

THE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2016

THE ACADEMY CHARTER SCHOOL

INDEX

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	2-3
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
NOTES TO FINANCIAL STATEMENTS	8-15
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	16-17



KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

333 Seventh Avenue

New York, NY 10001

(212) 631-0700 FAX (212) 631-0109

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of The Academy Charter School, which comprises the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for 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 from 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Academy Charter School as of June 30, 2016, 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 The Academy Charter School's 2015 financial statements, and our report dated October 30, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 18, 2016, on our consideration of The Academy 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 The Academy Charter School's internal control over financial reporting and compliance.

New York, New York
October 18, 2016

Koch Group + Company, LLP
Certified Public Accountants

THE ACADEMY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(With Comparative Totals as of June 30, 2015)

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 617,591	\$ 143,014
Accounts receivable, net	464,660	417,760
Other receivables	111,426	299,026
Prepaid expenses	-	43,543
	1,193,677	903,343
PROPERTY AND EQUIPMENT, net	21,919,966	22,643,106
OTHER ASSETS		
Deferred expenses, net	1,462,159	1,517,886
Restricted cash and escrow reserves	2,928,038	3,414,980
Security deposits	32,420	32,420
	\$27,536,260	\$28,511,735
Total Assets	\$27,536,260	\$28,511,735

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Bonds payable - current portion	\$ 285,000	\$ 265,000
Accounts payable	459,610	497,851
Accrued expenses	1,034,338	803,066
Accrued interest payable	787,029	787,038
Loan payable - bank	1,875	-
Construction costs payable	-	257,901
Due to management company	-	541,889
Obligations under capital leases - current portion	297,427	273,951
	2,865,279	3,426,696
Total Current Liabilities	2,865,279	3,426,696
Bonds payable, less current portion	23,355,000	23,640,000
Obligations under capital leases, less current portion	598,801	896,228
	26,819,080	27,962,924
Total Liabilities	26,819,080	27,962,924
NET ASSETS - UNRESTRICTED	717,180	548,811
	\$27,536,260	\$28,511,735
Total Liabilities and Net Assets	\$27,536,260	\$28,511,735

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

(With Summarized Totals for the year ended June 30, 2015)

UNRESTRICTED NET ASSETS

	<u>2016</u>	<u>2015</u>
REVENUE, GAINS AND OTHER SUPPORT		
Public School District		
Resident student enrollment	\$ 14,470,896	\$ 12,411,457
Grants and Contracts		
State and local	162,129	-
Federal - Title and IDEA	201,612	191,315
Food Service and Child Nutrition Program	579,958	445,950
Real estate tax refund	53,014	204,237
Interest and other income	13,723	42,348
	<u>15,481,332</u>	<u>13,295,307</u>
Total Public Support and Revenue		
EXPENSES		
Program Expenses		
Regular education	11,292,285	10,468,857
Special education	870,967	910,292
Food service	658,907	581,242
	<u>12,822,159</u>	<u>11,960,391</u>
Supporting Services		
Management and general	2,490,804	2,059,406
	<u>15,312,963</u>	<u>14,019,797</u>
Total Expenses		
CHANGE IN NET ASSETS	168,369	(724,490)
NET ASSETS - UNRESTRICTED		
Beginning of year	<u>548,811</u>	<u>1,273,301</u>
End of year	<u><u>\$ 717,180</u></u>	<u><u>\$ 548,811</u></u>

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

(With Summarized Totals for the year ended June 30, 2015)

	No. of position	Regular Education	Special Education	Food Service	Total Programs	Management & General	Total 2016	Total 2015
<u>Personnel Services Costs</u>								
Administrative staff personnel	19	\$ 1,476,182	\$ 118,095	\$ -	\$ 1,594,277	\$ 373,966	\$ 1,968,243	\$ 1,410,808
Instructional personnel	80	4,174,718	311,739	-	4,486,457	-	4,486,457	4,243,109
Non-instructional personnel	21	49,404	-	179,496	228,900	718,902	947,802	786,378
Total Personnel Services Costs		<u>5,700,304</u>	<u>429,834</u>	<u>179,496</u>	<u>6,309,634</u>	<u>1,092,868</u>	<u>7,402,502</u>	<u>6,440,295</u>
<u>Operating Expenses</u>								
Payroll taxes and fringe benefits		1,254,047	94,562	39,488	1,388,097	240,427	1,628,524	1,330,688
Retirement		133,143	10,040	4,193	147,376	25,526	172,902	120,688
Contracted services								
- financial and administrative		280,000	25,000	-	305,000	255,000	560,000	663,063
Administrative		48,708	3,673	-	52,381	10,872	63,253	68,114
Marketing and recruitment		15,507	1,169	-	16,676	3,461	20,137	2,997
Insurance		164,594	12,411	-	177,005	36,739	213,744	222,624
Legal and professional		114,968	8,669	-	123,637	108,458	232,095	138,382
Repairs and maintenance		276,836	20,875	8,717	306,428	53,075	359,503	322,952
Equipment leasing and maintenance		354,873	26,759	-	381,632	79,211	460,843	406,070
Staff development		141,241	10,650	-	151,891	31,526	183,417	284,496
Food costs		-	-	316,501	316,501	-	316,501	298,593
Student services		38,412	11,471	-	49,883	-	49,883	86,100
Supplies and instructional materials		122,038	9,202	-	131,240	27,240	158,480	258,862
Telephone and internet services		63,018	4,752	-	67,770	14,066	81,836	63,623
Utilities		132,974	10,027	-	143,001	29,681	172,682	195,953
Other expenses		136,680	10,306	4,304	151,290	26,204	177,494	161,880
Interest expense - facilities loans		1,416,663	113,333	75,555	1,605,551	283,333	1,888,884	1,898,379
Interest expense - equipment lease		66,608	5,329	3,552	75,489	13,322	88,811	93,904
Depreciation		789,876	59,561	24,872	874,309	151,436	1,025,745	904,592
Amortization		41,795	3,344	2,229	47,368	8,359	55,727	57,542
Total Operating Expenses		<u>5,591,981</u>	<u>441,133</u>	<u>479,411</u>	<u>6,512,525</u>	<u>1,397,936</u>	<u>7,910,461</u>	<u>7,579,502</u>
TOTAL EXPENSES		<u><u>\$ 11,292,285</u></u>	<u><u>\$ 870,967</u></u>	<u><u>\$ 658,907</u></u>	<u><u>\$ 12,822,159</u></u>	<u><u>\$ 2,490,804</u></u>	<u><u>\$ 15,312,963</u></u>	<u><u>\$ 14,019,797</u></u>

See notes to financial statements

THE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

(With Summarized Totals for the year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net asset	\$ 168,369	\$ (724,490)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation	1,025,745	904,592
Amortization	55,727	57,542
Changes in Operating Assets and Liabilities		
Accounts receivable	(46,900)	49,114
Other receivables	187,600	(258,060)
Prepaid expenses	43,543	(20,291)
Accounts payable	(38,241)	287,831
Accrued expenses	231,272	288,036
Accrued interest payable	(9)	357,156
	<u>1,627,106</u>	<u>941,430</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash and escrow reserves	486,942	2,869,765
Acquisition of fixed assets	<u>(302,605)</u>	<u>(5,527,191)</u>
	<u>184,337</u>	<u>(2,657,426)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bonds payable	(265,000)	(115,000)
Construction costs payable	(257,901)	5,813
Loan payable - bank	1,875	-
Due to management company	(541,889)	531,279
Obligations under capital leases	<u>(273,951)</u>	<u>1,082,571</u>
	<u>(1,336,866)</u>	<u>1,504,663</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	474,577	(211,333)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>143,014</u>	<u>354,347</u>
End of year	<u>\$ 617,591</u>	<u>\$ 143,014</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid - expensed	<u>\$1,977,695</u>	<u>\$ 876,263</u>
Interest paid - capitalized	<u>\$ -</u>	<u>\$ 108,903</u>

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

1. **Organization**

The Academy Charter School (The “School”), a 501 (c)(3) tax-exempt organization, is a public charter school located in Hempstead, New York. The School opened in February 2009 and commenced operating classes for kindergarten through second grade in September 2009, and added third through eighth grade classes in 2010 through 2015. The School’s charter was renewed in 2014 for an additional five years. The mission of the school is to offer an interdisciplinary curriculum in a technology rich environment that challenges students to explore connections across subjects and use experiential learning to bridge the gaps between theory and practice. Enrollment is open to all potential student candidates, with those residing in the immediate area given first preference.

2. **Summary of Significant Accounting Policies**

Basis of Presentation and Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which 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.

Net Asset Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted amounts are those currently available at the discretion of the board for use in the operations of the School. Temporarily restricted amounts are restricted by donor imposed restrictions as to use or time restricted. When a restriction expires, temporarily restricted net assets are re-classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted amounts contain donor imposed restrictions to be maintained permanently by the School.

There are no temporarily or permanently restricted net assets at June 30, 2016.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Tuition revenue is from state and local government sources for student tuition and other school-related income. The School recognizes tuition and other school-related income as revenue during the applicable school year in which the revenue is earned.

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to the students during the applicable school year. Funds received in advance or any unspent funds for which qualifying expenditures have not been incurred are recorded as refundable advances. Any unspent amounts might be returned to the granting agency or the granting agency can approve that those amounts be applied to a future grant period.

Accounts and Grants Receivable

Accounts and grants receivable are recorded at net realizable value and do not bear interest. The allowance for doubtful accounts is the School's best estimate of the amount of probable credit losses in existing receivables. Management determines the allowance based on historical write-off experience and reviews its allowance for doubtful accounts periodically. Past due balances are reviewed individually for collectability. Allowances recorded at June 30, 2016 are \$95,369.

Property and Equipment

Property and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Maintenance and repairs are charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$500. Depreciation is computed using the straight-line method over estimated useful lives of the respective asset; 3-7 years for furniture and equipment and 39 ½ years for building and improvements. Depreciation charges for computer equipment financed through capitalized lease obligations are included in depreciation expense.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. Summary of Significant Accounting Policies (Continued)

Restricted Cash and Escrow Reserves

Restricted cash and escrow reserves relate to required reserve and escrow accounts that are required to be maintained by the School in accordance with the bond indenture and charter requirements.

Deferred Expenses

Deferred expenses consist of various closing costs and professional fees related to obtaining the bond financing and are amortized using the interest method over the period the obligations are outstanding. For the year ended June 30, 2016, amortization expense totaled \$55,727 and accumulated amortization at June 30, 2016 is \$209,659.

Donated Goods and Services

The School receives donated services from unpaid volunteers. No amounts have been recognized in the statement of activities since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

Functional Allocation of Expenses

Expenses have been charged to program and supporting services, either directly when identifiable to a specific program, or indirectly based on management's estimate of the functional area benefited.

Income Taxes

In December 2010, the School filed and received approval of its application for tax exempt status from the Internal Revenue Service under section 501(c)(3) of the Internal Revenue code and has been classified as a publicly supported organization as described in Internal Revenue Code section 509 (A)(1) and 170 (B)(1)(A)(II).

Management has determined that the School had no uncertain tax positions that would require financial statement recognition. The School is no longer subject to income tax examination by federal, state or local tax authorities for years before June 30, 2012.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. Summary of Significant Accounting Policies (Continued)

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2015 is presented for comparative purposes only. The notes to the financial statements and certain activity by net asset classification are not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2015, from which the summarized comparative information was derived.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 18, 2016.

3. Restricted Cash and Escrow Reserves

Restricted cash and escrow reserve accounts at June 30, 2016 consist of:

Restricted cash – contingency	\$ 77,968
Restricted cash – held by trustee	156,771
Interest reserve	500,962
Debt service	2,158,997
Repairs and replacement	<u>33,340</u>
	<u>\$ 2,928,038</u>

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

4. Property and Equipment

At June 30, 2016, property and equipment consisted of the following:

Building	\$17,507,416
Land	790,000
Building improvements	3,908,569
Furniture and fixtures	1,831,065
Machinery and equipment	5,000
Computer and office equipment	<u>1,333,838</u>
	25,375,888
Less: Accumulated depreciation	<u>(3,455,922)</u>
	<u>\$21,919,966</u>

The School is the lessee of furniture and fixtures and computer equipment under capital leases expiring in 2018 and 2019. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments of the fair value of the assets. Included in furniture and fixtures and computer equipment as of June 30, 2016 is approximately \$1,421,000 of assets purchased under capital lease agreements, respectively. Accumulated depreciation of such assets approximates \$284,229 as of June 30, 2016.

5. Accrued Expenses

Accrued expenses consist primarily of amounts due to staff for payroll earned during the school year, but paid out over the summer months.

6. Defined Contribution Plan

The School offers a 401(k) plan for all employees. Employees are eligible for the plan immediately upon employment and participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employee's annual compensation. The School's contribution recognized in the statement of activities was \$172,901 and \$120,688 for the years ended June 30, 2016 and 2015. Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

7. Bonds Payable

On March 23, 2011, the Town of Hempstead Local Development Corporation provided financing through the issuance of \$10,505,000 in Tax-Exempt Education Revenue Bonds (the “Series 2011A Bonds”), bearing interest at 8.25% per annum with principal due at varying amounts annually through maturity on February 1, 2041, and \$235,000 in Taxable Education Revenue Bonds (the “Series 2011B Bonds”), bearing interest at 8% per annum with principal due at varying amounts annually through maturity on February 1, 2041. The proceeds of the bonds were used to purchase and renovate a two-story building at Hempstead, New York to be used as classroom, cafeteria, kitchen and administration space.

On December 23, 2013, The Town of Hempstead Local Development Corporation provided financing through the issuance of \$12,970,000 in Tax-Exempt Education Revenue Bonds (the “Series 2013A Bonds”), bearing interest at 7.65% per annum with principal due at varying amounts annually through maturity on February 1, 2044, and \$545,000 in Taxable Education Revenue Bonds (the “Series 2013B Bonds”), bearing interest rate at 7.25% per annum with principal due at varying amounts annually through maturity on February 1, 2019. The proceeds of the bonds were used to purchase and renovate a four-story building at Hempstead, New York to be used as classroom and administration space.

Future minimum principal payments for the next five years are as follows:

Fiscal year ending June 30

2017	\$ 285,000
2018	305,000
2019	335,000
2020	355,000
2021	385,000
2022 and thereafter	<u>21,975,000</u>
	\$ <u>23,640,000</u>

Debt Service Coverage Ratio

Pursuant to the loan agreement, the School is required to maintain ongoing debt service coverage ratio greater than 1.0.

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

8. Capital Leases

In August and September 2014, the School entered into capital lease agreements for furniture and fixtures and computer equipment. The leases totaling \$1,421,144 require monthly payments of \$30,230, including interest calculated at 8.25%, maturing in September 2018 and August 2019.

Future lease payments under these capital leases are as follows:

Year ended June 30,

2017	\$ 362,760
2018	362,760
2019	255,813
2020	<u>34,714</u>
	1,016,047
Less: effective interest at 8.25%	<u>119,819</u>
Present value of capital lease	896,228
Less: current portion	<u>297,427</u>
Non-current portion	<u>\$ 598,801</u>

9. Loan Payable – Bank

The School obtained a line of credit with Capital One bank in the amount of \$250,000 at the rate of 3.5% per annum. At June 30, 2016, the loan balance was \$1,875.

10. Management

The School entered into an agreement with Victory Schools, Inc. d/b/a Victory Education Partners (VEP) in June 2009, which was amended in August 2012 to provide services related to certain education and operational aspects of the School. VEP serves as an advisor regarding functions associated with the educational services to be provided to the students at the School and consults with the School with respect to its legal and operational compliance in accordance with the terms of the charter and the Charter School Act.

For the years ended June 30, 2016 and 2015 the service fee was \$560,000 and \$663,062

THE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

11. **Concentration of Credit Risk**

The School maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and cash equivalents.

The School receives a substantial portion of its support and revenue from the New York State Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, which might have a material impact on the School's financial position, results of operations and cash flows.

12. **Contingency**

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

The School periodically has claims arising from the conduct of its business. The School believes, after consultation with legal counsel and considering the factors that gave rise to such claims, that the overall results there from would not have a material adverse effect on the financial condition, results of operations and cash flows of the School.



KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

333 Seventh Avenue

New York, NY 10001

(212) 631-0700 FAX (212) 631-0109

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 of
The Academy Charter School

We have audited, in accordance with the 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 The Academy Charter School, which comprise the statement of financial position as of June 30, 2016, 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 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Academy Charter 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 Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of The Academy Charter 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 entity'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 Academy Charter 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 audits, 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*.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Koch Group + Company, LLP
Certified Public Accountants

New York, New York
October 18, 2016