

**LAYC CAREER ACADEMY
PUBLIC CHARTER SCHOOL**

**Financial Statements and Supplemental Schedule
Together with Report of Independent Public Accountants**

For the Years Ended June 30, 2015 and 2014



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2015 and 2014

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to the Financial Statements	6
SUPPLEMENTARY INFORMATION	
Supplemental Schedules of Functional Expenses	12
Report of Independent Public Accountants 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>	14



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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Trustees
LAYC Career Academy
Public Charter School

Report on the Financial Statements

We have audited the accompanying statements of financial position of the LAYC Career Academy Public Charter School (the Academy) as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the auditing standards established pursuant to the District of Columbia School Reform Act, Public law No. 104-134, 110 Stat. 1321-121, 2204(c)(11)(B)(ix)(1996); D.C. Official Code 38-1802.04(ii)(B)(2001, as amended). 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.



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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 accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of June 30, 2015 and 2014, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2015, on our consideration of the Academy's internal control over financial reporting and 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's internal control over financial reporting and compliance.

Washington, DC
November 23, 2015

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

**Statements of Financial Position
As of June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 1,236,440	\$ 280,250
Due from LAYC, net	-	26,849
Pledge receivable, net	-	200,000
Other receivables	-	1,167
Prepaid expenses	49,191	35,449
Fixed assets, net	95,492	68,823
Security deposit	70,000	70,000
Total Assets	<u><u>\$ 1,451,123</u></u>	<u><u>\$ 682,538</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 222,967	\$ 20,000
Accrued expenses	57,095	65,084
Due to LAYC, net	24,232	-
Deferred revenue	-	53,509
Total Liabilities	<u><u>304,294</u></u>	<u><u>138,593</u></u>
Net Assets		
Unrestricted	859,380	(36,026)
Temporarily restricted	287,449	579,971
Total Net Assets	<u><u>1,146,829</u></u>	<u><u>543,945</u></u>
Total Liabilities and Net Assets	<u><u>\$ 1,451,123</u></u>	<u><u>\$ 682,538</u></u>

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

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

**Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Per pupil allocation	\$ 3,594,095	\$ 1,866,962
Grants and contributions	18,260	118,841
Other	19,885	6,225
Total Revenue	<u>3,632,240</u>	<u>1,992,028</u>
Net assets released from restrictions	292,522	296,422
Total Revenue and Support	<u>3,924,762</u>	<u>2,288,450</u>
 Expenses		
Program Services	1,457,736	1,539,575
Supporting Services:		
General and administrative	1,563,017	735,443
Fundraising	8,603	6,613
Total Supporting Services	<u>1,571,620</u>	<u>742,056</u>
Total Expenses	<u>3,029,356</u>	<u>2,281,631</u>
Change in Unrestricted Net Assets	<u>895,406</u>	<u>6,819</u>
 TEMPORARILY RESTRICTED NET ASSETS		
Net assets released from restrictions	(292,522)	(296,422)
Change in Temporarily Restricted Net Assets	<u>(292,522)</u>	<u>(296,422)</u>
 Changes in net assets	602,884	(289,603)
Net assets, beginning of year	543,945	833,548
Net Assets, End of Year	<u>\$ 1,146,829</u>	<u>\$ 543,945</u>

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

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

**Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 602,884	\$ (289,603)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	39,572	17,743
Effect of changes in non-cash operating assets and liabilities:		
Due from LAYC, net	26,849	285,838
Pledge receivable, net	200,000	295,726
Other receivables	1,167	(1,167)
Prepaid expenses	(13,742)	(9,878)
Security deposit	-	(70,000)
Accounts payable	202,967	(26,735)
Accrued expenses	(7,989)	26,810
Due to LAYC, net	24,232	-
Deferred revenue	(53,509)	53,509
Net Cash from Operating Activities	<u>1,022,431</u>	<u>282,243</u>
Cash Flows from Investing Activities		
Payments for purchases of fixed assets	<u>(66,241)</u>	<u>(77,133)</u>
Net change in cash	956,190	205,110
Cash, beginning of year	280,250	75,140
Cash, End of Year	<u>\$ 1,236,440</u>	<u>\$ 280,250</u>

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

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2015 and 2014

1. ORGANIZATION AND PROGRAM

The LAYC Career Academy Public Charter School (the Academy) was incorporated in the District of Columbia in December 2011, and opened its doors in September 2012. This is the fourth public charter school founded by the Latin American Youth Center (LAYC). The innovative educational model offers students ages 16-24 the opportunity to prepare for and pass the GED and prepare for a career as an A+ certified IT professional or a medical assistant. The Academy's students are able to start their college education by completing six college credits (the equivalent of two AP classes) through LAYC's partnership with the Board College and the Community College of the District of Columbia.

LAYC is the founder of the Academy and makes payments on behalf of the Academy and does not necessarily allocate all such costs to the Academy. Therefore, the financial results of the Academy may not be reflective as if it were a standalone entity.

Executive management and certain board members of LAYC serve on the board of the Academy. Thus, the Academy's financial statements are consolidated with LAYC.

On July 1, 2012, the Academy entered into a contract with the District of Columbia Public Charter School Board (the Board), granting the Academy a charter for the establishment of a public charter school in Washington, DC. The charter expires on June 30, 2027. The Board has the authority to revoke the charter for violations of applicable laws and conditions, terms and procedures set forth in the charter. The Academy's current charter provides for enrollment of up to 150 students in its first academic year and no more than 250 in the subsequent four academic years. Under the provisions of the contract, the Board is to make annual payments to the Academy for services provided to the students based on the number of students attending the Academy each year. The Academy is and shall remain a District of Columbia nonprofit organization in accordance with the District of Columbia Nonprofit Corporation Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Use of 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 disclosure of contingent assets and liabilities as of 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.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledge Receivable

The Academy records a discount for pledges expected to be collected in over one year. There was no pledge discount as of June 30, 2014, as all pledges were expected to be collected within one year. There were no pledges outstanding as of June 30, 2015.

Fixed Assets

Fixed assets valued in excess of \$1,000, with an anticipated useful life greater than one year, are capitalized and recorded at cost if purchased, or estimated fair market value as of the date of gift, if donated. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. All fixed assets as of June 30, 2015 and 2014, consisted of furniture and equipment with a useful life of three years.

Depreciation expense for the years ended June 30, 2015 and 2014, was \$39,572 and \$17,743, respectively.

Net Assets

Unrestricted net assets are assets and contributions that are not restricted by donors or for which restrictions have expired.

Temporarily restricted net assets are those whose use by the Academy have been limited by donors primarily for a specific time period or purpose. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as unrestricted net assets.

Permanently restricted net assets are those that are restricted by donors to be maintained by the Academy in perpetuity. There were no permanently restricted net assets as of June 30, 2015 and 2014.

Contributions and Grants

Contributions are recorded when pledged and classified as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions and grants whose restrictions are fulfilled in the same period are recorded as unrestricted support in the statement of activities and changes in net assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Charter School Funding

The Academy receives a student allocation from the District of Columbia to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding and a facilities allotment. The Academy recognizes this funding in the year in which the school term is conducted. During the years ended June 30, 2015 and 2014, the Academy earned revenue of \$3,594,095 and \$1,866,962, respectively, from the Government of the District of Columbia, which represented 91% and 82%, respectively, of total revenue and support.

Funding received in advance of the school term is recorded as deferred revenue in the accompanying statements of financial position. As of June 30, 2014, the Academy recognized \$53,509, of deferred revenue for funds received in advance for the summer camp. As of June 30, 2015, there was no deferred revenue as there were no funds allocated for summer camp.

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Academy.

Income Taxes

The Academy is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable District of Columbia income tax laws.

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Academy performed an evaluation of uncertain tax positions for the year ended June 30, 2015, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. For the year ended June 30, 2015, the statute of limitations for tax years 2011 through 2014 remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the Academy files tax returns. It is the Academy's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification

Certain 2014 amounts have been reclassified to conform to the 2015 financial statement presentation. These reclassifications had no effect on previously reported results of operations or net assets.

Subsequent Events

The Academy evaluated the accompanying financial statements for subsequent events and transactions through November 23, 2015, the date the financial statements were available for issue, and has determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. COMMITMENTS AND CONTINGENCIES

Grants

Most grants specify the types of expenditures for which the grant or contract funds may be used. The expenditures made by the Academy under these grants and contracts are subject to audit. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits would not have a material effect on the accompanying financial statements.

Lease

The Academy leases space under a renewable five-year lease that expires in August 2017. The lease includes a provision to increase the minimum annual lease payments up to the full facility allocation included in the annual per pupil allocation from the District of Columbia. Rent expense for the years ended June 30, 2015 and 2014 was \$540,530 and \$396,822, respectively.

As of June 30, 2015, future minimum lease payments were as follows:

<u>Years Ending June 30,</u>	<u>Amounts</u>
2016	\$ 540,000
2017	540,000
2018	45,000
Total	\$ 1,125,000

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2015 and 2014

4. RELATED PARTY TRANSACTIONS

Management Fee

The Academy receives certain management and administrative services from LAYC in return for a management fee. Under this agreement, the Academy is to pay LAYC a management fee for the services in the amount of 12% of all funds the Academy receives. As of the first academic year that the Academy reaches enrollment of 200 students, the management fee shall be reduced to 10%. This fee is paid quarterly. The management fee was \$442,669 and \$242,343, for the years ended June 30, 2015 and 2014, respectively.

Contribution Revenue

In March 2013, LAYC received a pledge on behalf of the Academy for \$900,000, of which \$200,000 and \$300,000, were received during the years ended June 30, 2015 and 2014, respectively. There was no pledge receivable as of June 30, 2015, as the full \$900,000 has been collected. The funds are to be used for program expenses to train medical assistants and for indirect expenses, such as human resources, financial management, information technology, development, and similar expenses. The pledge was for the sole use of Academy and LAYC is acting as the agent for the Academy. Accordingly, the Academy has recognized the contribution revenue in the accompanying statements of activities and change in net assets as temporarily restricted revenue. During the years ended June 30, 2015 and 2014, \$292,522 and \$296,422, respectively, were released from restrictions.

As of June 30, 2014, the Academy recorded Due from LAYC of \$26,849, associated with the pledge noted above. As of June 30, 2015, the Academy recorded Due to LAYC of \$24,232, for expenses LAYC paid on the Academy's behalf.

SUPPLEMENTARY INFORMATION

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

Supplemental Schedule of Functional Expenses For the Year Ended June 30, 2015, with Comparative 2014 Total

	2015				2014
	Program Services	General and Administrative	Fundraising	Total	Total
SALARIES, TAXES AND BENEFITS					
Salaries	\$ 1,219,384	\$ 91,625	\$ 7,644	\$ 1,318,653	\$ 1,073,456
Employee benefits	55,501	4,171	348	60,020	44,426
Payroll taxes	97,373	7,319	611	105,303	84,940
Total salaries, taxes and benefits	<u>1,372,258</u>	<u>103,115</u>	<u>8,603</u>	<u>1,483,976</u>	<u>1,202,822</u>
DIRECT STUDENT COSTS					
Supplies and materials	14,819	77,088	-	91,907	121,366
Transportation	11,339	73,178	-	84,517	72,535
Food services	700	34,254	-	34,954	38,044
Client training and education	30	-	-	30	-
Total direct student costs	<u>26,888</u>	<u>184,520</u>	<u>-</u>	<u>211,408</u>	<u>231,945</u>
OCCUPANCY EXPENSES					
Space rental	-	540,530	-	540,530	396,822
Security	1,657	-	-	1,657	-
Depreciation expense	-	39,572	-	39,572	17,743
Total occupancy expenses	<u>1,657</u>	<u>580,102</u>	<u>-</u>	<u>581,759</u>	<u>414,565</u>
OFFICE EXPENSES					
Professional fees	24,801	139,021	-	163,822	110,829
Management fees	-	442,669	-	442,669	242,343
Payroll processing fees	1,858	683	-	2,541	5,668
Postage and shipping	-	843	-	843	324
Office equipment	16,707	10,308	-	27,015	24,776
Telecommunications	50	14,313	-	14,363	6,877
Staff training	7,381	45,311	-	52,692	25,894
Insurance	141	17,925	-	18,066	9,798
Miscellaneous	5,995	24,207	-	30,202	5,790
Total office expenses	<u>56,933</u>	<u>695,280</u>	<u>-</u>	<u>752,213</u>	<u>432,299</u>
Total Expenses	<u>\$ 1,457,736</u>	<u>\$ 1,563,017</u>	<u>\$ 8,603</u>	<u>\$ 3,029,356</u>	<u>\$ 2,281,631</u>

LAYC CAREER ACADEMY PUBLIC CHARTER SCHOOL

**Supplemental Schedule of Functional Expenses
For the Year Ended June 30, 2014**

2014

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
SALARIES, TAXES AND BENEFITS				
Salaries	\$ 1,021,198	\$ 46,356	\$ 5,902	\$ 1,073,456
Employee benefits	42,263	1,919	244	44,426
Payroll taxes	80,804	3,669	467	84,940
Total salaries, taxes and benefits	<u>1,144,265</u>	<u>51,944</u>	<u>6,613</u>	<u>1,202,822</u>
DIRECT STUDENT COSTS				
Supplies and materials	120,005	1,361	-	121,366
Transportation	72,535	-	-	72,535
Food services	38,044	-	-	38,044
Total direct student costs	<u>230,584</u>	<u>1,361</u>	<u>-</u>	<u>231,945</u>
OCCUPANCY EXPENSES				
Space rental	-	396,822	-	396,822
Depreciation expense	-	17,743	-	17,743
Total occupancy expenses	<u>-</u>	<u>414,565</u>	<u>-</u>	<u>414,565</u>
OFFICE EXPENSES				
Professional fees	101,792	9,037	-	110,829
Management fees	-	242,343	-	242,343
Payroll processing fees	4,782	886	-	5,668
Postage and shipping	324	-	-	324
Office equipment	23,248	1,528	-	24,776
Telecommunications	6,877	-	-	6,877
Staff training	25,894	-	-	25,894
Insurance	-	9,798	-	9,798
Miscellaneous	1,809	3,981	-	5,790
Total office expenses	<u>164,726</u>	<u>267,573</u>	<u>-</u>	<u>432,299</u>
Total Expenses	<u>\$ 1,539,575</u>	<u>\$ 735,443</u>	<u>\$ 6,613</u>	<u>\$ 2,281,631</u>



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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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*

The Board of Trustees
LAYC Career Academy
Public Charter School

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the LAYC Career Academy Public Charter School (the Academy), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy'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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
November 23, 2015

SB & Company, LLC