

EXPLORE CHARTER SCHOOL  
FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF  
EXPLORE CHARTER SCHOOL

***Report on the Financial Statements***

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

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Report on Summarized Comparative Information***

We have previously audited the School's 2014 financial statements, and our report dated October 15, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2015, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

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

New York, New York  
September 29, 2015

EXPLORE CHARTER SCHOOL  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30,

	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,260,095	\$ 2,164,315
Grants and contracts receivable	145,037	143,867
Prepaid expenses and other current assets	18,268	65,425
Total current assets	3,423,400	2,373,607
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$707,110 and \$625,219, respectively	168,172	217,099
Restricted cash	70,244	70,174
Total other assets	238,416	287,273
<b>TOTAL ASSETS</b>	<b>\$ 3,661,816</b>	<b>\$ 2,660,880</b>
 <b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 151,345	\$ 158,498
Accrued payroll and payroll taxes	621,587	660,564
Due to related parties	3,710	2,898
Total current liabilities	776,642	821,960
Unrestricted net assets:		
Undesignated	1,885,174	838,920
Board-designated for reserve fund	1,000,000	1,000,000
Total unrestricted net assets	2,885,174	1,838,920
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<b>\$ 3,661,816</b>	<b>\$ 2,660,880</b>

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

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

	<u>2015</u>	<u>2014</u>
Operating revenue:		
State and local per pupil operating revenue	\$ 7,882,074	\$ 7,665,567
Federal grants	408,702	427,412
State and city grants	47,493	61,951
	<u>8,338,269</u>	<u>8,154,930</u>
Operating expenses:		
Program services		
Regular education	5,112,194	5,534,711
Special education	1,033,430	908,133
	<u>6,145,624</u>	<u>6,442,844</u>
Management and general	1,164,896	1,257,207
	<u>7,310,520</u>	<u>7,700,051</u>
Total operating expenses	<u>7,310,520</u>	<u>7,700,051</u>
Surplus from operations	<u>1,027,749</u>	<u>454,879</u>
Support and other revenue:		
Contributions and other revenue	1,108	755
Interest income	767	977
Fundraising event	16,630	19,707
	<u>18,505</u>	<u>21,439</u>
Total support and other revenue	<u>18,505</u>	<u>21,439</u>
Changes in unrestricted net assets	1,046,254	476,318
Unrestricted net assets - beginning of year	<u>1,838,920</u>	<u>1,362,602</u>
Unrestricted net assets - end of year	<u><u>\$ 2,885,174</u></u>	<u><u>\$ 1,838,920</u></u>

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

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

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 1,046,254	\$ 476,318
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	105,572	119,357
Loss on disposal of property and equipment	10,595	-
Decrease (Increase) in certain assets:		
Grants and contracts receivable	(1,170)	(57,009)
Due from related parties	-	-
Prepaid expense and other current assets	47,157	(65,425)
Increase (Decrease) in certain liabilities:		
Accounts payable and accrued expenses	(7,153)	28,567
Accrued payroll and payroll taxes	(38,977)	(27,568)
Due to related parties	812	(6,080)
	1,163,090	468,160
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(67,240)	(57,547)
(Increase) in restricted cash	(70)	(82)
	(67,310)	(57,629)
NET CASH (USED IN) INVESTING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,095,780	410,531
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,164,315	1,753,784
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,260,095	\$ 2,164,315

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

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

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

Nature of Organization

Explore Charter School (the "School") is a New York State, not-for-profit educational corporation that operates a charter school in the borough of Brooklyn, New York. The School was granted a provisional charter on 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. After a review process in June 2006, the charter was renewed for a full five-year term expiring on June 11, 2011. On June 6, 2011 the Board of Regents approved and issued the renewal to the charter for a period of five years, effective June 13, 2011 to June 12, 2016. The School was established to provide its students with the academic skills and critical thinking abilities they need to succeed in a college preparatory high school. Furthermore, the School was established to prepare such underserved students for higher education, civic involvement and lifelong success through a structured, caring environment of high academic expectations. The School provided education to approximately 521 students in kindergarten through eighth grade during the 2014-2015 academic year.

Food and Transportation Services

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

Tax Status

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

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

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

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

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

Basis of Presentation

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

Unrestricted

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

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

Temporarily Restricted

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

Permanently Restricted

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

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

Revenue and Support

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

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.

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Property and Equipment

Purchased property and equipment are recorded at cost. 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 and 5 years
Software	3 years
Library books	10 years
Leasehold improvements	33.5 years

Restricted Cash

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

Refundable Advances

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

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

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

Comparative Financial Information

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

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Furniture and fixtures	\$ 259,135	\$ 259,135
Computers and equipment	551,354	518,390
Software	50,468	50,468
Leasehold improvements	3,330	3,330
Library books	<u>10,995</u>	<u>10,995</u>
	875,282	842,318
Less: Accumulated depreciation and amortization	<u>(707,110)</u>	<u>(625,219)</u>
	<u>\$ 168,172</u>	<u>\$ 217,099</u>

Depreciation and amortization expense was \$105,572 and \$119,357 for the years ended June 30, 2015 and 2014, respectively.

For the years ended June 30, 2015 and 2014, the School disposed of various assets resulting in a loss on disposal of property and equipment in the amounts of \$10,595 and \$-0-, respectively.

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

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.

NOTE 5 - REVENUE CONCENTRATION

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

NOTE 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 School.

NOTE 7 - RETIREMENT PLAN

The School maintains a defined contribution 403(b) plan covering all eligible employees. Under this plan, employer contributions are discretionary and are based on a percentage of employees' salaries as determined by the School's Board of Trustees. The School matched 50% of the employees' elective contributions not to exceed 10% of the employees' salary for the years ended June 30, 2015 and 2014. The total employer contribution did not exceed 5% of the employees' salary. Retirement expense incurred by the School for the years ended June 30, 2015 and 2014 amounted to \$32,145 and \$49,187, respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS

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

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

NOTE 8 - RELATED PARTY TRANSACTIONS (Continued)

The School entered into management agreements with ESI dated through July 1, 2013 to provide the School with educational management services and designs. Pursuant to the management 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% and 11.5% of the School's general education per pupil operating revenue for the years ended June 30, 2015 and 2014, respectively. Management fee expense for the years ended June 30, 2015 and 2014 was \$862,710 and \$821,618, respectively.

For operational efficiency and purchasing power, the School shares certain expenses with ESI, Empower, Exceed, and Excel. Following are net shared operational expenses charged to the School/(paid on behalf of the related parties) for the years ended June 30,:

	<u>2015</u>	<u>2014</u>
ESI	\$ 294,267	\$ 68,129
Exceed	1,239	-
Empower	<u>(1,184)</u>	<u>(14,212)</u>
	<u>\$ 294,322</u>	<u>\$ 53,917</u>

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

	<u>2015</u>	<u>2014</u>
ESI	\$ (3,199)	\$ (4,082)
Empower	-	1,184
Exceed	<u>(511)</u>	<u>-</u>
	<u>\$ (3,710)</u>	<u>\$ (2,898)</u>

NOTE 9 - COMMITMENTS

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

Year ending June 30, 2016	\$ 33,007
2017	<u>11,002</u>
	<u>\$ 44,009</u>

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

NOTE 10 - AGREEMENT FOR SCHOOL FACILITY

The School has an agreement with the New York City Department of Education ("NYCDOE") to use public school open space at a cost of \$1 per year. 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 security related to the School's programs that take place outside the district's school day.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through September 29, 2015, the date the financial statements were available to be issued.

The School merged into a single not-for-profit legal entity, Explore Charter Schools of Brooklyn, (f/k/a Explore Excel Charter School) which serves as the sole surviving education corporation. The plan of merger, dated November 14, 2013, was approved by the School's Board of Trustees and is effective July 1, 2015. Pursuant to the effective date, the School ceased to exist as a legal entity and all School operations are under Explore Charter Schools of Brooklyn. The merger was approved by the New York State Board of Regents, the Charter Schools Institute of the State University of New York, and the New York City Department of Education on February 10, 2015.

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INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF  
EXPLORE CHARTER SCHOOL

We have audited the financial statements of Explore Charter School (a not-for-profit corporation), as of and for the year ended June 30, 2015, and have issued our report thereon dated September 29, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

New York, New York  
September 29, 2015

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

	2015				Total	2014
	Regular Education	Special Education	Total Program Service	Management and General		
Salaries	\$ 3,121,900	\$ 669,353	\$ 3,791,253	\$ 571,318	\$ 4,362,571	\$ 4,561,718
Payroll taxes and employee benefits	704,825	151,118	855,943	128,985	984,928	1,108,903
Audit and accounting fees	-	-	-	18,000	18,000	13,500
Legal	-	-	-	-	-	733
Marketing and recruiting	13,128	2,149	15,277	21,773	37,050	34,884
Management fee	486,257	79,579	565,836	296,874	862,710	821,618
Outside services	195,006	36,072	231,078	13,936	245,014	343,974
Conferences and meetings	74,808	12,243	87,051	6,089	93,140	64,717
Curriculum and classroom	142,839	23,377	166,216	-	166,216	194,120
Student meals	18,530	3,032	21,562	-	21,562	30,772
Student and family services	40,747	6,668	47,415	-	47,415	36,673
Insurance	38,455	6,293	44,748	7,897	52,645	49,460
Occupancy	1	-	1	-	1	1
Postage and copying	69,433	11,363	80,796	14,258	95,054	89,236
Office supplies	29,945	3,327	33,272	33,271	66,543	52,003
Miscellaneous	16,973	2,778	19,751	3,486	23,237	42,170
Telephone and communications	86,389	14,138	100,527	17,740	118,267	136,212
Loss on disposal of property and equipment	7,739	1,267	9,006	1,589	10,595	-
Depreciation and amortization	65,219	10,673	75,892	29,680	105,572	119,357
<b>Total</b>	<b>\$ 5,112,194</b>	<b>\$ 1,033,430</b>	<b>\$ 6,145,624</b>	<b>\$ 1,164,896</b>	<b>\$ 7,310,520</b>	<b>\$ 7,700,051</b>

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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 SCHOOL

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Explore Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2015.

***Internal Control Over Financial Reporting***

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

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

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

TO THE BOARD OF TRUSTEES OF  
EXPLORE CHARTER SCHOOL

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

New York, New York  
September 29, 2015

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September 29, 2015

To the Audit Committee of the Board of Trustees of  
Explore Charter School  
655 Parkside Avenue  
Brooklyn, New York, 11226

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

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

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

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

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

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

New York, New York  
September 29, 2015

FRUCHTER ROSEN & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
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September 29, 2015

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

We have audited the financial statements of Explore Charter School (the "School") (a not-for-profit corporation), for the year ended June 30, 2015, and have issued our report thereon dated September 29, 2015. Professional standards require that we provide you with the following information related to our audit.

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

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

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

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

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

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

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

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

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

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

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 29, 2015.

#### *Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

Other Matters

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

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

Very truly yours,

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