

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2014)

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, 2015, 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, 2015, 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 2014 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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 20, 2015, 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 20, 2015

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2014)

ASSETS	2015	2014
Cash	\$ 104,764	\$ 570,077
Cash - restricted	75,058	75,000
Grants receivable	159,910	13,485
Prepaid expenses and other assets	5,987	73,828
Property and equipment, net	2,030,357	419,259
Construction in progress	-	558,082
	\$ 2,376,076	\$ 1,709,731
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 304,629	\$ 209,396
Accrued salaries and other payroll related expenses	221,545	253,484
Deferred rent	212,889	16,737
Capital lease obligation	68,949	-
	808,012	479,617
NET ASSETS		
Unrestricted	1,568,064	1,225,114
Temporarily restricted	-	5,000
	1,568,064	1,230,114
	\$ 2,376,076	\$ 1,709,731

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, 2015

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

	2015		2014	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
OPERATING REVENUE AND SUPPORT				
State and local per pupil operating revenue	\$ 9,504,165	\$ -	\$ 9,504,165	\$ 7,230,724
Government grants and contracts	802,898	-	802,898	351,959
Contributions and other grants	70,632	-	70,632	74,009
Interest income	233	-	233	736
Benefit income	2,244	-	2,244	4,811
Miscellaneous income	-	-	-	2,140
Net assets released from restrictions	5,000	(5,000)	-	-
	<u>10,385,172</u>	<u>(5,000)</u>	<u>10,380,172</u>	<u>7,664,379</u>
EXPENSES				
Program services	9,037,873	-	9,037,873	5,801,609
Management and general	898,098	-	898,098	1,654,196
Fundraising	106,251	-	106,251	99,839
	<u>10,042,222</u>	<u>-</u>	<u>10,042,222</u>	<u>7,555,644</u>
CHANGE IN NET ASSETS	342,950	(5,000)	337,950	108,735
NET ASSETS - BEGINNING OF YEAR	<u>1,225,114</u>	<u>5,000</u>	<u>1,230,114</u>	<u>1,121,379</u>
NET ASSETS - END OF YEAR	\$ <u>1,568,064</u>	\$ -	\$ <u>1,568,064</u>	\$ <u>1,230,114</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, 2015

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

	No. of Positions	Program Services			Supporting Services		
		General Education	Special Education	Total Program	Management and General	Fundraising	
		2015	2015	2015	2015	2015	2014
Personnel services costs:							
Administrative staff personnel	14	\$ 308,190	\$ 154,787	\$ 462,977	\$ 390,616	\$ 72,725	\$ 926,318
Instructional personnel	83	2,540,638	1,489,974	4,030,612	-	-	4,030,612
Non-instructional personnel	6	110,834	43,413	154,247	7,813	-	162,060
Total salaries and wages		2,959,662	1,688,174	4,647,836	398,429	72,725	5,118,990
Payroll taxes and employee benefits		596,545	340,266	936,811	80,307	14,658	1,031,776
Retirement benefits		55,822	31,841	87,663	7,515	1,372	96,550
Legal fees		-	-	-	7,006	-	7,006
Accounting / Audit services		-	-	-	118,730	-	118,730
Professional fees - other		185,024	100,028	285,052	50,930	16,225	352,207
Building and land rent / lease		717,752	409,401	1,127,153	114,260	-	1,241,413
Repairs and maintenance		43,588	24,862	68,450	8,277	-	76,727
Insurance		25,111	14,324	39,435	3,998	-	43,433
Utilities		96,852	55,244	152,096	15,418	-	167,514
Non-capitalized equipment / furnishings		45,498	23,330	68,828	5,964	-	74,792
Staff development		90,042	50,849	140,891	13,989	96	154,976
Student and staff recruitment		33,625	19,180	52,805	4,527	826	58,158
Advertising		2,759	1,574	4,333	371	67	4,771
Technology		102,441	58,432	160,873	16,308	-	177,181
Supplies / Materials		180,210	45,621	225,831	796	282	226,909
Food services		216,575	52,867	269,442	-	-	269,442
Student services		244,427	59,667	304,094	-	-	304,094
Office expense		49,312	28,127	77,439	9,591	-	87,030
Bank and interest expense		-	-	-	2,264	-	2,264
Depreciation and amortization		242,141	138,116	380,257	38,547	-	418,804
Other		5,464	3,120	8,584	871	-	9,455
		\$ 5,892,850	\$ 3,145,023	\$ 9,037,873	\$ 898,098	\$ 106,251	\$ 10,042,222
							\$ 7,555,644

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, 2015
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 10,233,514	\$ 7,668,425
Cash received from interest income	175	736
Cash paid to employees and suppliers	<u>(9,296,131)</u>	<u>(7,244,739)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>937,558</u>	<u>424,422</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(1,352,260)</u>	<u>(752,920)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,352,260)</u>	<u>(752,920)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for capital lease obligations	<u>(50,611)</u>	<u>-</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(50,611)</u>	<u>-</u>
NET DECREASE IN CASH	(465,313)	(328,498)
CASH - BEGINNING OF YEAR	<u>570,077</u>	<u>898,575</u>
CASH - END OF YEAR	<u>\$ 104,764</u>	<u>\$ 570,077</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 337,950	\$ 108,735
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	418,804	179,462
Deferred rent	196,152	16,737
Changes in operating assets and liabilities:		
Cash - restricted	(58)	-
Grants receivable	(146,425)	4,782
Prepaid expenses and other assets	67,841	(73,828)
Accounts payable and accrued expenses	95,233	108,677
Accrued salaries and payroll related expenses	<u>(31,939)</u>	<u>79,857</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 937,558</u>	<u>\$ 424,422</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Equipment acquired by incurring capital lease obligations	\$ 119,560	\$ -

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

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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's charter was renewed during the year for a three and a half year term until June 30, 2018.

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 2015, the School operated classes for students in the fifth through ninth grades. In fiscal year 2014, the School operated classes for students in the fifth through eighth grades.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students. The School collects 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 or temporarily restricted net assets at June 30, 2015.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash - Restricted

Cash consists of six accounts and an escrow account of \$75,058 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 \$159,910 and \$13,485 at June 30, 2015 and 2014, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary at June 30, 2015 and 2014. 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.

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, 2015 and 2014.

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.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The School expenses advertising costs as incurred. The School incurred \$4,771 and \$18,434 of advertising costs for the years ended June 30, 2015 and 2014, 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 20, 2015, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2015 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, 2014 are presented. As a result, the June 30, 2014 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2014 information should be read in conjunction with the School's financial statements for the year ended June 30, 2014, 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."

Deferred Rent

In accordance with U.S. GAAP, rent expense is recognized on a straight-line basis over the life of the lease, including future escalations of rent, rather than in accordance with lease payments. Deferred rent represents the adjustment to future rents as a result of using the straight-line method.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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, 2018 and in interim periods in annual periods beginning after December 15, 2019. 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

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

3. PROPERTY AND EQUIPMENT

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

	2015	2014	Estimated Useful Life
Furniture and fixtures	\$ 563,533	\$ 145,940	3 years
Equipment and computers	547,393	342,650	3 years
Capital lease equipment	119,560	-	Life of lease
Leasehold improvements	1,637,802	349,796	Life of lease
	<u>2,868,288</u>	<u>838,386</u>	
Less: accumulated depreciation and amortization, including amortization on capital leases of \$50,611 as of June 30, 2015	<u>(837,931)</u>	<u>(419,127)</u>	
	<u>\$ 2,030,357</u>	<u>\$ 419,259</u>	

Depreciation and amortization expense amounted to \$418,804 and \$179,462 for the years ended June 30, 2015 and 2014, respectively, including amortization expense on capital leases of \$50,611 for the year ended June 30, 2015.

4. 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 years ended June 30, 2015 and 2014, pension expense for the School was \$96,550 and \$64,765, respectively 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, 2015

5. 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, 2018. The School took possession of this space in August 2012. Annual lease payments amounted to \$410,197 and \$407,276 during the years ended June 30, 2015 and 2014, 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. Annual lease payments amounted to \$831,216 during the year ended June 30, 2015.

The School entered into three capital leases in 2014 for computers and kitchen equipment for a total commitment of \$119,560.

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>	<u>Operating</u> <u>Leases</u>	<u>Capital</u> <u>Leases</u>
2016	\$ 1,157,420	\$ 44,760
2017	1,232,205	31,111
2018	1,162,635	-
2019	877,000	-
2020	877,000	-
Thereafter	<u>3,618,187</u>	-
	<u>\$8,924,447</u>	<u>75,871</u>
Less interest expense		6,922
Net minimum obligations under capital leases		<u>\$ 68,949</u>

6. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

INWOOD ACADEMY FOR LEADERSHIP CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

7. 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 95% of its total revenue from per pupil funding from the NYCDOE during the year ended June 30, 2015. The School received approximately 94% of its total revenue from per pupil funding from the NYCDOE during the year ended June 30, 2014.

One major grantor accounted for 90% of grants receivable at June 30, 2015. One major grantor accounted for approximately 100% of grants receivable at June 30, 2014.

Two vendors accounted for approximately 74% of accounts payable at June 30, 2015. Three vendors accounted for approximately 67% of accounts payable at June 30, 2014.



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, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2015.

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 20, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
October 20, 2015