

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for 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.

Report on Summarized Comparative Information

We have previously audited the Charter School of Educational Excellence's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 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 Charter School of Educational Excellence'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 Charter School of Educational Excellence's internal control over financial reporting and compliance.



New City, New York

October 27, 2017

Charter School of Educational Excellence
Notes to the Financial Statements
June 30, 2017

Note 6 - RESTRICTED ESCROW

Pursuant to the Charter Agreement, the School is required to establish an escrow of at least \$75,000 over a 3 year period. In the event of termination of the charter, whether prematurely or otherwise, the School shall establish and follow procedures consistent with those required by Section 2851(2)(t) of the New York State Education Law in its use of the escrow. The balance as of June 30, 2017, is \$76,351.

NOTE 7 – RETIREMENT PLANS

Retirement Savings Plan

The School offers a 401(k) plan (the "Plan") for substantially all of its employees. Employees are eligible for the plan immediately upon employment and participation in the Plan is voluntary. Employees may contribute up to 15% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The School matches the employee contribution 100% up to 4% of the employee's total annual compensation. The School's contribution recognized in the statement of activities was \$12,155 for 2017. The Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries. The Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries. The Principal Financial Group administers the plan and is the acting custodian of the plan assets.

New York State Teachers' Retirement System

Employees of the School are eligible to participate in the New York State Teachers' Retirement System (NYSTRS). The NYSTRS is a defined benefit plan covering teachers in New York State, with pensions calculated based primarily on the member's years of service and final average salary. Contributions for the year ended June 30, 2016, was based on 13.26%, of participant salaries. The benefits provided to members of the plan are established by New York State Law and may be amended only by the State Legislature. Pension expense was \$412,842 for the year ended June 30, 2017.

NOTE 8 – LINE OF CREDIT

The School has secured a revolving line of credit from a financial institution in the amount of \$350,000. The interest rate is the financial institution's index rate plus 1% (4.250% as of June 30, 2014). There is no balance due as of June 30, 2017.

NOTE 9 – LOAN PAYABLE

In July 2007, the School converted the management fee payable, loan payable and the accrued interest to a term loan with Victory Schools, Inc. The loan was for \$1,493,186 and had a term of 120 months, with interest payable monthly at 7.5% per annum and matures on June 2019.

On December 22, 2015, The School paid off it's indebtedness with Victory Schools, Inc. taking advantage of an early termination incentive, resulting in the forgiveness of \$172,248 of the outstanding balance of \$701,478.

NOTE 10 – BONDS PAYABLE

On November 1, 2010, The Yonkers Economic Development Corporation provided financing through the issuance of \$11,735,000 Tax-Exempt Educational Revenue Bonds (Charter School of Educational Excellence Project) (the "Series 2010A Bonds"). The Series 2010A Bonds of \$4,940,000 bear interest at 6.00% per annum and principal due at maturity on October 15, 2030. The balance of the Series 2010A Bonds of \$6,795,000, bear interest at 6.25% per annum and principal due at maturity on October 15, 2040.

Charter School of Educational Excellence
Notes to the Financial Statements
June 30, 2017

NOTE 10 – BONDS PAYABLE (continued)

On November 1, 2010, The Yonkers Economic Development Corporation provided financing through the issuance of \$710,000 in Taxable Educational Revenue Bonds (Charter School of Educational Excellence Project (the "Series 2010B Bonds"), bearing interest rate at 8.00% per annum. The remaining principal balance was paid off on October 17, 2016.

The proceeds of the Series 2010 bonds are to be used for the following purposes:

- 1) the construction of educational facilities.
- 2) paying certain prior indebtedness (NCB Capital Impact Loans I and II)
- 3) paying certain capital expenditures and capitalized interest during construction.
- 4) paying Series 2010 Bond issuance costs.
- 5) fund of a Bond Fund Deposit and Reserve Fund Deposit.

Bond issuance costs, net of accumulated amortization, of \$188,239 as of June 30, 2017, are amortized using the straight-line method.

Bonds Payable	\$ 10,869,733
Less: Unamortized Bond Issuance Costs	<u>665,267</u>
Bonds Payable, Less Bond Issuance Costs	10,204,466
Less: Current Portion of Bonds Payable	<u>225,000</u>
Bond Payable, Less Current Portion	<u><u>\$ 9,979,466</u></u>

Aggregate annual maturities of the bonds payable for each of the next five years following June 30, 2017 are expected to be as follows:

Year Ending June 30,	Amount
2018	\$ 225,000
2019	240,000
2020	255,000
2021	270,000
2022	285,000
Thereafter	<u>9,594,733</u>
	<u><u>\$ 10,869,733</u></u>

NOTE 11 – COMMITMENTS

Occupancy Lease

The School operating leases for the original leased premises and the lease amendment for additional space in the elementary school building had an expiration date of June 30, 2024, which expiration date was changed to September 1, 2051, by the ground lease executed to enable the financing of the middle school development. The term of the annex operating lease does expire in June of 2018, but that expiration date can be extended through June 30, 2051 by the exercise of lease renewal rights.

Year Ending June 30,	Amount
2018	\$ 441,032
2019	<u>370,388</u>
	<u><u>\$ 811,420</u></u>

Charter School of Educational Excellence
Notes to the Financial Statements
June 30, 2017

NOTE 12 – CONTINGENCY

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

NOTE 13 – CONCENTRATIONS

Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at major financial institutions which, at times may exceed the Federal Deposit Insurance Corporation insured limit of \$250,000 and Due from Government Agencies. Management believes that there is little risk in any losses and has not experienced any losses in such accounts. Management also believes that credit risk with respect to Due from Government Agencies is limited since the amounts are due from government programs.

The School is dependent on various government agencies for funding, and is responsible for meeting the requirements of such agencies. If the school was to lose students or the related government funding, it could have a substantial effect on its ability to continue operations.

NOTE 14 – SUBSEQUENT EVENTS

The 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 or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 27, 2017, for these financial statements. Other than the following matter, the School concluded that no additional disclosures are required.

On September 19, 2017, the School acquired the property located at 220-236 Warburton Avenue and 76 Locust Hill in Yonkers, New York. The properties were acquired for school use and will be used for existing grades K through 8 or for students in Grades 9 through 12, if the New York State Board of Regents approves a charter revision. The total purchase price for both properties is \$3.2 million.

Supplemental Information

Charter School of Educational Excellence
Schedule of Functional Expenses
For the year ended June 30, 2017
(With summarized comparative information for the year ended June 30, 2016)

	<u>Regular Education</u>	<u>Special Education</u>	<u>Total Programs</u>	<u>Support Services</u>	<u>2017</u>	<u>2016</u>
Personnel Service Costs						
Administrative Staff Personnel	\$ 1,046,010	\$ -	\$ 1,046,010	\$ -	\$ 1,046,010	\$ 913,209
Instructional Personnel	2,821,719	123,221	2,944,940	-	2,944,940	3,284,651
Non-Instructional Personnel	-	-	-	300,497	300,497	271,002
Total Personnel Costs	<u>3,867,729</u>	<u>123,221</u>	<u>3,990,950</u>	<u>300,497</u>	<u>4,291,447</u>	<u>4,468,862</u>
Fringe Benefits	624,047	19,881	643,928	48,484	692,412	600,425
Payroll Taxes	339,567	10,818	350,385	26,382	376,767	379,420
Retirement Benefits	383,035	12,203	395,238	29,759	424,997	436,971
Total Personnel and Related Expenses	<u>5,214,378</u>	<u>166,123</u>	<u>5,380,501</u>	<u>405,122</u>	<u>5,785,623</u>	<u>5,885,678</u>
<u>Operating Expenses</u>						
Contracted Financial and Administrative Services	-	-	-	310,000	310,000	397,000
Legal	-	-	-	14,867	14,867	12,235
Consultants	40,538	1,291	41,829	3,150	44,979	74,653
Student Services	423,943	13,506	437,449	32,938	470,387	457,426
Insurance	80,566	2,567	83,133	122,484	205,617	191,203
Supplies and Materials	150,265	4,787	155,052	11,675	166,727	158,290
Technology	52,617	1,676	54,293	4,088	58,381	93,860
Occupancy	433,138	13,799	446,937	33,652	480,589	481,325
Utilities	117,701	3,750	121,451	9,145	130,596	129,879
Staff Development	100,890	3,214	104,104	7,839	111,943	205,874
Marketing and Recruitment	7,132	227	7,359	554	7,913	9,995
Auditing Fees	-	-	-	22,000	22,000	20,000
Office Expenses	52,210	1,663	53,873	4,056	57,929	66,188
Maintenance and Repairs	466,642	14,867	481,509	36,255	517,764	524,565
Equipment and Furnishings	188,909	6,018	194,927	14,677	209,604	177,225
Transportation	157,902	5,031	162,933	12,268	175,201	157,830
Interest Expense Associated with Bond Cost	25,641	817	26,458	1,992	28,450	28,528
Depreciation	878,775	27,997	906,772	68,275	975,047	942,011
Interest Expense	642,440	20,467	662,907	49,913	712,820	721,888
Bad Debt Expense	-	-	-	52,652	52,652	-
Other Expenses	134,318	4,279	138,597	10,438	149,035	131,141
Total Operating Expenses	<u>3,953,627</u>	<u>125,956</u>	<u>4,079,583</u>	<u>822,918</u>	<u>4,902,501</u>	<u>4,981,116</u>
TOTAL EXPENSES	<u>\$ 9,168,005</u>	<u>\$ 292,079</u>	<u>\$ 9,460,084</u>	<u>\$ 1,228,040</u>	<u>\$ 10,688,124</u>	<u>\$ 10,866,794</u>

Charter School of Educational Excellence
Schedule of Expenditures of Federal Awards
and Accompanying Notes
For the year ended June 30, 2017

Charter School of Educational Excellence
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF EDUCATION		
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES Pass - Through from the New York State Education Department	84.010	\$ 249,865
CHARTER SCHOOLS Pass - Through from the New York State Education Department	84.282	21,648
ENGLISH LANGUAGE ACQUISITION STATE GRANTS Pass - Through from the New York State Education Department	84.365	20,034
IMPROVING TEACHER QUALITY STATE GRANTS Pass - Through from the New York State Education Department	84.367	7,500
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>299,047</u>
U.S. DEPARTMENT OF AGRICULTURE (USDA)		
SCHOOL BREAKFAST PROGRAM Pass - Through from the New York State Education Department	10.553	128,864
NATIONAL SCHOOL LUNCH PROGRAM Pass - Through from the New York State Education Department	10.555	398,112
TOTAL U.S. DEPARTMENT OF AGRICULTURE (USDA)		<u>526,976</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 826,023</u></u>

Charter School of Educational Excellence
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Charter School of Educational Excellence, under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Charter School of Educational Excellence, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 – INDIRECT COST RATE

Charter School of Educational Excellence has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**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
Charter School of Educational Excellence
Yonkers, New York

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 Charter School of Educational Excellence (a nonprofit organization) which comprise the statement of financial position as of June 30, 2017 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 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Charter School of Educational Excellence'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 Charter School of Educational Excellence's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Charter School of Educational Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vargas & Rivera, LLP

New City, New York

October 27, 2017



**Independent Auditors' Report on Compliance For Each Major
Program and on Internal Control Over
Compliance Required by Uniform Guidance**

To the Board of Trustees of
Charter School of Educational Excellence
Yonkers, New York

Report on Compliance for Each Major Federal Program

We have audited Charter School of Educational Excellence's compliance with the types of compliance requirements described in the Uniform Guidance Compliance Supplement that could have a direct and material effect on each of Charter School of Educational Excellence's major federal programs for the year ended June 30, 2017. Charter School of Educational Excellence's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Charter School of Educational Excellence's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Charter School of Educational Excellence's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Charter School of Educational Excellence's compliance.

Opinion on Each Major Federal Program

In our opinion, Charter School of Educational Excellence complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Charter School of Educational Excellence is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Charter School of Educational Excellence's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Charter School of Educational Excellence's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Vargas & Rivera, LLP". The signature is written in a cursive style with a stylized ampersand.

New City, New York

October 27, 2017

Charter School of Educational Excellence
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported	
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported	

Type of auditor's report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Identification of major programs:

CFDA Number Name of Federal Program or Cluster:

10.553	School Breakfast Program
10.555	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	Yes
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Section II - Financial Statement Findings

The audit revealed no findings nor questioned costs.

Section III - Federal Award Findings and Questioned Costs

The audit revealed no findings nor questioned costs.