

EXPLORE EXCEL CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

EXPLORE EXCEL CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
EXPLORE EXCEL CHARTER SCHOOL

Report on the Financial Statements

We have audited the accompanying financial statements of Explore Excel Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide 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 School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2014 financial statements, and our report dated October 17, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of 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 5, 2015, on our consideration of the 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 School's internal control over financial reporting and compliance.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 5, 2015

EXPLORE EXCEL CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,986,012	\$ 1,609,179
Grants and contracts receivable	118,305	80,756
Due from related parties	2,297	-
Prepaid expenses and other current assets	<u>16,915</u>	<u>60,794</u>
Total current assets	<u>2,123,529</u>	<u>1,750,729</u>
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$416,393 and \$264,931, respectively	394,821	381,853
Restricted cash	<u>75,203</u>	<u>75,128</u>
Total other assets	<u>470,024</u>	<u>456,981</u>
TOTAL ASSETS	<u><u>\$ 2,593,553</u></u>	<u><u>\$ 2,207,710</u></u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 190,010	\$ 170,649
Accrued payroll and payroll taxes	505,075	438,391
Due to related parties	<u>-</u>	<u>16,188</u>
Total current liabilities	<u>695,085</u>	<u>625,228</u>
Unrestricted net assets:		
Undesignated	1,323,468	1,082,482
Board-designated for reserve fund	<u>575,000</u>	<u>500,000</u>
Total unrestricted net assets	<u>1,898,468</u>	<u>1,582,482</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 2,593,553</u></u>	<u><u>\$ 2,207,710</u></u>

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

EXPLORE EXCEL CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	<u>2015</u>	<u>2014</u>
Operating revenue:		
State and local per pupil operating revenue	\$ 6,552,296	\$ 5,472,628
Federal grants	351,820	311,194
State and city grants	<u>36,107</u>	<u>37,916</u>
Total operating revenue	<u>6,940,223</u>	<u>5,821,738</u>
Operating expenses:		
Program services:		
Regular education	4,476,474	3,905,652
Special education	<u>1,076,479</u>	<u>678,115</u>
Total program services	5,552,953	4,583,767
Supporting services:		
Management and general	<u>1,084,889</u>	<u>993,102</u>
Total operating expenses	<u>6,637,842</u>	<u>5,576,869</u>
Surplus from operations	<u>302,381</u>	<u>244,869</u>
Support and other revenue:		
Fundraising event	13,530	13,028
Interest and other income	<u>75</u>	<u>88</u>
Total support and other revenue	<u>13,605</u>	<u>13,116</u>
Changes in unrestricted net assets	315,986	257,985
Unrestricted net assets - beginning of year	<u>1,582,482</u>	<u>1,324,497</u>
Unrestricted net assets - end of year	<u><u>\$ 1,898,468</u></u>	<u><u>\$ 1,582,482</u></u>

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

EXPLORE EXCEL CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 315,986	\$ 257,985
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	154,924	154,590
Loss on disposal of property and equipment	1,083	5,723
Decrease (Increase) in certain assets:		
Grants and contracts receivable	(37,549)	229,416
Due from related parties	(2,297)	-
Prepaid expenses and other current assets	43,879	(23,914)
Increase (Decrease) in certain liabilities:		
Accounts payable and accrued expenses	19,361	51,957
Accrued payroll and payroll taxes	66,684	50,170
Due to related parties	(16,188)	8,234
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>545,883</u>	<u>734,161</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(168,975)	(136,856)
(Increase) in restricted cash	<u>(75)</u>	<u>(88)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(169,050)</u>	<u>(136,944)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	376,833	597,217
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,609,179</u>	<u>1,011,962</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,986,012</u></u>	<u><u>\$ 1,609,179</u></u>

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

EXPLORE EXCEL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Explore Excel Charter School (the “School”) is a New York State, not-for-profit educational corporation that operates a charter school in the borough of Brooklyn, New York. The School was granted a provisional charter on December 14, 2010 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School was established to provide its students with the academic skills and critical thinking abilities they need to succeed in a college preparatory high school. Furthermore, the School was established to prepare such underserved students for higher education, civic involvement and lifelong success through a structured, caring environment of high academic expectations. The School provided education to approximately 421 students in kindergarten through sixth grades during the 2014-2015 academic year.

The School has an agreement with the New York City Department of Education (“NYCDOE”) to use public school open space at no annual cost. The School’s management does not anticipate this agreement will be terminated in the near future. On December 12, 2012, the School secured a second location to house a middle school through the NYCDOE. The middle school will provide education from fifth through eighth grades. Classes for the middle school began August 21, 2013. The School will add one grade per year until it reaches full scale in 2016-2017 and will serve students in kindergarten through eighth grades. The School is not responsible for rent, utilities, custodial services, maintenance, and school safety services other than those required over the summer when traditional NYCDOE schools are not in service.

Food and Transportation Services

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

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii). The School did not have any net unrelated business income for the years ended June 30, 2015 and 2014.

The School’s accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

EXPLORE EXCEL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Status (Continued)

IRS Form 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School are no longer subject to examination for the fiscal year ended June 30, 2011.

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

Unrestricted

Net assets of the School are assets whose use has not been restricted by an outside donor or by law. The unrestricted net assets represent the portion of expendable funds that are available for the support of the operation of the School.

Board-designated net assets were established by the Board of Trustees to provide a reserve for unforeseen facility, personnel, and other issues.

Temporarily Restricted

Net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time or period or for a specific purpose. Temporarily restricted gifts are recorded as additions to temporarily restricted net assets in the period received. When restricted net assets are expended for their stipulated purpose, temporarily restricted net assets become unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2015 and 2014.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

EXPLORE EXCEL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Support (Continued)

Revenue from the state and local governments resulting from the 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 and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Property and Equipment

Purchased property and equipment are recorded at cost. Property and equipment acquired with certain government funding are recorded as expenses pursuant to the terms of the contract, in which ownership of such property and equipment is retained by the funding source. Maintenance and repairs are expensed as incurred. No depreciation is recorded on construction-in-progress until property and equipment is placed into service. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Furniture and fixtures	5 years
Computers and equipment	3 and 5 years
Software	3 years
Leasehold improvements	33.5 years

Restricted Cash

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

EXPLORE EXCEL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Refundable Advances

The School records certain government operating revenue as a refundable advance until related services are performed, at which time they are recognized as revenue.

Comparative Financial Information

The accompanying statements of activities and schedule of functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statements of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2014 financial statements from which the summarized information was derived.

Reclassifications

Certain 2014 accounts have been reclassified to the 2015 financial statements presentation. The reclassification has no effect on 2014 net assets, and changes in net assets.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30,:

	<u>2015</u>	<u>2014</u>
Furniture and fixtures	\$ 70,913	\$ 70,913
Computers and equipment	548,810	436,959
Software	10,948	10,948
Leasehold improvements	<u>180,543</u>	<u>127,964</u>
	811,214	646,784
Less: Accumulated depreciation and amortization	<u>(416,393)</u>	<u>(264,931)</u>
	<u><u>\$ 394,821</u></u>	<u><u>\$ 381,853</u></u>

Depreciation and amortization expense was \$154,924 and \$154,590 for the years ended June 30, 2015 and 2014, respectively.

For the years ended June 30, 2015 and 2014, the School disposed of various assets resulting in a loss on disposal of property and equipment in the amounts of \$1,083 and \$5,723, respectively.

EXPLORE EXCEL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is affiliated with Explore Schools Inc., (“ESI”), a New York State not-for-profit corporation established under the laws of the State of New York on July 31, 2008. ESI supports the School by providing educational models, recruiting, leadership coaching and professional development, start-up funding, governance, and operational support. The School is also affiliated with Explore Charter School (“Explore”), Explore Empower Charter School (“Empower”), and Explore Exceed Charter School (“Exceed”) through common management and Board members.

The School entered into management agreements with ESI dated through July 1, 2013 to provide the School with educational management services and designs. Pursuant to the agreement, ESI is to select and implement educational programs, coaching and professional development to school-based leadership, manage the School’s business administration and support the Board in all governance issues. As compensation to ESI for these services, the School paid an annual fee of 12% of the School’s general education per pupil operating revenue for the years ended June 30, 2015 and 2014, respectively. Management fee expense for the years ended June 30, 2015 and 2014 was \$696,617 and \$578,877 respectively.

For operational efficiency and purchasing power, the School shares certain expenses with ESI, Exceed, and Empower. Following are net shared operational expenses charged to the School for the years ended June 30,:

	<u>2015</u>	<u>2014</u>
ESI	\$ 402,562	\$ 82,935
Exceed	511	-
Empower	<u>-</u>	<u>1,878</u>
	<u>\$ 403,073</u>	<u>\$ 84,813</u>

The net balance due from/(to) related parties consisted of the following at June 30,:

	<u>2015</u>	<u>2014</u>
ESI	\$ 2,808	\$ (16,188)
Exceed	<u>(511)</u>	<u>-</u>
	<u>\$ 2,297</u>	<u>\$ (16,188)</u>

NOTE 5 - COMMITMENTS

The School leases various copy machines under non-cancelable operating leases expiring in various years through 2017. Minimum future rental payments under non-cancelable operating leases are as follows:

Year ending June 30,	2016	\$ 11,652
	2017	<u>971</u>
		<u>\$ 12,623</u>

EXPLORE EXCEL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 6 - CONTINGENCY

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

NOTE 7 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 9 - RETIREMENT PLAN

The School maintains a defined contribution 403(b) plan covering all eligible employees. Under this plan, employer contributions are discretionary and are based on a percentage of employees' salaries as determined by the School's Board of Trustees. The School matched 50% of the employees' elective contributions not to exceed 10% of the employee's salary for the years ended June 30, 2015 and 2014. The total employer contribution did not exceed 5% of the employee's salary. Retirement expense incurred by the School for the years ended June 30, 2015 and 2014 amounted to \$24,085 and \$29,279, respectively.

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 5, 2015, the date the financial statements were available to be issued.

Explore Charter School, Explore Empower Charter School, Explore Exceed Charter School, Explore Envision Charter School, and Explore Enrich Charter School merged into the School which serves as the sole surviving education corporation. Pursuant to the merger, the School changed its name to Explore Charter Schools of Brooklyn. The plan of merger, dated November 14, 2013, was approved by the Schools' Board of Trustees and is effective July 1, 2015. Pursuant to the effective date, the Schools ceased to exist as legal entities and all Schools operations are under Explore Charter Schools of Brooklyn. The merger was approved by the New York State Board of Regents, the Charter Schools Institute of the State University of New York, and the New York City Department of Education on February 10, 2015.

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF
EXPLORE EXCEL CHARTER SCHOOL

We have audited the financial statements of Explore Excel Charter School (a not-for-profit corporation) as of and for the year ended June 30, 2015, and have issued our report thereon dated October 5, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 5, 2015

EXPLORE EXCEL CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2015					
	Regular	Special	Total	General		
	Education	Education	Program	and	Total	2014
			Service	Administrative		
Salaries	\$ 2,499,956	\$ 604,579	\$ 3,104,535	\$ 530,310	\$ 3,634,845	\$ 3,047,697
Employee benefits and payroll taxes	598,178	144,661	742,839	126,890	869,729	750,778
Management fees	368,780	88,119	456,899	239,718	696,617	578,877
Advertising and recruiting	7,969	1,904	9,873	19,293	29,166	31,969
Outside services	287,427	68,726	356,153	22,894	379,047	318,396
Audit and accounting	-	-	-	18,271	18,271	20,250
Conferences, meetings, and staff development	63,568	15,189	78,757	10,547	89,304	78,980
Curriculum and classroom	211,375	53,772	265,147	-	265,147	160,584
Student food service	36,409	8,700	45,109	-	45,109	32,165
Student and family services	49,994	11,946	61,940	-	61,940	35,845
Insurance	25,659	6,131	31,790	5,610	37,400	31,181
Postage and copying	9,906	2,367	12,273	2,166	14,439	12,375
Office supplies	42,419	4,713	47,132	47,131	94,263	90,418
Telephone, technology, and communications	146,704	35,055	181,759	32,076	213,835	167,350
Loss on disposal of property and equipment	874	209	1,083	-	1,083	5,723
Depreciation and amortization	104,807	25,043	129,850	25,074	154,924	154,590
Miscellaneous	22,449	5,365	27,814	4,909	32,723	59,691
Total	<u>\$ 4,476,474</u>	<u>\$ 1,076,479</u>	<u>\$ 5,552,953</u>	<u>\$ 1,084,889</u>	<u>\$ 6,637,842</u>	<u>\$ 5,576,869</u>

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INDEPENDENT AUDITORS' 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
EXPLORE EXCEL 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 Explore Excel Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

TO THE BOARD OF TRUSTEES OF
EXPLORE EXCEL CHARTER SCHOOL

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain matter that was reported to the management of the School in a separate letter dated October 5, 2015.

Purpose of this Report

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


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 5, 2015

EXPLORE EXCEL CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2015

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October 5, 2015

Audit Committee of the Board of Trustees
Explore Excel Charter School

In planning and performing our audit of the financial statements of Explore Excel Charter School (the "School") as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Exhibit I accompanying this letter summarizes corrective action not taken on prior year observation for the year ended June 30, 2015. We determined that this observation did not constitute a significant deficiency or material weakness. Management's response to this observation has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Charter School Institute of the State University of New York, The State Education Department of the State University of New York, and others within the School and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate your cooperation and the assistance we received during the course of our audit.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 5, 2015

EXPLORE EXCEL CHARTER SCHOOL
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EXHIBIT I – CORRECTIVE ACTION NOT TAKEN ON PRIOR YEAR OBSERVATION

In conjunction with performing the audit of the Organization’s financial statements for the year ended June 30, 2015, we followed up on the status of implementation of audit recommendations made during the year ended June 30, 2014.

A. APPROVAL OF DEBIT CARD PURCHASES

Observation

Even though the majority of debit card purchases tested were adequately supported by receipts, invoices, and other documentation, we noted that many of the purchase request forms were signed after the purchase date. The School explained that the requests are often made for repeat purchases and that the approvals are made verbally, with the signing of the purchase request form taking place later as part of a batch signing of various documents.

Recommendation

We recommend that in circumstances where the School cannot obtain a written approval prior to a purchase, that the School obtain approvals by e-mail rather than verbally so as to retain a record of the authorization that would evidence the actual timing of approval.

Current Year Status

During our 2015 audit, we noted that the School improved with obtaining proper approvals prior to debit card purchases, but remains a significant amount of purchases where approval was obtained after the purchase date.

Updated Management’s Response

The management team of Excel will conduct a comprehensive finance training with all individuals involved in the procurement process to ensure they understand the fiscal policies and procedures related to credit card purchases. The training will aim to realign staff members with internal controls objectives and procedures by reviewing realistic examples and bridging gaps in policy understanding and application.

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October 5, 2015

To the Audit Committee of the Board of Trustees of
Explore Excel Charter School

We have audited the financial statements of Explore Excel Charter School (the "School") for the year ended June 30, 2015, and have issued our report thereon dated October 5, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 16, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of Explore Excel Charter School. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Explore Excel Charter School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed our audit according to the plan previously communicated to you prior to commencement of our audit field work.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Explore Excel Charter School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are as follows:

- Collectability of grants and contracts receivables
- Useful lives of fixed assets
- Allocation of costs for the schedule of functional expenses

We evaluated the key factors and assumptions used to develop the above estimates in determining that it was reasonable in relation to the financial statement taken as a whole. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. In addition, we are required to communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditors' report, and request their correction. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Audit Committee, the Board of Trustees and management of Explore Excel Charter School and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants