

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS
INDEPENDENT AUDITORS' REPORT AND SINGLE AUDIT REPORTS

JUNE 30, 2016

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
EXPLORE CHARTER SCHOOLS OF BROOKLYN

Report on the Financial Statements

We have audited the accompanying financial statements of Explore Charter Schools of Brooklyn (the "Organization") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2016, 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 Organization'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 Organization'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 Organization as of June 30, 2016, 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.

Other Matters

Report on Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 26, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.


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

New York, New York
October 26, 2016

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 12,843,448
Grants and contracts receivable	923,791
Prepaid expenses and other current assets	<u>262,112</u>
Total current assets	<u>14,029,351</u>
Other assets:	
Property and equipment, net of accumulated depreciation and amortization of \$2,259,482	1,650,315
Restricted cash	<u>290,942</u>
Total other assets	<u>1,941,257</u>
TOTAL ASSETS	<u><u>\$ 15,970,608</u></u>
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 999,241
Accrued payroll and payroll taxes	2,004,616
Refundable advances	70,305
Due to related party	<u>1,180,038</u>
Total current liabilities	<u>4,254,200</u>
Unrestricted net assets:	
Undesignated	8,431,408
Board-designated for reserve fund	<u>3,285,000</u>
Total unrestricted net assets	<u>11,716,408</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 15,970,608</u></u>

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

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Operating revenue:	
State and local per pupil operating revenue	
General education	\$ 27,199,080
Special education	3,936,799
Federal grants	839,029
Federal grants - E-Rate and IDEA	637,120
State and city grants	<u>146,509</u>
 Total operating revenue	 <u>32,758,537</u>
Expenses:	
Program services	
Regular education	18,452,967
Special education	<u>7,181,071</u>
Total program services	25,634,038
Management and general	<u>5,072,207</u>
 Total expenses	 <u>30,706,245</u>
 Surplus from operations	 2,052,292
Support and other revenue:	
Contributions	29,538
Interest and other revenue	<u>1,363</u>
 Total support and other revenue	 <u>30,901</u>
 Change in unrestricted net assets	 2,083,193
Unrestricted net assets - beginning of year	<u>9,633,215</u>
Unrestricted net assets - end of year	<u><u>\$ 11,716,408</u></u>

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

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Regular Education	Special Education	Total Program Services	Management and General	Total
Salaries	\$ 10,765,271	\$ 4,639,785	\$ 15,405,056	\$ 2,342,460	\$ 17,747,516
Payroll taxes and employee benefits	2,544,387	1,100,418	3,644,805	558,201	4,203,006
Management fees	1,729,501	378,312	2,107,813	1,105,893	3,213,706
Audit and accounting	-	-	-	102,241	102,241
Advertising and recruiting	33,276	7,846	41,122	101,706	142,828
Outside services	590,348	268,030	858,378	174,632	1,033,010
Conferences, meetings, and staff development	192,402	41,165	233,567	157,292	390,859
Curriculum and classroom	786,905	354,719	1,141,624	-	1,141,624
Student food service	77,600	17,175	94,775	-	94,775
Student and family services	189,402	42,275	231,677	-	231,677
Insurance	110,029	24,070	134,099	23,664	157,763
Postage and copying	44,770	10,019	54,789	9,669	64,458
Office supplies	121,636	13,515	135,151	135,153	270,304
Telephone, technology, and communications	696,407	156,920	853,327	150,586	1,003,913
Non-capitalized equipment and furniture	219,412	48,693	268,105	47,315	315,420
Depreciation and amortization	305,095	67,577	372,672	153,331	526,003
Loss on disposal of property and equipment	4,479	845	5,324	940	6,264
Miscellaneous	42,047	9,707	51,754	9,124	60,878
Total	\$ 18,452,967	\$ 7,181,071	\$ 25,634,038	\$ 5,072,207	\$ 30,706,245

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

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in unrestricted net assets	\$ 2,083,193
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Depreciation and amortization	526,003
Loss on disposal of property and equipment	6,264
(Increase) Decrease in certain assets:	
Grants and contracts receivable	(446,952)
Prepaid expenses and other current assets	(202,473)
Increase (Decrease) in certain liabilities:	
Accounts payable and accrued expenses	310,054
Accrued payroll and payroll taxes	(147,350)
Refundable advances	70,305
Due to related party	<u>1,087,033</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,286,077</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(1,216,245)
(Increase) in restricted cash	<u>(167)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(1,216,412)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,069,665
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>10,773,783</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 12,843,448</u></u>

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

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Explore Charter Schools of Brooklyn (the “Organization”) is a New York State, not-for-profit educational corporation that operates charter schools in the borough of Brooklyn, New York. The Organization’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 Schools collectively forming the Organization:

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 June 30, 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 June 30, 2017.

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. Explore obtained a renewal to its charter expiring on June 30, 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 applied for and is currently in the process of obtaining a renewal.

The Organization will be opening two additional Schools, Explore Envision Charter School (“Envision”) which is planned to open in the fall of 2018 and Explore Enrich Charter School (“Enrich”) which is planned to open in the fall of 2019.

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Nature of Organization (Continued)

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 Organization provided education to approximately 1,930 students in grades kindergarten through eight during the 2015-2016 academic year.

Food and Transportation Services

The New York City Department of Education provides free lunches and transportation directly to a majority of the Organization's students. Such costs are not included in these financial statements.

Tax Status

The Organization is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(ii). The Organization is subject to income taxes only on net unrelated business income. The Organization did not have any unrelated business income for the year ended June 30, 2016.

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

IRS Forms 990 filed by the Organization are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the Organization are no longer subject to examination for the fiscal year ended June 30, 2012.

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Presentation

The Organization's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

Unrestricted

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

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

Temporarily Restricted

Net assets of the Organization whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Organization. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted

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

The Organization had no temporarily or permanently restricted net assets at June 30, 2016.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the Organization 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 Organization's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenue and Support (Continued)

Revenue from the state and local governments resulting from the Organization'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.

Cash and Cash Equivalents

The Organization considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk are cash and cash equivalents. The Organization places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. As of June 30, 2016 account balances exceeded insured levels by approximately \$12,884,000. The Organization believes that there is little risk in any losses and has not experienced any losses in such accounts.

Restricted Cash

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

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Furniture and fixtures	5 years
Computers and equipment	3 years
Software	3 years
Library books	10 years
Leasehold improvements	33.5 years

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Advertising and Recruiting Costs

The Organization 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 year ended June 30, 2016, advertising and recruiting costs totaled \$142,828.

Refundable Advances

The Organization records certain government grants and contracts as refundable advances until related services are performed, at which time it is recognized as revenue.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2016:

Equipment	\$ 2,451,257
Furniture and fixtures	460,592
Software	51,537
Library books	10,995
Leasehold improvements	<u>935,416</u>
	3,909,797
Less: Accumulated depreciation and amortization	<u>(2,259,482)</u>
	<u>\$ 1,650,315</u>

Depreciation and amortization expense was \$526,003 for the year ended June 30, 2016.

For the year ended June 30, 2016, the Organization disposed of various assets resulting in a loss on disposal of property and equipment in the amount of \$6,264.

NOTE 4 - CONTINGENCY

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

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - REVENUE CONCENTRATION

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

NOTE 6 - FUNCTIONAL ALLOCATION OF EXPENSE

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

NOTE 7 - RETIREMENT PLAN

The Organization 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 Organization's Board of Trustees. The Organization matched 50% of the employees' elective contributions not to exceed 10% of the employees' salary for the year ended June 30, 2016. The total employer contribution did not exceed 5% of the employees' salary. Retirement expense incurred by the Organization for the year ended June 30, 2016 amounted to \$183,519.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Organization 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 Organization by providing educational models, recruiting, leadership coaching and professional development, start-up funding, governance, and operational support. The Organization is affiliated with ESI through common management.

The Organization entered into a management agreement with ESI dated through June 30, 2016 to provide the Organization 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 Organization's business administration and support the Board in all governance issues. As compensation to ESI for these services, the Organization paid an annual fee of 12% of the Organization's general education per pupil operating revenue. Management fee expense for the year ended June 30, 2016 was \$3,213,706.

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 - RELATED PARTY TRANSACTIONS (Continued)

For operational efficiency and purchasing power, the Organization shares certain expenses with ESI. Net shared operational expenses consisting primarily of medical benefits, charged to the Organization for the year ended June 30, 2016 was \$3,436,128. The net balance due to the related party at June 30, 2016 was \$1,180,038.

NOTE 9 - SCHOOL FACILITIES

The Organization has an agreement with the New York City Department of Education (“NYCDOE”) to share public school open space at no annual cost. The Organization’s management does not anticipate this agreement will be terminated in the near future. The Organization 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 Organization was unable to determine a value for the contributed space and related services and did not record any value for use of donated facilities.

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 26, 2016, the date the financial statements were available to be issued.

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF
EXPLORE CHARTER SCHOOLS OF BROOKLYN

We have audited the financial statements of Explore Charter Schools of Brooklyn as of and for the year ended June 30, 2016, and have issued our report thereon dated October 26, 2016, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of financial position by school and the schedule of activities by school are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


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

New York, New York
October 26, 2016

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
SCHEDULE OF FINANCIAL POSITION BY SCHOOL
JUNE 30, 2016

	<u>Explore</u>	<u>Empower</u>	<u>Excel</u>	<u>Exceed</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 3,878,213	\$ 4,157,832	\$ 2,659,480	\$ 2,147,923	\$ 12,843,448
Grants and contracts receivable	207,322	175,109	294,815	246,545	923,791
Due from/(to) related charter schools	7,312	(19,216)	(7,727)	19,631	-
Prepaid expenses and other current assets	26,854	198,268	12,923	24,067	262,112
Total current assets	<u>4,119,701</u>	<u>4,511,993</u>	<u>2,959,491</u>	<u>2,438,166</u>	<u>14,029,351</u>
Other assets:					
Property and equipment, net of accumulated depreciation and amortization of \$2,259,482	265,937	466,832	593,196	324,350	1,650,315
Restricted cash	70,289	70,258	75,250	75,145	290,942
Total other assets	<u>336,226</u>	<u>537,090</u>	<u>668,446</u>	<u>399,495</u>	<u>1,941,257</u>
TOTAL ASSETS	<u>\$ 4,455,927</u>	<u>\$ 5,049,083</u>	<u>\$ 3,627,937</u>	<u>\$ 2,837,661</u>	<u>\$ 15,970,608</u>
LIABILITIES AND UNRESTRICTED NET ASSETS					
Current liabilities:					
Accounts payable and accrued expenses	\$ 139,143	\$ 273,087	\$ 339,253	\$ 247,758	\$ 999,241
Accrued payroll and payroll taxes	519,629	566,157	490,245	428,585	2,004,616
Refundable advances	-	12,489	41,735	16,081	70,305
Due to related party	275,840	207,619	328,785	367,794	1,180,038
Total current liabilities	<u>934,612</u>	<u>1,059,352</u>	<u>1,200,018</u>	<u>1,060,218</u>	<u>4,254,200</u>
Unrestricted net assets:					
Undesignated	2,521,315	2,489,731	1,852,919	1,567,443	8,431,408
Board-designated for reserve fund	1,000,000	1,500,000	575,000	210,000	3,285,000
Total unrestricted net assets	<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>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u>\$ 4,455,927</u>	<u>\$ 5,049,083</u>	<u>\$ 3,627,937</u>	<u>\$ 2,837,661</u>	<u>\$ 15,970,608</u>

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
SCHEDULE OF ACTIVITIES BY SCHOOL
FOR THE YEAR ENDED JUNE 30, 2016

	<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	\$ 7,339,174	\$ 7,006,368	\$ 6,765,775	\$ 6,087,763	\$ 27,199,080
Special education	628,828	1,087,045	1,105,225	1,115,701	3,936,799
Federal grants	254,345	226,645	182,119	175,920	839,029
Federal grants - E-Rate and IDEA	181,148	135,965	167,113	152,894	637,120
State and city grants	40,232	43,112	29,188	33,977	146,509
	<u>8,443,727</u>	<u>8,499,135</u>	<u>8,249,420</u>	<u>7,566,255</u>	<u>32,758,537</u>
Total operating revenue					
Expenses:					
Program services					
Regular education	4,975,734	4,898,259	4,534,729	4,044,245	18,452,967
Special education	1,625,134	1,950,850	1,835,139	1,769,948	7,181,071
Total program services	6,600,868	6,849,109	6,369,868	5,814,193	25,634,038
Management and general	1,214,912	1,171,236	1,360,225	1,325,834	5,072,207
	<u>7,815,780</u>	<u>8,020,345</u>	<u>7,730,093</u>	<u>7,140,027</u>	<u>30,706,245</u>
Total expenses					
Surplus from operations	627,947	478,790	519,327	426,228	2,052,292
Support and other revenue:					
Contributions	7,384	7,051	9,940	5,163	29,538
Interest and other revenue	810	235	184	134	1,363
	<u>8,194</u>	<u>7,286</u>	<u>10,124</u>	<u>5,297</u>	<u>30,901</u>
Total support and other revenue					
Changes in unrestricted net assets	636,141	486,076	529,451	431,525	2,083,193
Unrestricted net assets - beginning of year	2,885,174	3,503,655	1,898,468	1,345,918	9,633,215
Unrestricted net assets - end 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>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

TO THE BOARD OF TRUSTEES OF
EXPLORE 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 "Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses.

Management's Response to Findings

Management's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that was reported to the management of the Organization in a separate letter dated October 26, 2016.

Purpose of this Report

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


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

New York, New York
October 26, 2016

FRUCHTER ROSEN & COMPANY, P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

TO THE BOARD OF TRUSTEES OF
EXPLORE CHARTER SCHOOLS OF BROOKLYN

Report on Compliance for Each Major Federal Program

We have audited Explore Charter Schools of Brooklyn's (the "Organization") 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 Organization's major federal programs for the year ended June 30, 2016. The Organization'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 Organization'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 Organization'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 Organization's compliance.

TO THE BOARD OF TRUSTEES OF
EXPLORE CHARTER SCHOOLS OF BROOKLYN

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2016.

Other Matters

The results of our audit procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of finding and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to these matters. The Organization's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Organization 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 Organization'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 Organization'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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be significant deficiencies.

TO THE BOARD OF TRUSTEES OF
EXPLORE CHARTER SCHOOLS OF BROOKLYN

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.


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

New York, New York
October 26, 2016

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Education:			
Passed through the New York State			
Education Department:			
Title I Part A - Grants to local educational agencies	84.010	0021-16-4085	\$ 234,207
Title I Part A - Grants to local educational agencies	84.010	0021-16-4575	217,236
Title I Part A - Grants to local educational agencies	84.010	0021-16-4845	170,403
Title I Part A - Grants to local educational agencies	84.010	0021-16-4275	162,729
			<u>784,575</u>
Title II Part A - Improving teacher quality	84.367	0147-16-4085	20,138
Title II Part A - Improving teacher quality	84.367	0147-16-4575	9,409
Title II Part A - Improving teacher quality	84.367	0147-16-4845	11,716
Title II Part A - Improving teacher quality	84.367	0147-16-4275	13,191
			<u>54,454</u>
Total Expenditures of Federal Awards			<u>\$ 839,029</u>

See accompanying notes to schedule of expenditures of federal awards.

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2016. 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 Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE B - 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.

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

I. Summary of Auditors' Results:

Financial Statements:

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness (es) identified?	_____ Yes	___X___ No
Significant deficiency (ies) identified?	_____ Yes	___X___ None reported
Noncompliance material to financial statements noted?	_____ Yes	___X___ No

Federal Awards:

Internal control over major programs:		
Material weakness (es) identified?	_____ Yes	___X___ No
Significant deficiency (ies) identified?	___X___ Yes	_____ None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	___X___ Yes	_____ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Part A 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

II. Financial Statement Findings:

None

EXPLORE CHARTER SCHOOLS OF BROOKLYN
(A Not-For-Profit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

III. Federal Awards Findings and Questioned Costs:

COMPLIANCE FINDINGS

SIGNIFICANT DEFICIENCY

2016-001- Time and Effort Reporting-periodic certification for employees who work on multiple activities or cost objectives.

CFDA

84.010, Grants to Local Educational Agencies (Title I, Part A)

Criteria

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.

Condition

Monthly PARs indicating total distribution of employee activity were not prepared and signed by the employees.

Cause

Management did not closely monitor time and effort records for federal activities.

Effect

The Organization is not in compliance with the Uniform Guidance and 2 CFR Part 200.430(i)(1)(vii).

Recommendation

The Organization should monitor and ensure that employees who work on multiple activities are supported by PAR or equivalent documents.

Management's Response and Planned Corrective Actions

Explore Charter Schools of Brooklyn has implemented a system for staff funded through federal grants to certify the amount of time spent on Title I and Title II activities on a monthly basis.

EXPLORE CHARTER SCHOOLS OF BROOKLYN
INDEPENDENT AUDITORS' REPORT ON COMMUNICATION
OF INTERNAL CONTROL MATTERS

JUNE 30, 2016

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October 26, 2016

Audit Committee of the Board of Trustees
Explore Charter Schools of Brooklyn
1077 Remsen Avenue
Brooklyn, NY 11236

In planning and performing our audit of the financial statements of Explore Charter Schools of Brooklyn (the "Organization") as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Exhibit I accompanying this letter summarizes an observation for the year ended June 30, 2016 that we consider to be a significant deficiency. Exhibit II summarizes corrective action taken by the Organization during the year ended June 30, 2016 on a prior year observation. Management's response to the observation has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Charter Organization 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 appreciate your cooperation and the assistance we received during the course of our audit.


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

New York, New York
October 26, 2016

EXPLORE CHARTER SCHOOLS OF BROOKLYN
JUNE 30, 2016

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EXPLORE CHARTER SCHOOLS OF BROOKLYN
JUNE 30, 2016

EXHIBIT I – CURRENT YEAR OBSERVATION

A. TIME AND EFFORT REPORTING-PERIODIC CERTIFICATION FOR EMPLOYEES WHO WORK ON MULTIPLE ACTIVITIES OR COST OBJECTIVES

Observation

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.

Recommendation

The Organization should monitor and ensure that employees who work on multiple activities are supported by PAR or equivalent documents.

Management's Response and Planned Corrective Actions

Explore Charter Schools of Brooklyn has implemented a system for staff funded through federal grants to certify the amount of time spent on Title I and Title II activities on a monthly basis.

EXPLORE CHARTER SCHOOLS OF BROOKLYN
JUNE 30, 2016

EXHIBIT II – CORRECTIVE ACTION TAKEN ON PRIOR YEAR OBSERVATION

In conjunction with performing the audit of the Organization’s financial statements for the year ended June 30, 2016, we followed up on the status of implementation of audit recommendations made for the year ended June 30, 2015. The status update on those matters is summarized below.

A. APPROVAL OF DEBIT CARD PURCHASES

Observation

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

Recommendation

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

Corrective Action Taken

During our 2016 audit, we noted Excel had the required approvals for debit card charges.