

**EXPLORE CHARTER SCHOOL AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007**

EXPLORE CHARTER SCHOOL AND AFFILIATE

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June 30, 2007

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GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Explore Charter School

We have audited the accompanying consolidated statement of financial position of Explore Charter School and Affiliate (the "Organization") as of June 30, 2007, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Explore Charter School and Affiliate as of June 30, 2007, and their changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information contained on pages 11 through 14 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 22, 2007, on our consideration of Explore Charter School and Affiliate's internal control over financial reporting and on our tests of their 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

October 22, 2007

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EXPLORE CHARTER SCHOOL AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2007

ASSETS

Cash and Cash Equivalents	\$ 992,225
Grants and Other Receivables	70,103
Prepaid Expenses	37,779
Property and Equipment, net	314,921
Total Assets	\$1,415,028

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 530,067
Refundable advances	15,050
Total liabilities	545,117

Commitments and Contingency

Net Assets:

Unrestricted	794,976
Temporarily restricted	74,935
Total net assets	869,911
Total Liabilities and Net Assets	\$1,415,028

See Notes to Consolidated Financial Statements

EXPLORE CHARTER SCHOOL AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2007

	Unrestricted	Temporarily Restricted	Total
Operating revenue:			
State and local per pupil operating revenue	\$3,843,715		\$3,843,715
Federal grants	332,895		332,895
State and local grants	68,739		68,739
Other revenue	7,210		7,210
Total operating revenue	4,252,559		4,252,559
Expenses:			
Program services:			
Regular education	3,549,551		3,549,551
Other program	266,160		266,160
General and administrative	618,319		618,319
Total operating expenses	4,434,030		4,434,030
Deficit on school operations from government funding	(181,471)		(181,471)
Support and other revenue:			
Contributions:			
Foundations	84,836	\$ 600	85,436
Corporations	20,303		20,303
Individuals	25,850	10,505	36,355
Other contributions and grants	122,857		122,857
Interest income	39,594		39,594
Fund-raising expenses	(17,031)		(17,031)
Total support and other revenue	276,409	11,105	287,514
Change in net assets	94,938	11,105	106,043
Net assets at beginning of year	700,038	63,830	763,868
Net assets at end of year	\$ 794,976	\$74,935	\$ 869,911

See Notes to Consolidated Financial Statements

EXPLORE CHARTER SCHOOL AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2007

	Program Services			Supporting Services			Total
	Regular Education	Other Program	Total Program Services	General and Administrative	Fund-raising	Total Supporting Services	
Salaries	\$2,332,581	\$176,581	\$2,509,162	\$199,340	\$13,242	\$212,582	\$2,721,744
Employee benefits and payroll taxes	438,027	33,145	471,172	37,225	2,181	39,406	510,578
Accounting fees				47,829		47,829	47,829
Advertising and recruiting				18,623		18,623	18,623
Outside services	233,266		233,266	186,951		186,951	420,217
Conferences and meetings	119,278		119,278	7,506		7,506	126,784
Curriculum and classroom	176,077	52,440	228,517				228,517
School fund-raising					1,263	1,263	1,263
Equipment rental				13,612		13,612	13,612
Food service	24,829		24,829	5,794		5,794	30,623
Student and family services		3,994	3,994				3,994
Insurance	33,391		33,391	5,892		5,892	39,283
Legal				20,183		20,183	20,183
Maintenance and repairs	2,577		2,577	455		455	3,032
Occupancy	1		1				1
Postage and shipping				3,396	345	3,741	3,741
Office supplies				48,544		48,544	48,544
Miscellaneous	6,223		6,223	2,718		2,718	8,941
Telephone and communications	49,878		49,878	8,883		8,883	58,761
Student transportation	69,005		69,005				69,005
Depreciation and amortization	64,418		64,418	11,368		11,368	75,786
	\$3,549,551	\$266,160	\$3,815,711	\$618,319	\$17,031	\$635,350	\$4,451,061

See Notes to Consolidated Financial Statements

EXPLORE CHARTER SCHOOL AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2007

Cash flows from operating activities:	
Change in net assets	\$ 106,043
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	75,786
Donated property and equipment	(143,859)
Changes in operating assets and liabilities:	
Decrease in grants and other receivables	180,972
Increase in prepaid expenses	(20,496)
Increase in accounts payable and accrued expenses	18,403
Increase in refundable advances	15,050
Net cash provided by operating activities	231,899
Cash used in investing activity - purchase of property and equipment	(65,851)
Net increase in cash and cash equivalents	166,048
Cash and cash equivalents at beginning of year	826,177
Cash and cash equivalents at end of year	\$ 992,225

Supplemental schedule of noncash investing activity:

Donated property and equipment	\$ 143,859
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See Notes to Consolidated Financial Statements

EXPLORE CHARTER SCHOOL AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007

**1. PRINCIPAL
BUSINESS
ACTIVITY AND
SUMMARY OF
SIGNIFICANT
ACCOUNTING
POLICIES:**

Explore Charter School (the "School") is an 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. The School is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code (the "Code"). After a review process in April 2006, the charter was renewed for a full five-year term expiring on June 11, 2011. 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.

The School operates classes for students in kindergarten and grades 1 through 7. 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 Friends of Explore Charter School, Inc. ("Friends") was organized under the laws of the State of New York on November 10, 2000 as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-for-Profit Corporation Law. Friends is exempt from federal income taxes under Section 501 (c)(3) of the Code. Friends is a not-for-profit organization with a majority of the same trustees as the School. The School's board of trustees controls the appointment of trustees to Friend's board of trustees. Friends is currently involved in maintaining community relations and making contributions to the School.

The accompanying consolidated financial statements include the accounts of the School and Friends (collectively referred to as the "Organization"). All intercompany accounts and transactions have been eliminated. The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Accordingly, net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the designation of donors.

Revenue from federal, state and local government grants are recorded by the School when expenditures are incurred. Cash received in excess of revenue recognized is recorded as refundable advances.

Contributions are recognized as revenue in the year the pledge promise is received and documented.

Contributions and unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, which increases those net asset classes. When the specified purpose of donor-restricted contributions is met, the net asset is released from restriction and transferred to unrestricted net assets. However, donor-restricted support whose restrictions are met in the same reporting period are reported as unrestricted support. Contributions of assets other than cash are recorded at their estimated fair value.

EXPLORE CHARTER SCHOOL AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007

The Organization maintains its cash in a bank deposit account which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

The Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of an insured money market account.

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. During fiscal 2007, the Organization acquired computer hardware, software, fixtures and books for the School's new library amounting to \$35,705 with funding from a government grant and was not placed in service. As a result, no depreciation was taken on these assets during fiscal 2007.

Contributed services are recorded at their fair value when such services are rendered. Contributed services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills and are performed by people with those skills and would otherwise be purchased by the Organization and (c) are measurable. Legal services were provided by individuals to the School only at no charge. For the year ended June 30, 2007, the value of such contributed legal services amounted to \$20,183.

A number of volunteers have made a contribution of their time to the Organization to develop its programs and to serve on the board of trustees. The value of this contributed time is not reflected in these financial statements since it does not meet the criteria for recognition under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates.

2. GRANTS AND OTHER RECEIVABLES:

Grants and other receivables is primarily comprised of balances due on grants with certain federal, state and local government agencies for services rendered and qualifying expenditures incurred in connection with the School's operation. The School expects to collect these receivables within one year.

3. PROPERTY AND EQUIPMENT, NET:

Property and equipment, net, at cost, consists of the following:

June 30, 2007		Estimated Useful Life
Furniture, fixtures and office equipment	\$149,933	5 to 7 years
Library fixtures, equipment and books	89,357	10 years
Computers and software	277,171	3 to 5 years
	516,461	
Less accumulated depreciation and amortization	201,540	
	<u>\$314,921</u>	

EXPLORE CHARTER SCHOOL AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007

- 4. TEMPORARILY RESTRICTED NET ASSETS:** Temporarily restricted net assets at June 30, 2007 are restricted for the following purposes:
- | | |
|------------------------|----------|
| Library media center | \$64,430 |
| Mentoring program | 8,115 |
| Sharon's World program | 2,390 |
| | <hr/> |
| | \$74,935 |
- 5. 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.
- 6. CONTINGENCIES:** Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.
- 7. RETIREMENT PLAN:** The School maintains a defined contribution 401(k) plan covering all eligible employees. The School matches 25% of the employees' elective contributions, not to exceed 5% of the respective employee's salary. Pension expense incurred by the School amounted to \$13,218 for the year ended June 30, 2007.



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

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
Explore Charter School

We have audited the consolidated financial statements of Explore Charter School and Affiliate (the "Organization") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 22, 2007. 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.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide an opinion on the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 matters that we reported to the management of the Organization in a separate letter dated October 22, 2007.

This report is intended solely for the information and use of the audit committee, board of trustees, management, the New York State Department of Education and the Charter Schools Institute of the State University of New York and is not intended to be and should not be used by anyone other than these specified parties.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

October 22, 2007

EXPLORE CHARTER SCHOOL AND AFFILIATE

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2007

	Explore Charter School	The Friends of Explore Charter School, Inc.	Eliminations	Total
ASSETS				
Cash and Cash Equivalents	\$ 740,783	\$251,442		\$ 992,225
Grant and Other Receivable	64,958	5,145		70,103
Due from Affiliate	5,651		\$(5,651)	
Prepaid Expenses	37,779			37,779
Property and Equipment, net	314,921			314,921
Total Assets	\$1,164,092	\$256,587	\$(5,651)	\$1,415,028
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 510,806	\$ 19,261		\$ 530,067
Refundable advances	15,050			15,050
Due to affiliate		5,651	\$(5,651)	
Total liabilities	525,856	24,912	(5,651)	545,117
Net Assets:				
Unrestricted	638,236	156,740		794,976
Temporarily restricted		74,935		74,935
Total net assets	638,236	231,675		869,911
Total Liabilities and Net Assets	\$1,164,092	\$256,587	\$(5,651)	\$1,415,028

EXPLORE CHARTER SCHOOL AND AFFILIATE
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended June 30, 2007

	Explore Charter School	The Friends of Explore Charter School, Inc.	Eliminations	Total
Operating revenue:				
State and local per pupil operating revenue	\$ 3,843,715			\$ 3,843,715
Federal grants	332,895			332,895
State and local grants	68,739			68,739
Other revenue	7,210			7,210
Total operating revenue	4,252,559			4,252,559
Expenses:				
Program services:				
Regular education	3,542,651	55,592	\$(48,692)	3,549,551
Other program	227,117	50,043	(11,000)	266,160
General and administrative	588,754	29,565		618,319
Total operating expenses	4,358,522	135,200	(59,692)	4,434,030
Deficit on school operations from government funding	(105,963)	(135,200)	59,692	(181,471)
Support and other revenue:				
Contributions:				
Foundations	112,092	33,036	(59,692)	85,436
Corporations	20,183	120		20,303
Individuals	3,435	32,920		36,355
Other contributions and grants	122,857			122,857
Interest income	31,946	7,648		39,594
Fund-raising expenses	(9,016)	(8,015)		(17,031)
Total support and other revenue	281,497	65,709	(59,692)	287,514
Change in net assets	175,534	(69,491)		106,043
Net assets at beginning of year	462,702	301,166		763,868
Net assets at end of year	\$ 638,236	\$231,675	\$ - 0 -	\$ 869,911

EXPLORE CHARTER SCHOOL AND AFFILIATE

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES - EXPLORE CHARTER SCHOOL

Year ended June 30, 2007

	Program Services			Supporting Services			Total
	Regular Education	Other Program	Total Program Services	General and Administrative	Fund- raising	Total Supporting Services	
Salaries	\$2,332,581	\$176,581	\$2,509,162	\$199,340	\$7,242	\$206,582	\$2,715,744
Employee benefits and payroll taxes	438,027	33,145	471,172	37,225	1,530	38,755	509,927
Accounting fees				29,499		29,499	29,499
Advertising and recruiting				16,595		16,595	16,595
Outside services	233,266		233,266	186,951		186,951	420,217
Conferences, meetings and staff development	119,278		119,278				119,278
Curriculum and classroom	169,177	17,391	186,568				186,568
School fund-raising					244	244	244
Equipment rental				13,612		13,612	13,612
Food service	24,829		24,829	5,794		5,794	30,623
Student and family services							
Insurance	33,391		33,391	5,892		5,892	39,283
Legal				20,183		20,183	20,183
Maintenance and repairs	2,577		2,577	455		455	3,032
Occupancy	1		1				1
Postage and shipping				3,396		3,396	3,396
Office supplies				48,544		48,544	48,544
Miscellaneous	6,223		6,223	1,098		1,098	7,321
Telephone, technology and communications	49,878		49,878	8,802		8,802	58,680
Student transportation	69,005		69,005				69,005
Depreciation and amortization	64,418		64,418	11,368		11,368	75,786
	\$3,542,651	\$227,117	\$3,769,768	\$588,754	\$9,016	\$597,770	\$4,367,538