDOE during both the years ended June 30, 2014 and 2013.

One major grantor accounted for 100% of grants receivable at June 30, 2014. One major grantor accounted for approximately 78% of grants receivable at June 30, 2013.

Three vendors accounted for approximately 67% of accounts payable at June 30, 2014. Two vendors accounted for approximately 59% of accounts payable at June 30, 2013.

10. PENDING LITIGATION

During February 2012, a student's family filed a claim in the Supreme Court of the State of New York whereby they allege the student was injured on the School's premises during an after school sports program. The claim does not specify damages. It is anticipated that any adverse financial consequences of the claim will be covered by the School's insurance policies, subject to a deductible (if any).



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, 2014, 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 30, 2014.

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 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 30, 2014.

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 30, 2014