

Opportunity Charter School

Financial Report
June 30, 2017

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Opportunity Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Opportunity Charter School (the Charter School), which comprise the statement of financial position as of June 30, 2017, 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 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 Charter School as of June 30, 2017, 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.

Emphasis of Matter

As further discussed in Note 9 to the financial statements, the Charter School's authorizer, the New York City Department of Education, has recommended renewal of the charter effective July 1, 2017 with the condition that the Charter School eliminate grades six, seven and eight. The Charter School has challenged this condition in court and the Charter School is continuing to operate all grades. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Charter School's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 27, 2017 on our consideration of the 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 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 Charter School's internal control over financial reporting and compliance.

RSM US LLP

New York, New York
October 27, 2017

Opportunity Charter School

Statement of Financial Position

June 30, 2017

(with summarized comparative information for the year ended June 30, 2016)

	2017	2016
Assets		
Cash and cash equivalents	\$ 2,515,996	\$ 2,947,340
Accounts receivable	393,403	206,665
Prepaid expenses and other	206,120	182,507
Property and equipment, net	458,293	390,751
Total assets	\$ 3,573,812	\$ 3,727,263
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,053,463	\$ 927,316
Due to funder	172,723	60,988
Deferred rent	18,169	7,458
Capital lease obligations	37,099	50,051
Total liabilities	1,281,454	1,045,813
Net assets:		
Unrestricted	2,292,358	2,681,450
Total net assets	2,292,358	2,681,450
Total liabilities and net assets	\$ 3,573,812	\$ 3,727,263

See notes to financial statements.

Opportunity Charter School

Statement of Activities

Year Ended June 30, 2017

(with summarized comparative information for the year ended June 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Summarized Comparative Total
Operating revenue:				
State and local per pupil operating revenue	\$10,827,847	\$ -	\$10,827,847	\$10,323,429
Government grants	521,322	-	521,322	354,768
Total operating revenue	11,349,169	-	11,349,169	10,678,197
Operating expenses:				
Program services:				
General education	3,404,756	-	3,404,756	3,543,819
Special education	7,087,195	-	7,087,195	5,793,754
General and administrative	1,190,777	-	1,190,777	943,562
Total operating expenses	11,682,728	-	11,682,728	10,281,135
(Under) excess on school operations from government funding	(333,559)	-	(333,559)	397,062
Support and other revenue (expenses):				
Contributions	19,928	-	19,928	28,450
Event income	-	29,131	29,131	35,724
Net assets released from restrictions - satisfaction of purpose restriction	29,131	(29,131)	-	-
Other income	7,559	-	7,559	23,598
Fundraising expenses	(112,151)	-	(112,151)	(63,375)
Total support and other revenue (expenses)	(55,533)	-	(55,533)	24,397
Change in net assets	(389,092)	-	(389,092)	421,459
Net assets:				
Beginning	2,681,450	-	2,681,450	2,259,991
Ending	<u>\$ 2,292,358</u>	<u>\$ -</u>	<u>\$ 2,292,358</u>	<u>\$ 2,681,450</u>

See notes to financial statements.

Opportunity Charter School

Statement of Functional Expenses

Year Ended June 30, 2017

(with summarized comparative information for the year ended June 30, 2016)

	2017						2016 Summarized Comparative Total	
	Program Services			Supporting Services				
	General Education	Special Education	Total Program Services	General and Administrative	Fundraising	Total Supporting Services		
Salaries	\$ 2,121,851	\$ 4,575,665	\$ 6,697,516	\$ 381,679	\$ 79,323	\$ 461,002	\$ 7,158,518	\$ 6,603,471
Employee benefits and payroll taxes	688,944	1,484,716	2,173,660	123,637	25,695	149,332	2,322,992	1,873,111
Classroom supplies and other instructional materials	104,474	163,408	267,882	-	-	-	267,882	244,771
Texts and instructional materials	39,152	61,238	100,390	-	-	-	100,390	152,835
Professional development	38,049	101,121	139,170	-	-	-	139,170	43,558
Accounting and financial audit	-	-	-	131,907	-	131,907	131,907	105,316
Computer and other consultants	233,035	389,916	622,951	34,590	1,605	36,195	659,146	639,628
Insurance	1,427	2,232	3,659	119,781	-	119,781	123,440	120,953
Legal and other filling fees	31,217	48,827	80,044	119,612	-	119,612	199,656	80,963
Meetings and conferences	-	-	-	578	500	1,078	1,078	2,795
Office equipment and other supplies	4,235	8,623	12,858	106,564	126	106,690	119,548	86,737
Postage and delivery	4,275	9,218	13,493	769	160	929	14,422	14,167
Recruitment and marketing	34,786	68,694	103,480	20,237	3,988	24,225	127,705	102,389
Repairs and maintenance	590	923	1,513	-	-	-	1,513	3,366
Facility costs and utilities	45,086	82,003	127,089	88,530	725	89,255	216,344	116,188
Interest expense	785	1,692	2,477	141	29	170	2,647	2,933
Depreciation and amortization	56,850	88,919	145,769	62,752	-	62,752	208,521	151,329
	\$ 3,404,756	\$ 7,087,195	\$ 10,491,951	\$ 1,190,777	\$ 112,151	\$ 1,302,928	\$ 11,794,879	\$ 10,344,510

See notes to financial statements.

Opportunity Charter School

Statement of Cash Flows

Year Ended June 30, 2017

(with summarized comparative information for the year ended June 30, 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (389,092)	\$ 421,459
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	208,521	151,329
Donated equipment	-	(15,000)
Loss on disposal of equipment	-	1,497
Increase in deferred rent	10,711	7,458
Changes in operating assets and liabilities:		
Increase in accounts receivable	(186,738)	(10,715)
Increase in prepaid expenses and other	(23,613)	(54,687)
Increase (decrease) in accounts payable and accrued expenses	126,147	(15,024)
Increase in due to funder	111,735	37,775
Net cash (used in) provided by operating activities	(142,329)	524,092
Cash flows used in investing activity:		
Acquisition of property and equipment	(276,063)	(205,072)
Cash flows used in financing activity:		
Payment on capital lease obligations	(12,952)	(10,167)
Net (decrease) increase in cash and cash equivalents	(431,344)	308,853
Cash and cash equivalents:		
Beginning	2,947,340	2,638,487
Ending	<u>\$ 2,515,996</u>	<u>\$ 2,947,340</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 2,647</u>	<u>\$ 2,933</u>
Supplemental schedule of noncash investing and financing activities:		
Additions to property and equipment from capital lease	<u>\$ -</u>	<u>\$ 8,219</u>

See notes to financial statements.

Opportunity Charter School

Notes to Financial Statements

Note 1. Principal Business Activity

Opportunity Charter School (the Charter School) is an educational corporation that operates a charter school in the borough and county of Manhattan, New York. The Charter School was granted a charter valid for a term of five years from May 18, 2004 that is renewable by the Board of Regents of the University of the State of New York. In May 2012, the Charter School was awarded its third renewal, which is a five-year renewal and expired on June 30, 2017. During the year ended June 30, 2017, the Charter School was recommended for a short term renewal of three years for its high school only with conditions consistent with the terms of the renewal application (please refer to Note 9).

The Charter School was established to prepare underserved middle and high school students for higher education, civic involvement and lifelong success through a structured, caring environment of high academic expectations. The Charter School is unique in that each year it accepts an incoming grade of students, more than half of whom have been classified by their previous schools as requiring special education services. Fostering true democratic principles, the Charter School successfully educates all students together in a general education setting.

In fiscal year 2017, the Charter School operated classes for students in grades six through twelve.

The New York City Department of Education provides free lunches and transportation directly to a majority of the Charter School's students. Such costs are not included in these financial statements. The Charter School covers the cost of lunches for children not entitled to free lunches.

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Accordingly, net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the designation of donors.

The statement of activities includes certain prior-year summarized comparative information in total but not by functional and net asset classification. In addition, the statement of functional expenses includes certain prior-year summarized comparative information in total but not by its functional classification. Such statements do 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 Charter School's 2016 financial statements from which the summarized information was derived.

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

Cash and cash equivalents: For the purposes of the statement of cash flows, cash and cash equivalents consist of money market accounts and any short-term investments with maturity of 30 days or less (at the time purchased).

The Charter School maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Charter School has not experienced any losses in such accounts.

Opportunity Charter School

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The Charter School maintains a separate account, pursuant to its charter agreement, with a balance of \$75,975 and \$75,862 at June 30, 2017 and 2016, respectively, to pay off expenses in the event of dissolution of the Charter School.

Property and equipment: Property and equipment is recorded at cost and donated assets at their fair values. Additions and improvements in excess of \$1,000 with an estimated useful life of more than one year are capitalized. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets. During the year ended June 30, 2016, the Charter School received donated equipment of \$15,000. The Charter School did not receive any donated equipment during the year ended June 30, 2017.

Revenue recognition: Contributions are recognized as revenue in the year the pledge is received and documented. Contributions and unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support, which increases that net asset class. When the specified purpose of donor-restricted contributions is met, the net asset is released from restrictions and transferred to unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value. Revenue from the state and local governments resulting from the Charter School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal funds obligated under a government grant agreement are recorded by the Charter School when the expenditures are incurred and billable to the government or when required services have been provided.

All the Charter School's accounts receivable are expected to be collected within one year. The Charter School estimates an allowance for bad debts based on historical bad debt factors related to the donor's ability to pay and current economic trends. As of June 30, 2017 and 2016, there was no allowance.

Contributed services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. The fair value of donated services amounted to \$2,000 for the year ended June 30, 2016. The Charter School did not receive any donated services for the year ended June 30, 2017.

Functional expenses: The Charter School's program services consist of both general education and special education costs. General education includes costs incurred directly in connection with the Charter School providing a rigorous extended-year college preparatory middle school and high school education. Special education includes costs incurred for the Charter School to provide certain students with additional assistance.

Certain costs and expenses are allocated between program and supporting services.

Income taxes: The Charter School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Charter School is not classified as a private foundation. The Charter School is subject to taxes on unrelated business income (UBIT), if applicable. For the tax years ended June 30, 2017 and 2016, the Charter School did not owe any UBIT.

Management evaluated the Charter School's tax positions and concluded that the Charter School had taken no uncertain tax positions that require adjustment to the financial statements. Generally, the Charter School is no longer subject to income tax examinations by U.S. federal, state, or local tax authorities for tax years before 2013, which is the standard statute of limitations look-back period.

Opportunity Charter School

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent events: The Charter School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available to be issued, which was October 27, 2017 for these financial statements.

Recently issued accounting pronouncements: In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. ASU 2016-18 will be effective for the Charter School for the year ending June 30, 2020. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Charter School has not evaluated the impact that adoption will have on the statement of cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 is effective for annual periods beginning after December 15, 2018, and therefore, is expected to be adopted by the Charter School for the year ending June 30, 2020. Early adoption is permitted. The Charter School has not evaluated the impact that adoption will have on the statement of cash flows.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expenses recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Management has not evaluated the impact of this ASU on the financial statements.

Opportunity Charter School

Notes to Financial Statements

Note 3. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at June 30:

	2017	2016	Estimated Useful Life
Computer equipment	\$ 834,777	\$ 674,639	3 years
Classroom furniture	207,228	203,403	5 years
Musical instruments	20,776	20,776	5 years
Nonclassroom equipment	756,642	698,629	3 to 5 years
Nonclassroom furniture	79,621	65,284	5 years
Equipment obtained under capital leases	64,843	64,843	5 years
Building improvement	437,004	397,254	5 years
	<u>2,400,891</u>	<u>2,124,828</u>	
Less accumulated depreciation and amortization	<u>(1,942,598)</u>	<u>(1,734,077)</u>	
	<u>\$ 458,293</u>	<u>\$ 390,751</u>	

Note 4. Employee Benefit Plan

The Charter School is a participating employer in the Teachers' Retirement System of the City of New York (the Plan), a cost-sharing multiple-employer public employee retirement system that provides pension benefits for all the teachers and administrative personnel employed by the Department of Education and certain employees of Charter Schools and the City University of New York. As a participating employer of the Plan, the School is not permitted to withdraw from the Plan.

Employer contributions to the Plan are determined by the Plan's Chief Actuary of the Office of the Actuary in accordance with the State statutes and City laws, and include amounts to reduce the Plan's underfunding. During the years ended June 30, 2017 and 2016, the Charter School contributed \$841,436 and \$472,731, respectively, to the Plan.

The audited financial statements of the Plan, as of and for the year ended June 30, 2016, reported total assets of approximately \$68,519,454,000. The funded status of the Plan as of June 30, 2014, the most recent actuarial valuation date, is as follows:

	Amounts (in Thousands)
Actuarial value of assets	\$ 37,521,424
Actuarial accrued liability	<u>67,309,977</u>
Unfunded actuarial accrued liability	<u>\$ (29,788,553)</u>
Funded status	<u>55.7%</u>

Note 5. Temporarily Restricted Net Assets

As of June 30, 2017 and 2016, there were no balances in temporary restricted net assets. During the fiscal years 2017 and 2016, the Charter School released \$29,131 and \$31,581, respectively, from temporarily restricted net assets for various school programs.

Opportunity Charter School

Notes to Financial Statements

Note 6. Obligations Under Capital Lease

During the fiscal year 2016, the Charter School leased a new copier and the lease agreement was set to expire in April 2019. At June 30, 2017, the lease requires a monthly payment of \$250. The original cost of the copier under capital lease was \$8,219 with accumulated depreciation of \$3,196. The imputed rate of interest is 6%.

The Charter School has an additional copier lease agreement that expires in March 2020. At June 30, 2017, the lease requires a monthly payment of \$1,050. The original cost of the copier under capital lease was \$56,625 with accumulated depreciation of \$26,964. The imputed rate of interest is 6%.

The future minimum payments under the above-mentioned leases are as follows:

Years ending June 30:	
2018	\$ 15,600
2019	15,100
2020	9,450
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	40,150
Less interest portion	(3,051)
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	\$ 37,099
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Note 7. Facilities

As part of the New York City Chancellor's Charter School Initiative, the NYC Department of Education (NYC DOE) has committed space to charter schools within existing public schools. Beginning with fiscal year 2007, the NYC DOE has facilitated Shared Use Agreements with charter schools outlining services and facility offerings to charter schools for a five-year period. Beginning with fiscal year 2012, the NYC DOE renewed the Shared Use Agreement for a five-year period that expired on June 30, 2017. Currently the Charter School awaits the renewal of the Shared Use Agreement from NYC DOE and continues to operate in the same location for fiscal year 2018. The Charter School shares space at a public school building and utilizes approximately 12,000 square feet at no cost to the Charter School.

Note 8. Commitments

During the fiscal year 2016, the Charter School entered into a lease agreement for additional classrooms in New York City under an operating lease that expires on April 30, 2021 with an additional five-year renewal option. The Charter School occupied the lease space on April 20, 2016 and the lease is subject to rent escalations. In addition, during the fiscal year 2017, the Charter School entered into a lease agreement for its administrative office in New York City under an operating lease that expires on September 30, 2021. The Charter School occupied the lease space on September 1, 2016 and the lease is subject to rent escalations. As of June 30, 2017, future aggregate minimum lease payments are as follows:

Years ending June 30:	
2018	\$ 148,270
2019	152,718
2020	157,300
2021	149,267
2022	21,947
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	\$ 629,502
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Opportunity Charter School

Notes to Financial Statements

Note 8. Commitments (Continued)

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payments required by the lease. As of June 30, 2017 and 2016, there were \$18,169 and \$7,458, respectively, of deferred rent obligation included on the statement of financial position.

For the years ended June 30, 2017 and 2016, rent expense amounted to approximately \$136,000 and \$15,000, respectively.

As part of the Charter School's lease agreement, the Charter School was required to pay a security deposit of \$48,948 which is included in prepaid expenses and other in the statement of financial position.

Note 9. Contingencies

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. 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.

Various claims and regulatory reviews arise in the ordinary course of the Charter School's activities. Based upon information currently available, management believes that any liability arising therefrom will not materially affect the financial position or operations of the Charter School.

The Charter School's charter was recommended for renewal by its authorizer, the NYC DOE, for three years to June 30, 2020 on the condition that the Charter School close its middle school, grades six through eight. Several parents and the Charter School brought a civil action, challenging the closure condition imposed by the NYC DOE. The suit raises significant questions regarding the NYC DOE's use of one standard to assess the academic standards of all its schools and its continued rejection of alternative measures to judge unique student populations served by schools like the Charter School. The New York State Supreme Court (the Court) issued a Temporary Restraining Order (TRO) which prevents the NYC DOE from moving forward with any closure action of the middle school until the Court can take a full review of the merits of the many issues raised in the civil lawsuit. As a result, the middle school remains open and operating for the 2017- 2018 school year. The Charter School is legally operating and awaits the appropriate charter renewal agreement to be delivered by its authorizer, the NYC DOE, so it can execute the agreement.

**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 Directors
Opportunity 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 Opportunity Charter School (the Charter School), which comprise the statement of financial position as of June 30, 2017, 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 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School's internal control over financial reporting (internal controls) 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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Charter School's financial statements are free from 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*.

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

RSM US LLP

New York, New York
October 27, 2017