

Explore Charter Schools of Brooklyn

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

June 30, 2017 and 2016

Explore Charter Schools of Brooklyn

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

June 30, 2017 and 2016

| TABLE OF CONTENTS | Page |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Independent Auditors' Report | |
| FINANCIAL STATEMENTS | |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Functional Expenses | 5 |
| Statement of Cash Flows | 6 |
| Notes to Financial Statements | 7 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Financial Position by School | 14 |
| Schedule of Activities by School | 15 |
| UNIFORM GUIDANCE REPORTS AND SCHEDULES | |
| Schedule of Expenditures of Federal Awards | 16 |
| Notes to Schedule of Expenditures of Federal Awards | 17 |
| 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 | 22-23 |

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 statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated October 26, 2016.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of financial position and activities by school as of and for the year ended June 30, 2017 on pages 14 and 15 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 16 as required by Title 2 U.S. *Code of Federal Regulations* 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017 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

Harrison, New York
October 18, 2017

Explore Charter Schools of Brooklyn

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

| | 2017 | 2016 |
|-------------------------------------------|---------------|---------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 12,879,348 | \$ 12,843,448 |
| Grants and contracts receivable | 1,829,997 | 923,791 |
| Prepaid expenses and other current assets | 164,847 | 262,112 |
| Total Current Assets | 14,874,192 | 14,029,351 |
| Property and equipment, net | 1,696,845 | 1,650,315 |
| Restricted cash | 291,080 | 290,942 |
| | \$ 16,862,117 | \$ 15,970,608 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 783,526 | \$ 999,241 |
| Accrued payroll and payroll taxes | 2,407,461 | 2,004,616 |
| Refundable advances | 60,204 | 70,305 |
| Due to related party | 66,183 | 1,180,038 |
| Total Current Liabilities | 3,317,374 | 4,254,200 |
| Net Assets, Unrestricted | | |
| Undesignated | 10,044,743 | 8,431,408 |
| Board-designated | 3,500,000 | 3,285,000 |
| Total Net Assets, Unrestricted | 13,544,743 | 11,716,408 |
| | \$ 16,862,117 | \$ 15,970,608 |

See notes to financial statements

Explore Charter Schools of Brooklyn

Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

| | 2017 | 2016 |
|---------------------------------------------|---------------|---------------|
| OPERATING REVENUE | | |
| State and local per pupil operating revenue | | |
| General education | \$ 29,323,776 | \$27,199,080 |
| Special education | 4,257,517 | 3,936,799 |
| Federal grants | 931,920 | 839,029 |
| E-Rate and IDEA | 558,095 | 637,120 |
| State and city grants | 166,226 | 146,509 |
| Total Operating Revenue | 35,237,534 | 32,758,537 |
| EXPENSES | | |
| Program Services | | |
| Regular education | 20,119,741 | 18,452,967 |
| Special education | 7,747,708 | 7,181,071 |
| Total Program Services | 27,867,449 | 25,634,038 |
| Supporting Services | | |
| Management and general | 5,570,252 | 5,072,207 |
| Total Expenses | 33,437,701 | 30,706,245 |
| Surplus from Operations | 1,799,833 | 2,052,292 |
| SUPPORT AND OTHER REVENUE | | |
| Contributions | 27,104 | 29,538 |
| Interest and other revenue | 1,398 | 1,363 |
| Total Support and Other Revenue | 28,502 | 30,901 |
| Change in Net Assets | 1,828,335 | 2,083,193 |
| NET ASSETS, UNRESTRICTED | | |
| Beginning of year | 11,716,408 | 9,633,215 |
| End of year | \$ 13,544,743 | \$ 11,716,408 |

See notes to financial statements

Explore Charter Schools of Brooklyn

Statement of Functional Expenses
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

| | 2017 | | | 2016 | | |
|----------------------------------------------|----------------------|----------------------|----------------------|------------------------------|----------------------|----------------------|
| | Program Sources | | Total | Management and General | Total | Total |
| | Regular Education | Special Education | | Total | | |
| Salaries | \$ 11,967,671 | \$ 5,083,273 | \$ 17,050,944 | \$ 2,647,185 | \$ 19,698,129 | \$ 17,747,516 |
| Payroll taxes and employee benefits | 2,879,093 | 1,221,539 | 4,100,632 | 635,965 | 4,736,597 | 4,203,006 |
| Management fees | 1,814,899 | 424,656 | 2,239,555 | 1,175,012 | 3,414,567 | 3,213,706 |
| Audit and accounting | - | - | - | 58,563 | 58,563 | 102,241 |
| Advertising and recruiting | 61,841 | 16,544 | 78,385 | 104,753 | 183,138 | 142,828 |
| Outside services | 613,328 | 356,805 | 970,133 | 226,134 | 1,196,267 | 1,032,185 |
| Conferences, meetings, and staff development | 267,290 | 61,763 | 329,053 | 191,386 | 520,439 | 390,859 |
| Curriculum and classroom | 746,819 | 176,267 | 923,086 | - | 923,086 | 1,141,624 |
| Student food service | 68,880 | 16,254 | 85,134 | - | 85,134 | 94,775 |
| Student and family services | 251,838 | 59,690 | 311,528 | - | 311,528 | 231,677 |
| Insurance | 111,355 | 26,174 | 137,529 | 24,270 | 161,799 | 157,763 |
| Legal | - | - | - | 27,203 | 27,203 | 825 |
| Postage and copying | 31,382 | 7,404 | 38,786 | 6,844 | 45,630 | 64,458 |
| Office supplies | 112,900 | 12,543 | 125,443 | 125,441 | 250,884 | 270,304 |
| Telephone, technology, and communications | 661,954 | 158,924 | 820,878 | 144,861 | 965,739 | 1,003,913 |
| Non-capitalized equipment and furniture | 189,066 | 42,808 | 231,874 | 40,919 | 272,793 | 315,420 |
| Depreciation and amortization | 273,141 | 65,143 | 338,284 | 146,504 | 484,788 | 526,003 |
| Loss on disposal of property and equipment | 4,305 | 1,110 | 5,415 | 955 | 6,370 | 6,264 |
| Miscellaneous | 63,979 | 16,811 | 80,790 | 14,257 | 95,047 | 60,878 |
| Total Expenses | \$ 20,119,741 | \$ 7,747,708 | \$ 27,867,449 | \$ 5,570,252 | \$ 33,437,701 | \$ 30,706,245 |

See notes to financial statements

Explore Charter Schools of Brooklyn

Statement of Cash Flows
Year Ended June 30, 2017
(with summarized amounts for the year ended June 30, 2016)

| | 2017 | 2016 |
|----------------------------------------------------------------------------------------|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,828,335 | \$ 2,083,193 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation and amortization | 484,788 | 526,003 |
| Loss on disposal of property and equipment | 6,370 | 6,264 |
| Changes in operating assets and liabilities | | |
| Grants and contracts receivable | (906,206) | (446,952) |
| Prepaid expenses and other current assets | 97,265 | (202,473) |
| Accounts payable and accrued expenses | (215,715) | 310,054 |
| Accrued payroll and payroll taxes | 402,845 | (147,350) |
| Refundable advances | (10,101) | 70,305 |
| Due to related party | (1,113,855) | 1,087,033 |
| Net Cash from Operating Activities | 573,726 | 3,286,077 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (537,688) | (1,216,245) |
| Restricted cash | (138) | (167) |
| Net Cash from Investing Activities | (537,826) | (1,216,412) |
| Net Change in Cash and Cash Equivalents | 35,900 | 2,069,665 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 12,843,448 | 10,773,783 |
| End of year | \$ 12,879,348 | \$ 12,843,448 |

See notes to financial statements

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2017 and 2016

1. School 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 2,026 students in grades kindergarten through eighth grade during the 2016-2017 academic year.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2017 and 2016

1. School 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, 2017 and 2016

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, 2017 and 2016.

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 \$1,000 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, whereby such assets are expensed as incurred.

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

| | |
|-------------------------|----------|
| Furniture and fixtures | 5 years |
| Computers and equipment | 3 years |
| Software | 3 years |
| Library books | 10 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 the fair value. There were no asset impairments for the years ended June 30, 2017 and 2016.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2017 and 2016

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.

Advertising and Recruiting Costs

The School uses advertising and recruitment specifically aimed at hiring staff and obtaining new students. Accordingly, all costs in advertising and recruiting were allocated to program and management and general expenditures and expensed as incurred. For the years ended June 30, 2017 and 2016 advertising and recruiting costs totaled \$183,138 and \$142,828.

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, 2014.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2017 and 2016

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

Prior Year Summarized Comparative Financial Information

The financial statements include prior-year summarized comparative information in total but not by net asset class. 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 financial statements for the year ended June 30, 2016, from which the summarized information was derived.

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 18, 2017.

3. Grants and Contracts Receivable

Grants and contracts receivable consists 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 dated 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 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, 2017 and 2016 was \$3,414,567 and \$3,213,706.

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, 2017 and 2016 was \$1,299,957 and \$3,436,128. The net balance due to ESI at June 30, 2017 and 2016 was \$66,183 and \$1,180,038.

Explore Charter Schools of Brooklyn

Notes to Financial Statements
June 30, 2017 and 2016

5. Property and Equipment

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

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------------|---------------------|---------------------|
| Equipment | \$ 2,675,134 | \$ 2,451,257 |
| Furniture and fixtures | 486,490 | 460,592 |
| Software | 51,537 | 51,537 |
| Library books | 10,995 | 10,995 |
| Leasehold improvements | <u>1,154,052</u> | <u>935,416</u> |
| | 4,378,208 | 3,909,797 |
| Accumulated depreciation and amortization | <u>(2,681,363)</u> | <u>(2,259,482)</u> |
| | <u>\$ 1,696,845</u> | <u>\$ 1,650,315</u> |

For the years ended June 30, 2017 and 2016, the School disposed of fully depreciated property and equipment totaling \$6,370 and \$6,264.

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, 2017 and 2016. The total employer contribution did not exceed 5% of the employees' salary. Retirement expense incurred by the School for the years ended June 30, 2017 and 2016 amounted to \$161,614 and \$183,519.

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, 2017 and 2016, approximately \$12,920,000 and \$12,884,000 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, 2017 and 2016, the School received approximately 95% of total 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, 2017 and 2016

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.

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, 2017

Explore Charter Schools of Brooklyn

Schedule of Financial Position by School
June 30, 2017

| | <u>Explore</u> | <u>Empower</u> | <u>Excel</u> | <u>Exceed</u> | <u>Total</u> |
|-------------------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 3,968,334 | \$ 4,469,319 | \$ 2,520,720 | \$ 1,920,975 | \$ 12,879,348 |
| Grants and contracts receivable | 529,806 | 364,537 | 444,081 | 491,573 | 1,829,997 |
| Due from/(to) related charter schools | 11,779 | (520) | (11,259) | - | - |
| Prepaid expenses and other current assets | <u>7,010</u> | <u>115,809</u> | <u> </u> | <u> </u> | <u> </u> |
| Total Current Assets | 4,516,929 | 4,949,145 | 2,983,824 | 2,424,294 | 14,874,192 |
| Property and equipment, net | 206,316 | 513,587 | 632,461 | 344,481 | 1,696,845 |
| Restricted cash | <u>70,323</u> | <u>70,286</u> | <u> </u> | <u> </u> | <u> </u> |
| | <u>\$ 4,793,568</u> | <u>\$ 5,533,018</u> | <u>\$ 3,691,573</u> | <u>\$ 2,843,958</u> | <u>\$ 12,879,348</u> |
| | | 30,282 | 11,746 | | |
| LIABILITIES AND NET ASSETS | | | | | |
| Current Liabilities | | | | | |
| Accounts payable and accrued expenses | \$ 172,178 | \$ 194,933 | \$ 216,895 | \$ 189,500 | \$ 783,526 |
| Accrued payroll and payroll taxes | 606,042 | 590,737 | 645,193 | 567,566 | 2,407,461 |
| Refundable advances | 8,907 | 41,745 | 9,552 | 16,862,117 | 60,204 |
| Due to related party | <u>5,533,018</u> | <u>11,022</u> | <u> </u> | <u> </u> | <u> </u> |
| Total Current Liabilities | 803,475 | 838,437 | 891,023 | 784,439 | 3,500,000 |
| Net Assets, Unrestricted | | | | | |
| Undesignated | 2,850,093 | 3,194,581 | 2,150,550 | 1,849,519 | 10,044,743 |
| Board-designated | <u>1,140,000</u> | <u>1,500,000</u> | <u> </u> | <u> </u> | <u> </u> |
| Total Net Assets, Unrestricted | 3,990,093 | 4,694,581 | 2,800,550 | 2,050,509 | 12,879,348 |
| | <u>\$ 4,793,568</u> | <u>\$ 5,533,018</u> | <u>\$ 3,691,573</u> | <u>\$ 2,843,958</u> | <u>\$ 12,879,348</u> |
| | | 21,480 | 17,353 | 3,317,374 | |
| | | 650,000 | 210,000 | 13,544,743 | |
| | 5,533,018 | | | 16,862,117 | |

See independent auditors' report

Explore Charter Schools of Brooklyn

Schedule of Activities by School
Year Ended June 30, 2017

| | <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 | \$ 7,470,427 | \$ 7,313,030 | \$ 7,590,161 | \$ 6,950,158 | \$ 29,323,776 |
| Special education | 635,788 | 1,095,040 | 1,251,449 | 1,275,240 | 4,257,517 |
| Federal grants | 214,406 | 254,317 | 239,523 | 223,674 | 931,920 |
| E-Rate and IDEA | 81,300 | 154,301 | 172,780 | 149,714 | 558,095 |
| State and city grants | <u>41,387</u> | <u>41,407</u> | <u>43,631</u> | <u>39,801</u> | <u>166,226</u> |
| Total Operating Revenue | <u>8,443,308</u> | <u>8,858,095</u> | <u>9,297,544</u> | <u>8,638,587</u> | <u>35,237,534</u> |
| EXPENSES | | | | | |
| Program Services | | | | | |
| Regular education | 5,172,210 | 4,945,009 | 5,239,160 | 4,763,362 | 20,119,741 |
| Special education | <u>1,605,886</u> | <u>1,919,450</u> | <u>2,195,237</u> | <u>2,027,135</u> | <u>7,747,708</u> |
| Total Program Services | 6,778,096 | 6,864,459 | 7,434,397 | 6,790,497 | 27,867,449 |
| Supporting Services | | | | | |
| Management and general | <u>1,204,120</u> | <u>1,295,872</u> | <u>1,498,037</u> | <u>1,572,223</u> | <u>5,570,252</u> |
| Total Expenses | <u>7,982,216</u> | <u>8,160,331</u> | <u>8,932,434</u> | <u>8,362,720</u> | <u>33,437,701</u> |
| Surplus from Operations | <u>461,092</u> | <u>697,764</u> | <u>365,110</u> | <u>275,867</u> | <u>1,799,833</u> |
| SUPPORT AND OTHER REVENUE | | | | | |
| Contributions | 6,865 | 6,828 | 7,328 | 6,083 | 27,104 |
| Interest and other revenue | <u>814</u> | <u>260</u> | <u>190</u> | <u>134</u> | <u>1,398</u> |
| Total Support and Other Revenue | <u>7,679</u> | <u>7,088</u> | <u>7,518</u> | <u>6,217</u> | <u>28,502</u> |
| Change in Net Assets | 468,771 | 704,852 | 372,628 | 282,084 | 1,828,335 |
| NET ASSETS UNRESTRICTED | | | | | |
| Beginning of year | <u>3,521,315</u> | <u>3,989,731</u> | <u>2,427,919</u> | <u>1,777,443</u> | <u>11,716,408</u> |
| End 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> |

See independent auditors' report

Explore Charter Schools of Brooklyn

Uniform Guidance
Reports and Schedules

June 30, 2017

Explore Charter Schools of Brooklyn

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

| 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 | | | | |
| Passed Through the New York State | | | | |
| Education Department: | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 0021-17-4085 | \$ - | \$ 197,769 |
| Title I Grants to Local Educational Agencies | 84.010 | 0021-17-4575 | - | 245,310 |
| Title I Grants to Local Educational Agencies | 84.010 | 0021-17-4845 | - | 227,749 |
| Title I Grants to Local Educational Agencies | 84.010 | 0021-17-4275 | - | - |
| | | | <u>-</u> | <u>-</u> |
| Improving Teacher Quality State Grants | 84.367 | 0147-17-4085 | - | 16,638 |
| Improving Teacher Quality State Grants | 84.367 | 0147-17-4575 | - | 9,006 |
| Improving Teacher Quality State Grants | 84.367 | 0147-17-4845 | - | 11,775 |
| Improving Teacher Quality State Grants | 84.367 | 0147-17-4275 | 210,373 | - |
| | | | <u>881,201</u> | <u>-</u> |
| Total Expenditures of Federal Awards | | | <u>\$ -</u> | <u>\$ -</u> |

13,300
50,719
931,920

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, 2017

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, 2017. 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. Non-Monetary Assistance

Non-monetary assistance is reported in the Schedule based on the amount disbursed or received. The School received no non-monetary assistance for the year ended June 30, 2017.

4. 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, 2017, 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 18, 2017.

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 18, 2017



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, 2017. 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, 2017.

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 18, 2017

Explore Charter Schools of Brooklyn

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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 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

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

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2017.

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.

Explore Charter Schools of Brooklyn

Schedule of Findings and Questioned Costs (continued) Year Ended June 30, 2017

Section IV – Prior Year Findings

2016-001

Condition:

Cost principles under the Uniform Guidance and 2 CFR Part 200.430(i)(1)(vii) requires an employee whose salary and wages are supported, in whole or in part, with Federal funds to document his/her time spent working on Federal programs in order to ensure that charges to each Federal program reflect an accurate account of the employee's time and effort devoted to that program. For employees that work on multiple activities or cost objectives, a distribution of the employee's salary and wages must be supported by a personnel activity report ("PAR") or equivalent document. PARs must be prepared at least monthly and signed by the employee. Monthly PARs indicating total distribution of employee activity were not prepared and signed by the employees.

Status:

This condition has been corrected in fiscal year 2017.