

Explore Charter Schools of Brooklyn

Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2018 and 2017

Explore Charter Schools of Brooklyn

Financial Statements and Uniform Guidance Schedules Together With Independent Auditors' Reports

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TABLE OF CONTENTS	Page
Independent Auditors' Report	
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION	
Schedule of Financial Position by School	14
Schedule of Activities by School	15
Schedule of Functional Expenses – Explore Charter School	16
Schedule of Functional Expenses – Explore Empower Charter School	17
Schedule of Functional Expenses – Explore Excel Charter School	18
Schedule of Functional Expenses – Explore Exceed Charter School	19
UNIFORM GUIDANCE REPORTS AND SCHEDULES	
Schedule of Expenditures of Federal Awards	20
Notes to Schedule of Expenditures of Federal Awards	21
Report 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>	
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	
Schedule of Findings and Questioned Costs	26

Independent Auditors' Report

Board of Trustees
Explore Charter Schools of Brooklyn

Report on the Financial Statements

We have audited the accompanying financial statements of Explore Charter Schools of Brooklyn (the "School"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, 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.

Auditors' 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of financial position, activities, and functional expenses by school as of and for the year ended June 30, 2018 on pages 14 through 19 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 20 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018 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 solely 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 effectiveness of the School's 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.

PKF O'Connor Davies, LLP

Explore Charter Schools of Brooklyn

Statements of Financial Position

	June 30,	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,757,478	\$ 12,879,348
Grants and contracts receivable	941,317	1,829,997
Prepaid expenses and other current assets	282,226	164,847
Total Current Assets	14,981,021	14,874,192
Property and equipment, net	1,996,219	1,696,845
Restricted cash	300,490	291,080
	\$ 17,277,730	\$ 16,862,117
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 921,476	\$ 783,526
Accrued payroll and payroll taxes	2,427,637	2,407,461
Refundable advances	110,015	60,204
Due to related party	103,555	66,183
Total Liabilities	3,562,683	3,317,374
Net Assets, Unrestricted		
Undesignated	10,215,047	10,044,743
Board-designated	3,500,000	3,500,000
Total Net Assets, Unrestricted	13,715,047	13,544,743
	\$ 17,277,730	\$ 16,862,117

See notes to financial statements

Explore Charter Schools of Brooklyn

Statements of Activities

	Year Ended June 30,	
	2018	2017
OPERATING REVENUE		
State and local per pupil operating revenue		
General education	\$ 30,504,638	\$ 29,323,776
Special education	5,017,039	4,257,517
Federal grants	891,339	931,920
E-Rate and IDEA	551,495	558,095
State grants	147,939	166,226
Total Operating Revenue	37,112,450	35,237,534
EXPENSES		
Program Services		
Regular education	21,918,686	20,119,741
Special education	8,976,285	7,747,708
Total Program Services	30,894,971	27,867,449
Supporting Services		
Management and general	6,067,191	5,570,252
Total Expenses	36,962,162	33,437,701
Surplus from Operations	150,288	1,799,833
SUPPORT AND OTHER REVENUE		
Contributions	3,187	27,104
Interest and other revenue	16,829	1,398
Total Support and Other Revenue	20,016	28,502
Change in Net Assets	170,304	1,828,335
NET ASSETS, UNRESTRICTED		
Beginning of year	13,544,743	11,716,408
End of year	\$ 13,715,047	\$ 13,544,743

See notes to financial statements

Explore Charter Schools of Brooklyn

Statement of Functional Expenses

Year Ended June 30, 2018

(with summarized totals for the year ended June 30, 2017)

	No. of Positions	2018			2017		
		Program Sources		Total	Management and	Total	
		Regular Education	Special Education		General		
Personnel Services Costs							
Administrative staff personnel	86	\$ 3,809,752	\$ 1,796,208	\$ 5,605,960	\$ 857,005	\$ 6,462,965	\$ 6,253,216
Instructional personnel	223	<u>8,859,715</u>	<u>4,171,843</u>	<u>13,031,558</u>	<u>1,986,687</u>	<u>15,018,245</u>	<u>13,444,913</u>
Total Salaries and Staff	309	12,669,467	5,968,051	18,637,518	2,843,692	21,481,210	19,698,129
Fringe benefits and payroll taxes		2,884,201	1,360,503	4,244,704	648,287	4,892,991	4,564,957
Retirement		95,635	44,072	139,707	21,041	160,748	171,640
Management company fees		1,875,054	466,918	2,341,972	1,228,748	3,570,720	3,414,567
Legal services		-	-	-	2,160	2,160	27,203
Accounting / audit services		-	-	-	69,697	69,697	58,563
Other purchased / professional / consulting services		954,342	307,419	1,261,761	391,193	1,652,954	1,196,267
Repairs and maintenance		35,771	8,442	44,213	7,802	52,015	79,213
Insurance		116,342	29,256	145,598	25,693	171,291	161,799
Utilities		183,756	46,148	229,904	40,571	270,475	260,677
Supplies / materials		670,042	163,698	833,740	-	833,740	871,976
Equipment / furnishings		127,620	25,076	152,696	26,946	179,642	141,887
Staff development		310,273	79,911	390,184	79,596	469,780	358,659
Marketing / recruitment		81,770	20,765	102,535	87,600	190,135	183,138
Technology		923,489	231,457	1,154,946	203,813	1,358,759	705,062
Food service		36,335	8,940	45,275	-	45,275	85,134
Student services		333,528	83,649	417,177	-	417,177	362,638
Office expense		178,700	19,855	198,555	198,557	397,112	421,239
Depreciation and amortization		40,471	9,783	50,254	102,814	153,068	484,788
Loss on disposal of property and equipment		284,828	74,091	358,919	63,338	422,257	6,370
Other		<u>117,062</u>	<u>28,251</u>	<u>145,313</u>	<u>25,643</u>	<u>170,956</u>	<u>183,795</u>
Total Expenses		<u>\$ 21,918,686</u>	<u>\$ 8,976,285</u>	<u>\$ 30,894,971</u>	<u>\$ 6,067,191</u>	<u>\$ 36,962,162</u>	<u>\$ 33,437,701</u>

See notes to financial statements

Explore Charter Schools of Brooklyn

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 170,304	\$ 1,828,335
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	153,068	484,788
Loss on disposal of property and equipment	422,257	6,370
Changes in operating assets and liabilities		
Grants and contracts receivable	888,680	(906,206)
Prepaid expenses and other current assets	(117,379)	97,265
Accounts payable and accrued expenses	137,950	(215,715)
Accrued payroll and payroll taxes	20,176	402,845
Refundable advances	49,811	(10,101)
Due to related party	37,372	(1,113,855)
Net Cash from Operating Activities	1,762,239	573,726
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(874,699)	(537,688)
Restricted cash	(9,410)	(138)
Net Cash from Investing Activities	(884,109)	(537,826)
 Net Change in Cash and Cash Equivalents	878,130	35,900
 CASH AND CASH EQUIVALENTS		
Beginning of year	12,879,348	12,843,448
End of year	\$ 13,757,478	\$ 12,879,348

See notes to financial statements

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status

Explore Charter Schools of Brooklyn (the "School") is a New York State, not-for-profit educational corporation that operates charter schools in the borough of Brooklyn, New York. The School's mission is to provide its students with the academic skills and critical thinking abilities they need to succeed in a college preparatory high school.

The accompanying financial statements include the following charter schools collectively forming the School:

Explore Charter School ("Explore") - The School was granted a provisional charter on June 12, 2001, 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. Explore obtained a renewal to its charter expiring on July 31, 2019.

Explore Empower Charter School ("Empower") - The School was granted a provisional charter on December 16, 2008, 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. Empower obtained a renewal to its charter expiring on July 31, 2020.

Explore Excel Charter School ("Excel") - 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. Excel obtained a renewal to its charter expiring on July 31, 2019.

Explore Exceed Charter School ("Exceed") - The School was granted a provisional charter on September 13, 2011, 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. Exceed obtained a renewal to its charter expiring on July 31, 2020.

The School holds two additional approved charters, Explore Envision Charter School ("Envision") and Explore Enrich Charter School ("Enrich") which are planned to open at a future undetermined date. Envision and Enrich charters will expire July 31, 2020.

On November 14, 2013, the Board of Trustees for each charter school approved a plan of merger of Explore, Empower, Excel, Exceed, Envision, and Enrich. On February 10, 2015, 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. Effective July 1, 2015, Explore, Empower, Exceed, Envision, and Enrich merged into Excel, which serves as the sole surviving education corporation. Excel changed its name to Explore Charter Schools of Brooklyn and all other schools ceased to exist as legal entities.

The School provided education to approximately 2,048 students in grades kindergarten through eighth grade during the 2017-2018 academic year.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status (*continued*)

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.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees. Board designated net assets were established by the Board of Trustees to provide a cash and cash equivalents reserve for unforeseen facility, personnel, and other issues.

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies *(continued)*

Net Assets Presentation (continued)

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2018 and 2017.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

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.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$5,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset which is thirty three and a half years. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case it is expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Furniture and fixtures	5 years
Computers and equipment	3 years
Software	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2018 and 2017.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (*continued*)

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time it is recognized as revenue.

Revenue and Support

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.

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 at the date of donation.

Marketing and Recruiting Costs

The School uses marketing and recruitment specifically aimed at hiring staff and obtaining new students. Accordingly, all costs in marketing and recruiting were allocated to program and management and general expenditures and expensed as incurred. For the years ended June 30, 2018 and 2017 marketing and recruiting costs totaled \$190,135 and \$183,138.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (*continued*)

Prior Year Summarized Comparative Financial Information

The statement of functional expenses includes prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's statement of functional expenses for the year ended June 30, 2017, from which the summarized information was derived.

Reclassification

Certain accounts in the 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 16, 2018.

3. 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.

4. Related Party Transactions (not disclosed elsewhere)

The School is affiliated with Explore Schools, Inc., ("ESI"), a 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 affiliated with ESI through common management.

The School entered into a management agreement with ESI through June 30, 2016 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 of Trustees 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. Management fee expense for the years ended June 30, 2018 and 2017 was \$3,570,720 and \$3,414,567.

For operational efficiency and purchasing power, the School shares certain expenses with ESI. Net shared operational expenses consisting primarily of medical benefits, charged to the School for the years ended June 30, 2018 and 2017 was \$1,983,653 and \$1,299,957. The net balance due to ESI at June 30, 2018 and 2017 was \$103,555 and \$66,183.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2018 and 2017

5. Property and Equipment

Property and equipment consists of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 886,715	\$ 2,675,134
Furniture and fixtures	94,080	486,490
Software	6,398	51,537
Library books	-	10,995
Leasehold improvements	<u>2,006,153</u>	<u>1,154,052</u>
	2,993,346	4,378,208
Accumulated depreciation and amortization	<u>(997,127)</u>	<u>(2,681,363)</u>
	<u>\$ 1,996,219</u>	<u>\$ 1,696,845</u>

For the years ended June 30, 2018 and 2017, the School had a loss on disposal of property and equipment in the amount of \$422,257 and \$6,370.

6. Employee Benefit 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 employees' salary for the years ended June 30, 2018 and 2017. The total employer contribution did not exceed 5% of the employees' salary. Retirement expense incurred by the School for the years ended June 30, 2018 and 2017 amounted to \$160,748 and \$171,640.

7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. For the years ended June 30, 2018 and 2017, approximately \$13,808,000 and \$12,920,000 of cash was maintained with an institution in excess of FDIC limits.

8. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2018 and 2017, the School received approximately 96% and 95% of its revenue and support 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.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2018 and 2017

9. School Facilities

The School has an agreement with the New York City Department of Education (“NYCDOE”) to share public school open space at no annual cost. The School’s management does not anticipate this agreement will be terminated in the near future. The School is not responsible for rent, utilities, custodial services, maintenance, and school safety services other than those required for days and times when traditional NYCDOE schools are not in service. The School was unable to determine a value for the contributed space and related services and did not record any value for use of donated facilities or services.

10. Contingency

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

Explore Charter Schools of Brooklyn

Supplementary Information

June 30, 2018

Explore Charter Schools of Brooklyn

Schedule of Financial Position by School
June 30, 2018

	<u>Explore</u>	<u>Empower</u>	<u>Excel</u>	<u>Exceed</u>	<u>Total</u>
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 4,564,442	\$ 4,927,341	\$ 2,295,204	\$ 1,970,491	\$ 13,757,478
Grants and contracts receivable	197,886	239,695	240,921	262,815	941,317
Due from/(to) related charter schools	2,950	(246)	282	(2,986)	-
Prepaid expenses and other current assets	<u>95,298</u>	<u>122,670</u>	<u>53,512</u>	<u>10,746</u>	<u>282,226</u>
Total Current Assets	4,860,576	5,289,460	2,589,919	2,241,066	14,981,021
Property and equipment, net	295,040	502,181	920,212	278,786	1,996,219
Restricted cash	<u>70,358</u>	<u>79,317</u>	<u>75,595</u>	<u>75,220</u>	<u>300,490</u>
	<u>\$ 5,225,974</u>	<u>\$ 5,870,958</u>	<u>\$ 3,585,726</u>	<u>\$ 2,595,072</u>	<u>\$ 17,277,730</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable and accrued expenses	\$ 325,190	\$ 261,558	\$ 198,544	\$ 136,184	\$ 921,476
Accrued payroll and payroll taxes	571,397	612,637	641,568	602,035	2,427,637
Refundable advances	51,728	26,058	22,400	9,829	110,015
Due to related party	<u>45,369</u>	<u>15,094</u>	<u>13,403</u>	<u>29,689</u>	<u>103,555</u>
Total Liabilities	<u>993,684</u>	<u>915,347</u>	<u>875,915</u>	<u>777,737</u>	<u>3,562,683</u>
Net Assets, Unrestricted					
Undesignated	3,092,290	3,455,611	2,059,811	1,607,335	10,215,047
Board-designated	<u>1,140,000</u>	<u>1,500,000</u>	<u>650,000</u>	<u>210,000</u>	<u>3,500,000</u>
Total Net Assets, Unrestricted	<u>4,232,290</u>	<u>4,955,611</u>	<u>2,709,811</u>	<u>1,817,335</u>	<u>13,715,047</u>
	<u>\$ 5,225,974</u>	<u>\$ 5,870,958</u>	<u>\$ 3,585,726</u>	<u>\$ 2,595,072</u>	<u>\$ 17,277,730</u>

See independent auditors' report

Explore Charter Schools of Brooklyn

Schedule of Activities by School Year Ended June 30, 2018

	<u>Explore</u>	<u>Empower</u>	<u>Excel</u>	<u>Exceed</u>	<u>Total</u>
OPERATING REVENUE					
State and local per pupil operating revenue					
General education	\$ 7,843,917	\$ 7,523,309	\$ 7,879,787	\$ 7,257,625	\$ 30,504,638
Special education	914,090	1,339,867	1,278,309	1,484,773	5,017,039
Federal grants	230,718	307,359	215,848	137,414	891,339
E-Rate and IDEA	72,389	128,126	169,004	181,976	551,495
State grants	<u>27,386</u>	<u>39,416</u>	<u>40,484</u>	<u>40,653</u>	<u>147,939</u>
Total Operating Revenue	<u>9,088,500</u>	<u>9,338,077</u>	<u>9,583,432</u>	<u>9,102,441</u>	<u>37,112,450</u>
EXPENSES					
Program Services					
Regular education	5,639,296	5,294,379	5,631,009	5,354,002	21,918,686
Special education	<u>1,808,650</u>	<u>2,350,138</u>	<u>2,420,907</u>	<u>2,396,590</u>	<u>8,976,285</u>
Total Program Services	7,447,946	7,644,517	8,051,916	7,750,592	30,894,971
Supporting Services					
Management and general	<u>1,400,132</u>	<u>1,448,061</u>	<u>1,624,344</u>	<u>1,594,654</u>	<u>6,067,191</u>
Total Expenses	<u>8,848,078</u>	<u>9,092,578</u>	<u>9,676,260</u>	<u>9,345,246</u>	<u>36,962,162</u>
Surplus from Operations	<u>240,422</u>	<u>245,499</u>	<u>(92,828)</u>	<u>(242,805)</u>	<u>150,288</u>
SUPPORT AND OTHER REVENUE					
Contributions	1,087	245	1,532	323	3,187
Interest and other revenue	<u>695</u>	<u>15,284</u>	<u>560</u>	<u>290</u>	<u>16,829</u>
Total Support and Other Revenue	<u>1,782</u>	<u>15,529</u>	<u>2,092</u>	<u>613</u>	<u>20,016</u>
Change in Net Assets	242,204	261,028	(90,736)	(242,192)	170,304
NET ASSETS UNRESTRICTED					
Beginning of year	<u>3,990,086</u>	<u>4,694,583</u>	<u>2,800,547</u>	<u>2,059,527</u>	<u>13,544,743</u>
End of year	<u>\$ 4,232,290</u>	<u>\$ 4,955,611</u>	<u>\$ 2,709,811</u>	<u>\$ 1,817,335</u>	<u>\$ 13,715,047</u>

See independent auditors' report

Explore Charter School

Schedule of Functional Expenses
Year Ended June 30, 2018

	No. of Positions	Program Sources			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	23	\$ 949,923	\$ 374,254	\$ 1,324,177	\$ 181,276	\$ 1,505,453
Instructional personnel	53	2,240,443	882,698	3,123,141	427,548	3,550,689
Total Salaries and Staff	76	3,190,366	1,256,952	4,447,318	608,824	5,056,142
Fringe benefits and payroll taxes		708,287	279,054	987,341	135,164	1,122,505
Retirement		33,511	13,203	46,714	6,395	53,109
Management company fees		517,714	84,752	602,466	316,092	918,558
Legal services		-	-	-	325	325
Accounting / audit services		-	-	-	23,875	23,875
Other purchased / professional / consulting services		243,134	21,845	264,979	99,956	364,935
Repairs and maintenance		8,300	1,359	9,659	1,704	11,363
Insurance		29,563	4,840	34,403	6,071	40,474
Utilities		46,919	7,681	54,600	9,635	64,235
Supplies / materials		203,069	33,243	236,312	-	236,312
Equipment / furnishings		93,944	15,379	109,323	19,292	128,615
Staff development		63,999	10,477	74,476	15,187	89,663
Marketing / recruitment		22,179	3,631	25,810	10,540	36,350
Technology		244,523	40,029	284,552	50,215	334,767
Food service		8,505	1,392	9,897	-	9,897
Student services		88,439	14,478	102,917	-	102,917
Office expense		39,324	4,369	43,693	43,695	87,388
Depreciation and amortization		15,386	2,519	17,905	36,295	54,200
Loss on disposal of property and equipment		44,392	7,267	51,659	9,116	60,775
Other		37,742	6,180	43,922	7,751	51,673
Total Expenses		\$ 5,639,296	\$ 1,808,650	\$ 7,447,946	\$ 1,400,132	\$ 8,848,078

See independent auditors' report

Explore Empower Charter School

Schedule of Functional Expenses
Year Ended June 30, 2018

	No. of Positions	Program Sources			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	21	\$ 916,899	\$ 444,939	\$ 1,361,838	\$ 194,889	\$ 1,556,727
Instructional personnel	55	2,251,083	1,092,372	3,343,455	478,474	3,821,929
Total Salaries and Staff	76	3,167,982	1,537,311	4,705,293	673,363	5,378,656
Fringe benefits and payroll taxes		724,943	351,790	1,076,733	154,089	1,230,822
Retirement		20,949	10,166	31,115	4,453	35,568
Management company fees		444,310	133,144	577,454	302,969	880,423
Legal services		-	-	-	455	455
Accounting / audit services		-	-	-	17,134	17,134
Other purchased / professional / consulting services		108,843	81,256	190,099	76,179	266,278
Repairs and maintenance		3,921	1,175	5,096	899	5,995
Insurance		28,159	8,438	36,597	6,458	43,055
Utilities		39,095	11,715	50,810	8,967	59,777
Supplies / materials		172,496	51,691	224,187	-	224,187
Equipment / furnishings		9,837	2,948	12,785	2,256	15,041
Staff development		87,978	26,364	114,342	14,359	128,701
Marketing / recruitment		19,794	5,932	25,726	27,600	53,326
Technology		203,998	61,131	265,129	46,787	311,916
Food service		4,947	1,482	6,429	-	6,429
Student services		104,586	31,341	135,927	-	135,927
Office expense		60,762	6,751	67,513	67,513	135,026
Depreciation and amortization		6,867	2,058	8,925	25,106	34,031
Loss on disposal of property and equipment		52,446	15,716	68,162	12,028	80,190
Other		32,466	9,729	42,195	7,446	49,641
Total Expenses		\$ 5,294,379	\$ 2,350,138	\$ 7,644,517	\$ 1,448,061	\$ 9,092,578

See independent auditors' report

Explore Excel Charter School

Schedule of Functional Expenses
Year Ended June 30, 2018

	No. of Positions	Program Sources			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	21	\$ 938,397	\$ 472,324	\$ 1,410,721	\$ 231,385	\$ 1,642,106
Instructional personnel	60	<u>2,327,702</u>	<u>1,171,604</u>	<u>3,499,306</u>	<u>573,953</u>	<u>4,073,259</u>
Total Salaries and Staff	81	3,266,099	1,643,928	4,910,027	805,338	5,715,365
Fringe benefits and payroll taxes		732,354	368,616	1,100,970	180,580	1,281,550
Retirement		18,006	9,063	27,069	4,440	31,509
Management company fees		488,672	116,364	605,036	317,441	922,477
Legal services		-	-	-	275	275
Accounting / audit services		-	-	-	10,063	10,063
Other purchased / professional / consulting services		213,669	70,624	284,293	96,126	380,419
Repairs and maintenance		19,519	4,648	24,167	4,265	28,432
Insurance		31,517	7,505	39,022	6,886	45,908
Utilities		51,069	12,161	63,230	11,158	74,388
Supplies / materials		178,458	42,495	220,953	-	220,953
Equipment / furnishings		9,442	2,248	11,690	2,063	13,753
Staff development		86,112	20,505	106,617	30,413	137,030
Marketing / recruitment		16,637	3,962	20,599	14,920	35,519
Technology		244,111	58,129	302,240	53,336	355,576
Food service		14,593	3,475	18,068	-	18,068
Student services		81,790	19,476	101,266	-	101,266
Office expense		38,627	4,292	42,919	42,919	85,838
Depreciation and amortization		6,567	1,564	8,131	14,894	23,025
Loss on disposal of property and equipment		102,827	24,485	127,312	22,467	149,779
Other		30,940	7,367	38,307	6,760	45,067
Total Expenses		<u>\$ 5,631,009</u>	<u>\$ 2,420,907</u>	<u>\$ 8,051,916</u>	<u>\$ 1,624,344</u>	<u>\$ 9,676,260</u>

See independent auditors' report

Explore Exceed Charter School

Schedule of Functional Expenses
Year Ended June 30, 2018

	No. of Positions	Program Sources			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	21	\$ 1,004,533	\$ 504,691	\$ 1,509,224	\$ 249,455	\$ 1,758,679
Instructional personnel	55	2,040,487	1,025,169	3,065,656	506,712	3,572,368
Total Salaries and Staff	<u>76</u>	<u>3,045,020</u>	<u>1,529,860</u>	<u>4,574,880</u>	<u>756,167</u>	<u>5,331,047</u>
Fringe benefits and payroll taxes		718,617	361,043	1,079,660	178,454	1,258,114
Retirement		23,169	11,640	34,809	5,753	40,562
Management company fees		424,358	132,658	557,016	292,246	849,262
Legal services		-	-	-	1,105	1,105
Accounting / audit services		-	-	-	18,625	18,625
Other purchased / professional / consulting services		388,696	133,694	522,390	118,932	641,322
Repairs and maintenance		4,031	1,260	5,291	934	6,225
Insurance		27,103	8,473	35,576	6,278	41,854
Utilities		46,673	14,591	61,264	10,811	72,075
Supplies / materials		116,019	36,269	152,288	-	152,288
Equipment / furnishings		14,397	4,501	18,898	3,335	22,233
Staff development		72,184	22,565	94,749	19,637	114,386
Marketing / recruitment		23,160	7,240	30,400	34,540	64,940
Technology		230,857	72,168	303,025	53,475	356,500
Food service		8,290	2,591	10,881	-	10,881
Student services		58,713	18,354	77,067	-	77,067
Office expense		39,987	4,443	44,430	44,430	88,860
Depreciation and amortization		11,651	3,642	15,293	26,519	41,812
Loss on disposal of property and equipment		85,163	26,623	111,786	19,727	131,513
Other		15,914	4,975	20,889	3,686	24,575
Total Expenses		<u>\$ 5,354,002</u>	<u>\$ 2,396,590</u>	<u>\$ 7,750,592</u>	<u>\$ 1,594,654</u>	<u>\$ 9,345,246</u>

See independent auditors' report

Explore Charter Schools of Brooklyn

Uniform Guidance
Reports and Schedules

June 30, 2018

Explore Charter Schools of Brooklyn

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
U.S. Department of Education				
Pass-Through the New York State				
Education Department:				
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021-18-4085	\$ -	\$ 164,051
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021-18-4575	-	224,893
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021-18-4845	-	142,323
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021-18-4275	-	68,247
			<u>-</u>	<u>599,514</u>
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-18-4085	-	66,667
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-18-4575	-	82,466
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-18-4845	-	73,525
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-18-4275	-	69,167
			<u>-</u>	<u>291,825</u>
Total U.S. Department of Education			<u>-</u>	<u>891,339</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 891,339</u>

See independent auditors' report and notes to the schedule of expenditures of federal awards

Explore Charter Schools of Brooklyn

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the 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"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The School has elected not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



**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***

Independent Auditors' Report

**Board of Trustees
Explore Charter Schools of Brooklyn**

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 Charter Schools of Brooklyn (the "School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expense and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2018.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

PKF O'Connor Davies, LLP

Harrison, New York
October 16, 2018



Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditors' Report

Board of Trustees Explore Charter Schools of Brooklyn

Report on Compliance for Each Major Federal Program

We have audited Explore Charter Schools of Brooklyn's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2018. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School'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 the School'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 the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School 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, 2018.

Report on Internal Control over Compliance

Management of the School 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 the School'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 the 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 the School'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 16, 2018

Explore Charter Schools of Brooklyn

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to the financial statements noted?

_____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes X no

Identification of major federal programs:

CFDA Number(s)

84.010

Name of Federal Program or Cluster

Title I Grants to Local Educational Agencies (LEAs)

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X yes _____ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2018.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior Year's Findings

There were no prior year audit findings.

Explore Charter Schools of Brooklyn

Independent Auditors' Report on Communication of
Internal Control Matters

June 30, 2018

Board of Trustees
Explore Charter Schools of Brooklyn

In planning and performing our audit of the financial statements of Explore Charter Schools of Brooklyn (the "School") as of and for the year ended June 30, 2018, 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 entity'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 deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

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 Organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the personnel of the School during the course of our audit.

PKF O'Connor Davies, LLP

Harrison, New York
October 16, 2018