

EXPLORE EXCEL CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56<sup>TH</sup> STREET

NEW YORK, NEW YORK 10019

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INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED UPON PROCEDURES

To the Board of Trustees of Explore Excel Charter School:

We have performed the procedures identified below, which were agreed to by the management of Explore Excel Charter School (the "School") and the New York State Education Department ("NYSED") solely to assist the specified parties in evaluating the School's assertion to NYSED that it has maintained compliance with the requirements of the CSP grant and Federal and NYSED guidelines in managing the CSP grant.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our results are as follows:

Procedure #1: We will obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the School's accounting software and reconcile to the grant revenue recorded by the School. If the CSP grant revenue does not equal the grant expenditures, we will investigate the differences.

Result: No exceptions noted.

Procedure #2: We will obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.

Result: No exceptions noted.

Procedure #3: We will select a sample from the detail of expenditures obtained in Procedure #1.

- a. Payroll – We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.
- b. Other expenses – We will select 10 items or 10% of the total number of items charged to the grant, whichever is less.

- c. Using the above selected items, we will:
- i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods.
  - ii. Determine if the expenditure falls into an approved budget category.
  - iii. Determine if the expenditure was charged to the appropriate fiscal period.

Result: No exceptions noted.

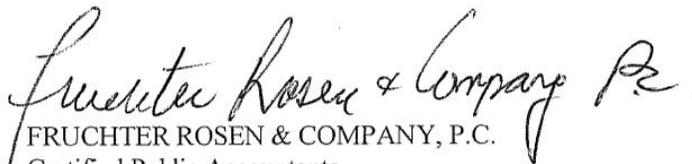
Procedure #4: We will obtain FS-25 form(s) submitted to NYSED during the period under review and perform the following:

- a. Trace expenditures selected in Procedure #3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of responsible School officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.
- b. If FS-25 forms included amounts on Line 4 (Cash Expenditures Anticipated During Next Month), we will select one FS-25 and determine if funds were expended within 1 month following the date of the request.

Result: No exceptions noted.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on Explore Excel Charter School's compliance with the requirements of the CSP grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Explore Excel Charter School and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.

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

New York, New York  
September 20, 2013

EXPLORE EXCEL CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2013

EXPLORE EXCEL CHARTER SCHOOL  
MANAGEMENT LETTER  
JUNE 30, 2013

CONTENTS

EXHIBIT I – CURRENT YEAR OBSERVATION

- A. Approval of Debit Card Purchases 1

EXHIBIT II – CORRECTIVE ACTIONS TAKEN ON PRIOR YEAR OBSERVATIONS

- A. Escrow Account for Dissolution 2  
B. Insurance Coverage 2

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September 20, 2013

Audit Committee of the Board of Trustees  
Explore Excel Charter School

In planning and performing our audit of the financial statements of Explore Excel Charter School (the "School") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Exhibits I and II accompanying this letter summarize observations for the year ended June 30, 2013 and the corrective actions taken by the School on prior year observations. We determined that these observations did not constitute a significant deficiency or material weakness. Management's responses to the observations have 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 School Institute of the State University of New York, 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 20, 2013

EXPLORE EXCEL CHARTER SCHOOL  
MANAGEMENT LETTER

EXHIBIT I – CURRENT YEAR OBSERVATION

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. The School 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 School cannot obtain a written approval prior to a purchase, that the School 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.

Management's Response

The School will adopt the practice of obtaining email approvals, prior to the purchase, for credit card transactions when written approval is not feasible. The School will retain the record of authorization with the purchase receipt to substantiate the timing of the approval and purchase.

EXPLORE EXCEL CHARTER SCHOOL  
MANAGEMENT LETTER

EXHIBIT II – CORRECTIVE ACTIONS TAKEN ON PRIOR YEAR OBSERVATIONS

A. ESCROW ACCOUNT FOR DISSOLUTION

Observation

We noted that the School maintained a balance of \$5,002 in the escrow savings account as of June 30, 2012. Under the provisions of The Charter School Institute of the State University of New York (“CSI”), the School should set aside as a dissolution reserve and earmark the funds in the books and records to pay for legal and audit expenses that would be associated with a dissolution should it occur. Charter schools authorized under CSI should maintain a minimum balance of \$75,000 in the escrow account by the end of their third year of operations. The escrow account should be funded at \$25,000 per year.

Recommendation

The School should currently increase the escrow savings account to a minimum of \$25,000 and increase the account by an additional \$25,000 each subsequent year to aggregate to \$75,000 by the end of the third year. The monies maintained in the savings account should be set aside to pay for legal and audit expenses associated with dissolution should it occur. The account can be an interest bearing account where the School may withdraw the interest earned.

Corrective Action Taken

We noted that the School has increased the escrow account to \$75,000 as of June 30, 2013.

B. INSURANCE COVERAGE

Observation

As part of our audit procedures, we reviewed the adequacy of the School’s insurance coverage. The coverage includes a crime and employee dishonesty policy with a limit of \$100,000. However the School’s cash account at June 30, 2012 exceeded the policy limit by over \$300,000. Therefore, we believe the School is inadequately insured in regards to the above coverage.

Recommendation

We recommend that current policies should be reviewed with the School’s insurance agent and coverage should be increased to an amount that covers maximum cash held by the School at any one time during the year. In addition, the School should periodically review insurance coverage to ensure proper and adequate means to preserve the School’s assets.

Corrective Action Taken

As part of the interim audit, we reviewed the School’s insurance coverage. It was noted that the School did increase the crime and employee dishonesty policy to \$1,000,000.

EXPLORE EXCEL CHARTER SCHOOL  
FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION:	
Statements of financial position	3
Statements of activities	4
Statements of cash flows	5
Notes to financial statements	6 – 12
Independent auditors' report on supplementary information	13
Schedule of functional expenses	14
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	15 – 16

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF  
EXPLORE EXCEL CHARTER SCHOOL

***Report on the Financial Statements***

We have audited the accompanying financial statements of Explore Excel Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2013, 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.

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2013, 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 2012 financial statements, and our report dated October 18, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of June 30, 2012 and for the period from December 14, 2010 (inception) to June 30, 2012, 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 20, 2013, 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 20, 2013

EXPLORE EXCEL CHARTER SCHOOL  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30,

	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,011,962	\$ 435,413
Grants and contracts receivable	329,748	452,002
Prepaid expenses and other current assets	36,880	58,279
Total current assets	1,378,590	945,694
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$138,956 and \$34,837, respectively	405,310	279,733
Restricted cash	75,040	5,002
Total other assets	480,350	284,735
<b>TOTAL ASSETS</b>	<b>\$ 1,858,940</b>	<b>\$ 1,230,429</b>
 <b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 118,692	\$ 215,482
Accrued payroll and payroll taxes	388,221	278,046
Refundable advances	19,576	-
Due to related parties	7,954	12,860
Total current liabilities	534,443	506,388
Unrestricted net assets:		
Undesignated	974,497	724,041
Board-designated for reserve fund	350,000	-
Total unrestricted net assets	1,324,497	724,041
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<b>\$ 1,858,940</b>	<b>\$ 1,230,429</b>

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

EXPLORE EXCEL CHARTER SCHOOL  
STATEMENTS OF ACTIVITIES

	For the year ended June 30, 2013	For the period from December 14, 2010 (inception) to June 30, 2012
Operating revenue:		
State and local per pupil operating revenue	\$ 4,585,848	\$ 3,368,949
Federal grants	403,688	517,243
Federal E-rate	147,080	90,282
State and city grants	<u>23,238</u>	<u>212,333</u>
Total operating revenue	<u>5,159,854</u>	<u>4,188,807</u>
Operating expenses:		
Program services:		
Regular education	3,134,509	3,109,842
Special education	<u>661,610</u>	<u>115,365</u>
Total program services	<u>3,796,119</u>	<u>3,225,207</u>
Supporting services:		
Management and general	<u>777,028</u>	<u>505,615</u>
Total operating expenses	<u>4,573,147</u>	<u>3,730,822</u>
Surplus from operations	<u>586,707</u>	<u>457,985</u>
Support and other revenue:		
Foundations and other contributions	3,556	250,000
Fundraising event	10,156	13,280
Interest and other income	<u>37</u>	<u>2,776</u>
Total support and other revenue	<u>13,749</u>	<u>266,056</u>
Changes in net assets	600,456	724,041
Unrestricted net assets - beginning of period	<u>724,041</u>	<u>-</u>
Unrestricted net assets - end of period	<u><u>\$ 1,324,497</u></u>	<u><u>\$ 724,041</u></u>

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

EXPLORE EXCEL CHARTER SCHOOL  
STATEMENT OF CASH FLOWS

	<u>For the year ended June 30, 2013</u>	<u>For the period from December 14, 2010 (inception) to June 30, 2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 600,456	\$ 724,041
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	104,121	34,837
Changes in certain assets and liabilities:		
Decrease (Increase) in grants and contracts receivable	122,254	(452,002)
Decrease (Increase) in prepaid expenses and other current assets	21,399	(58,279)
(Increase) in restricted cash	(70,038)	(5,002)
(Decrease) Increase in accounts payable and accrued expenses	(96,790)	215,482
Increase in accrued payroll and payroll taxes	110,175	278,046
Increase in refundable advances	19,576	-
(Decrease) Increase in due to related parties	(4,906)	12,860
	<u>806,247</u>	<u>749,983</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Purchase of property and equipment	<u>(229,698)</u>	<u>(314,570)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	576,549	435,413
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<u>435,413</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u><u>\$ 1,011,962</u></u>	<u><u>\$ 435,413</u></u>

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

EXPLORE EXCEL CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

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

Nature of Organization

Explore Excel 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 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. 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 298 students in kindergarten through fourth grade during the 2012-2013 academic year.

The School has an agreement with the New York City Department of Education (“NYCDOE”) to use public school open space at no annual cost. The School’s management does not anticipate this agreement will be terminated in the near future. The School is not responsible for rent, utilities, custodial services, and school safety services other than those required over the summer when traditional NYCDOE schools are not in service.

On December 12, 2012, the School secured a middle school location through the New York City Department of Education. The School will be co-located with a public school and will house Excel’s fifth grade starting in the 2013-2014 school year. The School will add one grade per year until it reaches full scale in 2016-2017 and will serve students in kindergarten through eighth grades.

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 did not have any net unrelated business income for the year ended June 30, 2013 and for the period from December 14, 2010 (inception) to June 30, 2012.

EXPLORE EXCEL CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

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

Tax Status (Continued)

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 position resulting in an accrual of tax expense or benefit.

IRS Form 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. All Forms 990 filed by the School are subject to examination.

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

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 operation 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

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 temporarily or permanently restricted net assets at June 30, 2013 and 2012.

EXPLORE EXCEL CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

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

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 agencies.

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 statements 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.

EXPLORE EXCEL CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

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

Property and Equipment

Purchased property and equipment are recorded at cost. Property and equipment acquired with certain government funding are recorded as expenses pursuant to the terms of the contract, in which ownership of such property and equipment is retained by the funding source. Maintenance and repairs are expensed as incurred. No depreciation is recorded on construction-in-progress until property and equipment is placed into service. 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
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 a refundable advance until related services are performed, at which time they are recognized as revenue.

Comparative Financial Information

The accompanying statements of activities and 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 2012 financial statements from which the summarized information was derived.

Reclassifications

Certain 2012 accounts have been reclassified to the 2013 financial statements presentation. The reclassification has no effect on 2012 total assets, liabilities, net assets, and changes in net assets.

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.

EXPLORE EXCEL CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

NOTE 3 - PROPERTY AND EQUIPMENT

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

	2013	2012
Furniture and fixtures	\$ 32,099	\$ 3,387
Computers and equipment	390,960	194,140
Software	13,018	13,018
Leasehold improvements	108,189	104,025
	544,266	314,570
Less: Accumulated depreciation and amortization	(138,956)	(34,837)
	\$ 405,310	\$ 279,733

Depreciation and amortization expense was \$104,121 for the year ended June 30, 2013 and \$34,837 for the period from December 14, 2010 (inception) to June 30, 2012.

NOTE 4 - 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, and governance and operational support. The School is also affiliated with Explore Charter School (“Explore”), Explore Empower Charter School (“Empower”) and Explore Exceed Charter School (“Exceed”) through common management.

The School entered into an agreement with ESI on July 1, 2011 to provide the School with educational management services and designs. Pursuant to the agreement, ESI is to select and implement educational programs, coaching and professional development to school-based leadership, manage the School’s business administration and support the Board in all governance issues. As compensation to ESI for these services, the School shall pay an annual fee of 11.5% of the School’s per pupil operating revenue. Management fee expense for the year ended June 30, 2013 and for the period from December 14, 2010 (inception) to June 30, 2012 was \$464,048 and \$361,715 respectively.

For operational efficiency and purchasing power, the School shares certain expenses with ESI, Explore, Exceed, and Excel. Following are net shared operational expenses for the years ended June 30,:

	2013	2012
ESI	\$ 25,862	\$ 7,434
Explore	13,470	5,426
Exceed	188	-
Empower	260	-
	\$ 39,780	\$ 12,860

EXPLORE EXCEL CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

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

	2013	2012
ESI	\$ 7,954	\$ 7,434
Explore	-	5,426
	\$ 7,954	\$ 12,860

NOTE 5 - COMMITMENTS

The School entered into a 36 month copier lease agreement expiring on June 30, 2015.

The future minimum lease payments are as follows:

Year ending June 30, 2014	\$ 5,064
2015	5,064
	\$ 10,128

NOTE 6 - 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 7 - 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 8 - 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.

EXPLORE EXCEL CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

NOTE 9 - RETIREMENT PLAN

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School will match 50% of employees' elective contributions, not to exceed 10% of the employee's salary. Total employer match for the year ended June 30, 2013 and for the period from December 14, 2010 (inception) to June 30, 2012 were \$17,374 and \$4,100, respectively.

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through September 20, 2013, 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 EXCEL CHARTER SCHOOL

We have audited the financial statements of Explore Excel Charter School as of and for the year ended June 30, 2013, and have issued our report thereon dated September 20, 2013, 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 20, 2013

EXPLORE EXCEL CHARTER SCHOOL  
SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended June 30, 2013

	Regular Education	Special Education	Total Program Service	General and Administrative	Total	For the period from December 14, 2010 (inception) to June 30, 2012
Salaries	\$ 1,921,643	\$ 433,692	\$ 2,355,335	\$ 399,772	\$ 2,755,107	\$ 2,164,894
Employee benefits and payroll taxes	419,929	94,773	514,702	87,360	602,062	414,326
Management fees	289,143	15,218	304,361	159,687	464,048	361,715
Legal	-	-	-	-	-	375
Advertising and recruiting	33,197	6,781	39,978	9,995	49,973	59,403
Outside services	3,846	786	4,632	4,631	9,263	27,405
Professional fees	2,645	5,292	7,937	5,292	13,229	12,006
Audit and accounting	-	-	-	20,750	20,750	25,500
Conferences, meetings and staff development	55,281	11,193	66,474	4,631	71,105	113,759
Curriculum and classroom	129,692	26,490	156,182	-	156,182	218,220
Student food service	13,525	2,762	16,287	-	16,287	12,912
Student and family services	14,034	2,866	16,900	-	16,900	11,082
Student transportation	3,529	721	4,250	-	4,250	75
Insurance	15,074	3,088	18,162	3,205	21,367	23,631
Maintenance and repairs	-	9,978	9,978	-	9,978	20,859
Postage and copying	13,595	2,784	16,379	2,890	19,269	17,319
Office supplies	-	-	-	28,087	28,087	29,400
Permit fees	10,861	2,451	13,312	2,259	15,571	-
Other expenses	5,115	1,048	6,163	891	7,054	3,164
Telephone, technology and communications	118,228	24,215	142,443	25,137	167,580	125,468
Leased equipment	3,532	797	4,329	735	5,064	-
Non-capitalized furniture	13,203	2,697	15,900	-	15,900	54,472
Depreciation and amortization	68,437	13,978	82,415	21,706	104,121	34,837
Total	<u>\$ 3,134,509</u>	<u>\$ 661,610</u>	<u>\$ 3,796,119</u>	<u>\$ 777,028</u>	<u>\$ 4,573,147</u>	<u>\$ 3,730,822</u>

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INDEPENDENT AUDITOR'S 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 EXCEL 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 Excel Charter School (the "School"), which comprise the statement of financial position as of June 30, 2013, 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 20, 2013.

***Internal Control Over Financial Reporting***

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

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

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

TO THE BOARD OF TRUSTEES OF  
EXPLORE EXCEL 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*.

We noted certain matter that was reported to the management of the School in a separate letter dated September 20, 2013.

***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 20, 2013