

THE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2015
(With Comparative Totals as of June 30, 2014)

THE ACADEMY CHARTER SCHOOL

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KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2015, and the related statements of activities, cash flow and functional expenses 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, 2015, and the changes in its net assets and its cash flows for the years 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 2014 financial statements, and our report dated October 30, 2014, 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, 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 30, 2015, 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 30, 2015

Koch Group + Company, LLP
Certified Public Accountants

THE ACADEMY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015
(With Comparative Totals as of June 30, 2014)

ASSETS		
	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 163,032	\$ 354,347
Construction cash	161,487	2,944,593
Restricted cash	77,537	77,151
Accounts receivable	417,760	466,874
Other receivables	299,026	40,966
Prepaid expenses	43,543	23,252
Total Current Assets	1,162,385	3,907,183
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	22,643,106	18,020,507
OTHER ASSETS		
Deferred expenses, net of accumulated amortization	1,517,887	1,575,429
Capitalized interest reserve	505,981	613,302
Debt service escrow	2,649,957	2,649,699
Security deposits	32,420	32,420
Total Assets	\$28,511,736	\$26,798,540
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable - current portion	\$ 265,000	\$ 115,000
Accounts payable	497,852	210,021
Accrued expenses	803,066	515,030
Accrued interest payable	787,038	429,882
Construction costs payable	257,901	252,088
Due to management company	541,889	10,610
Obligation under capital lease - current portion	273,951	87,608
Total Current Liabilities	3,426,697	1,620,239
Bonds payable, less current portion	23,640,000	23,905,000
Obligation under capital lease, less current portion	896,228	-
Total Liabilities	27,962,925	25,525,239
NET ASSETS - UNRESTRICTED	548,811	1,273,301
Total Liabilities and Net Assets	\$28,511,736	\$26,798,540

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30,
(With Comparative Totals for the year ended June 30, 2014)

UNRESTRICTED NET ASSETS	2015	2014
REVENUE, GAINS AND OTHER SUPPORT		
Public School District		
Resident student enrollment	\$ 12,411,457	\$ 8,931,607
Grants and Contracts		
State and local	-	8,542
Federal - Title and IDEA	191,315	151,620
Food Service and Child Nutrition Program	445,950	339,001
Real estate tax refund	204,237	-
Interest and other income	42,348	757
	13,295,307	9,431,527
EXPENSES		
Program Expenses		
Regular education	10,468,857	6,928,107
Special education	910,292	573,221
Food service	581,242	380,761
	11,960,391	7,882,089
Supporting Services		
Management and general	2,059,406	1,157,608
	14,019,797	9,039,697
CHANGE IN NET ASSETS	(724,490)	391,830
Beginning of year	1,273,301	881,471
End of year	\$ 548,811	\$1,273,301

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30,
(With Comparative Totals for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ (724,490)	\$ 391,830
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	904,592	509,567
Amortization	57,542	47,364
Changes in Assets and Liabilities		
Accounts receivable	49,114	(354,866)
Other receivables	(258,060)	(40,966)
Prepaid expenses	(20,291)	(16,080)
Accounts payable	287,831	(4,016)
Accrued expenses	288,036	27,707
Accrued interest payable	357,156	429,882
Security deposits	-	(15,260)
Net cash provided by operating activities	<u>941,430</u>	<u>975,162</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction cash	2,783,106	(2,926,334)
Restricted cash	(386)	(385)
Capitalized interest reserve	107,321	(613,302)
Debt service escrow	(258)	(1,415,528)
Acquisition of fixed assets	<u>(5,527,191)</u>	<u>(9,323,576)</u>
Net cash used in investing activities	<u>(2,637,408)</u>	<u>(14,279,125)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred expenses	-	(904,459)
Bonds payable	(115,000)	13,395,000
Construction costs payable	5,813	252,088
Due to management company	531,279	-
Obligation under capital lease, less current portion	<u>1,082,571</u>	<u>(79,792)</u>
Net cash provided by financing activities	<u>1,504,663</u>	<u>12,662,837</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(191,315)	(641,126)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>354,347</u>	<u>995,473</u>
End of year	<u>\$ 163,032</u>	<u>\$ 354,347</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid - expensed	<u>\$ 1,992,283</u>	<u>\$ 876,263</u>
Interest paid - capitalized	<u>\$ -</u>	<u>\$ 108,903</u>

See notes to financial statements.

THE ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015
(With Comparative Totals for the year ended June 30, 2014)

	Regular Education	Special Education	Food Service	Total Programs	Management & General	Total 2015	Total 2014
Personnel Expenses							
Salaries and wages	\$ 4,973,155	\$ 441,438	\$ 143,856	\$ 5,558,449	\$ 881,846	\$ 6,440,295	\$4,361,882
Payroll taxes and fringe benefits	1,027,549	91,210	29,723	1,148,482	182,206	1,330,688	889,880
Retirement	93,195	8,272	2,696	104,163	16,525	120,688	90,380
Total Personnel Expenses	6,093,899	540,920	176,275	6,811,094	1,080,577	7,891,671	5,342,142
Operating Expenses							
Contracted services							
- financial and administrative	468,750	25,000	-	493,750	169,313	663,063	643,750
Administrative	52,597	4,669	-	57,266	10,848	68,114	51,934
Marketing and recruitment	2,315	205	-	2,520	477	2,997	-
Insurance	171,909	15,259	-	187,168	35,456	222,624	139,607
Legal and professional	67,945	6,031	-	73,976	64,406	138,382	155,605
Repairs and maintenance	249,381	22,136	7,214	278,731	44,221	322,952	191,070
Equipment and furnishings	313,565	27,833	-	341,398	64,672	406,070	232,608
Rent	3,352	292	165	3,809	663	4,472	13,323
Staff development	219,686	19,500	-	239,186	45,310	284,496	137,130
Food service	-	-	298,593	298,593	-	298,593	170,757
Student services	65,383	7,539	-	72,922	13,178	86,100	25,341
Supplies and instructional materials	199,892	17,743	-	217,635	41,227	258,862	180,785
Telephone and internet services	49,129	4,361	-	53,490	10,133	63,623	49,030
Utilities	151,314	13,431	-	164,745	31,208	195,953	146,479
Other expenses	124,780	9,453	3,240	137,473	19,935	157,408	126,942
Interest expense - facilities loans	1,422,925	124,022	69,967	1,616,914	281,465	1,898,379	876,263
Interest expense - equipment lease	70,385	6,135	3,461	79,981	13,923	93,904	-
Depreciation	698,520	62,004	20,206	780,730	123,862	904,592	509,567
Amortization	43,130	3,759	2,121	49,010	8,532	57,542	47,364
Total Operating Expenses	4,374,958	369,372	404,967	5,149,297	978,829	6,128,126	3,697,555
TOTAL EXPENSES	\$ 10,468,857	\$ 910,292	\$ 581,242	\$ 11,960,391	\$ 2,059,406	\$14,019,797	\$ 9,039,697

See notes to financial statements

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, fourth, fifth, sixth and seventh grade classes in 2010, 2011, 2012, 2013 and 2014. 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

a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with principles generally accepted in the United States of America.

b) Cash and Cash Equivalents

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 equivalents.

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

c) Grants and Contracts Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as grants and contribution receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

2. Summary of Significant Accounting Policies (Continued)

c) Grants and Contracts Receivable (Continued)

The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

d) Financial Statement Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- i) Unrestricted net assets – Net assets that are not subject to grantor or donor-imposed stipulations.
- ii) Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There are no temporarily restricted net assets at June 30, 2015.
- iii) Permanently restricted net assets – Net assets subject to grantor or donor-imposed stipulations that they be maintained permanently by the School to use all or part of the assets for general or specific purposes. There are no permanently restricted net assets at June 30, 2015.

Furthermore, information is required to segregate program service expenses from support expenses.

e) Donated 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 generally accepted accounting principles.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

2. Summary of Significant Accounting Policies (Continued)

f) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

g) Property and Equipment

Purchase of property and equipment are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. The cost of maintenance and repairs is charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 7 years.

h) Revenue Recognition

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

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

i) 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 2011, which is the standard statute of limitations look-back period.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

2. Summary of Significant Accounting Policies (Continued)

j) 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 accounting principles generally accepted in the United States of America. Accordingly, such June 30, 2014 information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

k) Estimates

The preparation of financial statements in conformity with principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

l) Deferred Expenses

Closing costs are amortized on the straight-line method over the life of the related bonds as indicated in note 8.

3. Restricted Cash

Under the provisions of its charter, the School established a bank account to pay for any legal and audit expenses that would be associated with dissolution, should it occur.

4. 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.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

5. Property and Equipment

At June 30, 2015 and 2014, property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>	Estimated Useful Life
Building	\$17,449,658	\$ 7,110,000	39.5 years
Land	790,000	790,000	-
Building improvements	3,808,778	3,673,974	39.5 years
Furniture and fixtures	1,801,000	598,427	7 years
Machinery and equipment	5,000	5,000	3 years
Computer and office equipment	1,218,847	863,607	5 years
Construction in progress	<u>-</u>	<u>6,505,084</u>	
	24,716,127	19,546,092	
Less: Accumulated depreciation	<u>(2,430,177)</u>	<u>(1,525,585)</u>	
	<u>\$22,643,106</u>	<u>\$18,020,507</u>	

Depreciation expense for the years ended June 30, 2015 and 2014 was \$904,592 and \$509,567.

6. Pupil Enrollment and Other Revenues From Government Agencies

Under the Charter School Agreement and the Charter Schools Act, the School is entitled to receive funding from governmental sources that are available to public schools. The calculation of the amounts to be paid to the School under these programs is determined by the State, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school districts of the children enrolled in the School.

If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

The amounts are based upon actual amounts received as well as estimates by the management based upon the best information available at the time. However, actual amounts received, as determined by the funding source, could vary based on changes in the factors used to calculate the amounts owed.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

7. 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 \$120,688 and \$90,380 for the years ended June 30, 2015 and 2014. 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.

8. Deferred Expenses

At June 30, 2015 and 2014, deferred expenses consisted of the following:

	<u>2015</u>	<u>2014</u>	<u>Amortization Period</u>
Bond issuance costs	\$1,671,819	\$1,671,819	30 years
Less: Accumulated amortization	<u>(153,932)</u>	<u>(96,390)</u>	
	<u>\$1,517,887</u>	<u>\$1,575,429</u>	

9. 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, 2014. The proceeds of the bonds were used to purchase and renovate a two-story building at 117 North Franklin Street, 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

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

9. Bonds Payable (Continued)

maturity on February 1, 2019. The proceeds of the bonds were used to purchase and renovate a four-story building at 159 North Franklin Street, Hempstead, New York to be used as classroom and administration space.

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

Fiscal year ending June 30

2016	\$ 265,000
2017	285,000
2018	305,000
2019	335,000
2020	355,000
2021 and thereafter	<u>22,360,000</u>
Total	<u>\$23,905,000</u>

For the years ended June 30, 2015 and 2014, Interest expense was \$1,898,379 and \$876,263.

a) Debt Service Escrow

The bond indenture agreements provide for the creation of debt service escrows which funded by bond proceeds. The balance being held by the trustee at June 30, 2015 was \$2,649,957.

b) Capitalized Interest Reserve

Capitalized interest reserve funded by bond proceeds in the original amount of \$722,202 to pay interest during construction. At June 30, 2015, the balance was \$505,981.

c) 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, 2015

10. Capital Leases

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

Future lease payments under these capital leases are as follows:

Year ended June 30,

2016	\$ 362,760
2017	362,760
2018	362,760
2019	255,813
2020	<u>34,714</u>
	1,378,807
Less: Effective interest at 8.25%	<u>208,628</u>
Present value of capital lease	<u>\$1,170,179</u>

11. Management

The School entered into an agreement with Victory Schools, Inc. (VSI) 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. Victory 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.

In providing these services, VEP was paid a service fee in the amount of \$625,000 in 2013. The fee will be increased annually by 3%. VEP has agreed to subordinate the management fee to the Series 2011 and 2013 bond payments. For the years ended June 30, 2015 and 2014 the service fee was \$663,063 and \$643,750, of which \$541,889 was unpaid at June 30, 2015.

THE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

13. Subsequent Events

Management has evaluated subsequent events through October 30, 2015, the date that financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment or disclosure in the accompanying financial statements.



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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, 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 30, 2015.

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 30, 2015