

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2016

(with comparative financial information for June 30, 2015)

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
CENTRAL BROOKLYN ASCEND CHARTER SCHOOL

Report on the Financial Statements

We have audited the accompanying financial statements of Central Brooklyn Ascend Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2015 financial statements, and our report dated October 30, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of June 30, 2015 and for the period from January 1, 2013(inception) to June 30, 2015, 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 October 31, 2016, 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
October 31, 2016

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015
(with comparative financial information for June 30, 2015)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 178,303	\$ 292,492
Grants and contracts receivable	822,384	587,034
Prepaid expenses and other current assets	29,302	1,047
Total current assets	1,029,989	880,573
Other assets		
Property and equipment, net of accumulated depreciation and amortization of \$145,469 and \$20,984, respectively	2,097,744	532,036
Security deposit	7,283	1,025
Restricted cash	50,002	25,008
Total other assets	2,155,029	558,069
TOTAL ASSETS	\$ 3,185,018	\$ 1,438,642
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 237,848	\$ 341,067
Accrued payroll and payroll taxes	122,295	82,153
Refundable advances	-	4,133
Due to related parties	282,640	396,340
Current portion of loan payable	29,015	-
Total current liabilities	671,798	823,693
Other liabilities:		
Deferred rent	284,829	-
Loan payable	1,679,722	-
Total other liabilities	1,964,551	-
Total Liabilities	2,636,349	823,693
Unrestricted net assets	548,669	614,949
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 3,185,018	\$ 1,438,642

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

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(with summarized comparative financial information for the period from
January 1, 2013 (inception) to June 30, 2015)

	2016	2015
Operating revenue:		
State and local per pupil operating revenue	3,649,676	2,402,786
State and local per pupil facilities funding	561,000	427,553
Federal grants	396,357	502,539
State and city grants	288,352	142,821
Total operating revenue	4,895,385	3,475,699
Operating expenses:		
Program services:		
Regular education	3,145,685	1,848,191
Special education	918,515	467,811
Total program services	4,064,200	2,316,002
Supporting services:		
Management and general	899,061	545,099
Total operating expenses	4,963,261	2,861,101
 (Deficit) Surplus from operations	 (67,876)	 614,598
Support and other revenue:		
Contributions	1,227	-
Interest and other income	369	351
Total support and other revenue	1,596	351
Changes in unrestricted net assets	(66,280)	614,949
Unrestricted net assets - beginning of period	614,949	-
Unrestricted net assets - end of period	\$ 548,669	\$ 614,949

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

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL

(A Not-For-Profit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

(with summarized comparative financial information for the period from January 1, 2013 (inception) to June 2015)

	2016				Total	2015
	Regular Education	Special Education	Total Program Services	Management and General		
Salaries and wages	\$ 1,306,666	\$ 408,753	\$ 1,715,419	\$ 172,284	\$ 1,887,703	\$ 1,142,486
Employee benefits and payroll taxes	230,423	72,081	302,504	30,385	332,889	216,781
Professional fees	166,075	41,478	207,553	160,247	367,800	191,982
Management fees	217,913	32,185	250,098	375,147	625,245	341,193
Consultants - education	1,177	19,163	20,340	-	20,340	14,421
Legal fees	-	-	-	7,970	7,970	34,418
Curriculum and classroom supplies	190,026	28,067	218,093	-	218,093	135,817
Office supplies	-	-	-	20,599	20,599	8,488
Non-capitalized furniture and equipment	13,950	4,364	18,314	1,839	20,153	12,072
Leased equipment, furniture and fixtures	7,591	2,375	9,966	1,000	10,966	7,843
Communications	17,399	5,443	22,842	2,294	25,136	7,662
Occupancy	616,802	192,949	809,751	81,325	891,076	525,042
Insurance	21,650	6,773	28,423	2,855	31,278	20,421
Repairs and maintenance	52,527	16,432	68,959	6,925	75,884	35,117
Security	25,894	8,100	33,994	3,414	37,408	15,000
Marketing and recruiting	17,463	4,263	21,726	1,344	23,070	46,549
Staff development	43,198	8,229	51,427	1,459	52,886	44,640
Travel and meals	113,622	35,543	149,165	14,982	164,147	16,248
Postage, printing and copying	4,421	1,383	5,804	582	6,386	7,579
Dues and subscriptions	12,719	3,979	16,698	1,677	18,375	12,416
Depreciation and amortization	86,169	26,955	113,124	11,361	124,485	20,984
Miscellaneous	-	-	-	1,372	1,372	3,942
Total expenses	<u>\$ 3,145,685</u>	<u>\$ 918,515</u>	<u>\$ 4,064,200</u>	<u>\$ 899,061</u>	<u>\$ 4,963,261</u>	<u>\$ 2,861,101</u>

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

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(with summarized comparative financial information for the period from
January 1, 2013 (inception) to June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ (66,280)	\$ 614,949
Adjustments to reconcile change in unrestricted net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	124,485	20,984
(Increase) Decrease in certain assets:		
Grants and contracts receivable	(235,350)	(587,034)
Prepaid expenses and other current assets	(28,255)	(1,047)
Security deposit	(6,258)	(1,025)
Increase (Decrease) in certain liabilities:		
Accounts payable and accrued expenses	(103,219)	341,067
Accrued payroll and payroll taxes	40,142	82,153
Refundable advances	(4,133)	4,133
Due to related parties	(113,700)	396,340
Deferred rent	284,829	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(107,739)	870,520
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,690,193)	(553,020)
(Increase) in restricted cash	(24,994)	(25,008)
NET CASH (USED IN) INVESTING ACTIVITIES	(1,715,187)	(578,028)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from loan payable	1,708,737	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(114,189)	292,492
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	292,492	-
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 178,303	\$ 292,492
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 72,168	\$ -

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

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Central Brooklyn Ascend Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on January 1, 2013 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's mission is to equip their students with the knowledge, confidence, and character to succeed in college and beyond. Classes commenced in August 2014 and the School provided education to approximately 234 students in the kindergarten through second grades during the 2015-2016 academic year.

Food and Transportation Services

In partnership with Brownsville Ascend Charter School (see Note 4), the School used an outside vendor to serve breakfast and lunch to its students and was able to work with Brownsville Ascend in order for them to receive reimbursement of expenses through the New York State and Federal school food program. The School covers the cost of breakfast and lunch for families who experience hardship and who do not qualify for free or reduced meals. The Office of Pupil Transportation provides free transportation to some of the students.

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 year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015.

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 for up to three years from the extended due date of each return. All Forms 990 filed by the School are subject to examination.

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION 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.

Basis of Presentation

The School's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") 958-205. Under ASC 958-205, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets classifications are 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 operations of the School.

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

Permanently restricted net assets of the School are assets 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, 2016 and 2015.

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION 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 agency.

Cash and Cash Equivalents

The School considers all highly liquid financial 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. As of June 30, 2016, cash balances did not exceeded insured levels. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Restricted Cash

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

Property and Equipment

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 amortization is recorded on construction-in-progress until property and equipment is placed into service.

Depreciation is provided on the straight line method over the estimated useful lives as follows:

Leasehold improvements	Useful life or related lease
Equipment	3 and 5 years
Furniture and fixtures	5 years

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

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

Refundable Advances

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

Deferred Rent

The School records its rent in accordance with ASC 840-20 whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statement of financial position.

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 statement of functional expenses. Accordingly, such information should be read in conjunction with the School's 2015 financial statements from which the summarized information was derived.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 1,270,057	\$ -
Furniture and fixtures	176,641	89,789
Equipment	151,413	31,084
Construction in progress	<u>645,102</u>	<u>432,147</u>
	2,243,213	553,020
Less: Accumulated depreciation and amortization	<u>(145,469)</u>	<u>(20,984)</u>
	<u>\$ 2,097,744</u>	<u>\$ 532,036</u>

Depreciation and amortization expense was \$124,485 and \$20,984 for the year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015, respectively.

Construction in progress consists of phase I and phase II improvements and soft costs in connection with renovations of the School's permanent facility.

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Ascend Learning, Inc. (“Ascend”), a New York State not-for-profit corporation. The School entered into an agreement with Ascend on June 23, 2014 to provide the School with its educational management services and designs. As per the management agreement, Ascend is to select and implement the School’s educational program, the professional development activities for all the School personnel, manage the School’s business administration, and provide a suitable facility for the School. The School pays to Ascend an annual fee of 15% and 12% of the School’s per pupil operating revenue, per pupil facilities revenue and federal Individuals with Disabilities Education Act revenue for the year ended June 30, 2016 and for the period from January 1, 2013(inception) to June 30, 2015, respectively. The management fee for the year ended June 30, 2016 and for the period from January 1, 2013(inception) to June 30, 2015, was \$625,245 and \$341,193, respectively. In addition, Ascend shares operating expenses with the School and for the year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015, net shared expenses amounted to \$142,351 and \$321,501, respectively.

The School is related to Brooklyn Ascend Charter School (“Brooklyn Ascend”), a charter school related by common management and Board members. The School shares and pays for salaries and other expenses on behalf of Brooklyn Ascend in the net amounts of \$3,554 and \$6,560 for the year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015, respectively.

The School is related to Brownsville Ascend Charter School (“Brownsville Ascend”), a charter school related by common management and Board members. On June 23, 2014, the School entered into a sublease agreement with Brownsville Ascend to use a portion of the sixth floor of the building Brownsville Ascend occupies. The sublease was for one year ending June 30, 2015. Rent expense paid to Brownsville Ascend for the period from January 1, 2013 (inception) to June 30, 2015 amounted to \$427,553. In addition, Brownsville Ascend shares and pays for salaries and other expenses on behalf of the School in the net amounts of \$262,066 and \$160,129 for the year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015, respectively.

The School is related to Bushwick Ascend Charter School (“Bushwick Ascend”), a charter school related by common management and Board members. The School shares and pays for salaries and other expenses on behalf of Bushwick Ascend in the net amounts of \$1,452 and \$26,393 for the year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015, respectively.

The School is related to Canarsie Ascend Charter School (“Canarsie Ascend”), a charter school related by common management and Board members. Canarsie Ascend shares and pays for expenses on behalf of the School in the net amounts of \$172 and \$1,469 for the year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015, respectively.

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

The net balances due to (from) related parties consist of the following at June 30,:

	2016	2015
Ascend	\$ 254,589	\$ 112,057
Brooklyn Ascend	10,114	6,560
Brownsville Ascend	40,581	302,647
Bushwick Ascend	(23,941)	(26,393)
Canarsie Ascend	1,297	1,469
Net amounts due to related parties	\$ 282,640	\$ 396,340

As of the issuance of this report, the School paid \$215,877 towards the June 30, 2016 net balance due to Ascend. The net balances due to the other related parties remain outstanding.

NOTE 5 - COMMITMENTS

On November 3, 2014, the School entered into an agreement to lease property at 465 East 29th Street, Brooklyn, NY. As per the terms of the agreement, the lease is for 30 years, commencing on June 1, 2015 and ending on June 30, 2045. The facility is currently tax exempt, but the School will be responsible for any real estate taxes arising out of the School's occupancy.

Future minimum lease payments under the facility lease are as follows:

Year ending June 30,		\$ 656,000
	2017	721,600
	2018	721,600
	2019	721,600
	2020	721,600
	2021	721,600
	Thereafter	22,627,233
		\$ 26,169,633

Rent expense is recognized on the straight-line basis. The differences between cash payments under the lease agreement and the straight-line rent have been recognized as deferred rent in the accompanying statements of financial position from inception of the lease. The differences between rent cash payments and straight-line rent charged in the statement of financial position amounted to \$284,829 and \$-0- for the year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015, respectively.

Occupancy expense for the permanent space amounted to \$891,076 and \$46,750 for the year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015, respectively.

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 6 - 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 7 - LOAN PAYABLE

On August 4, 2015 the School entered into a \$2,000,000 loan agreement with the Nonprofit Finance Fund (“NFF”) for the purpose of financing the cost of renovations and improvements to the School’s building at 465 East 29th Street, Brooklyn NY. The loan is guaranteed by Ascend with a limited guarantee of 15% of the principal amount of the loan by Build with Purpose, a not-for-profit organization. The disbursement period of the loan is the lesser of 24 months from the closing date or the completion of the construction project on the permanent facility, at which time the outstanding balance will be converted into a term loan. The School anticipates that construction will be completed by December 1, 2016. At conversion, the loan will be payable in equal monthly installments, amortized over 20 years with interest at 6.5% per annum. Voluntary advanced payments can be made without premium or penalty. The loan is secured by a leasehold mortgage on the new School property and a second priority interest in all of the School’s assets. In addition, management fees due to Ascend are subordinated to payments due under this loan payable.

The note matures on August 1, 2025, at which time the School can either pay the outstanding balance on the loan in full or refinance. The loan is a commitment that cannot be assigned without prior written approval from NFF.

At conversion date, the School and Ascend must maintain various financial performance covenants in order to satisfy the terms of the loan.

Future minimum principal payments on the loan are as follows:

June 30, 2017	\$ 29,015
2018	52,365
2019	55,872
2020	59,614
2021	131,473
Thereafter	<u>1,671,660</u>
	<u>\$ 2,000,000</u>

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 8 - 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 9 - 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 10 - 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 employee contributions ranging from 2% to 4% of annual compensation. Employer match for the year ended June 30, 2016 and for the period from January 1, 2013 (inception) to June 30, 2015 amounted to \$8,097 and \$3,439, respectively.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 31, 2016, the date the financial statements were available to be issued.

Effective July 1, 2016, Brooklyn Ascend, Brownsville Ascend, Bushwick Ascend, and Central Brooklyn Ascend merged into a single legal entity under Canarsie Ascend Charter School, which serves as the sole surviving education corporation. Pursuant to the merger, Canarsie Ascend Charter School changed its corporate name to Ascend Charter Schools. Brooklyn Ascend, Brownsville Ascend, Bushwick Ascend, and Central Brooklyn Ascend were dissolved and ceased to exist as legal entities in conjunction with the merger effective date. The plan of 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 March 22, 2016 and June 13, 2016.

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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
CENTRAL BROOKLYN ASCEND 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 Central Brooklyn Ascend Charter School (the "School"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2016.

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
CENTRAL BROOKLYN ASCEND 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 matters that were reported to the management of the School in a separate letter dated October 31, 2016.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
October 31, 2016

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October 31, 2016

To the Audit Committee of the Board of Trustees of
Central Brooklyn Ascend Charter School
205 Rockaway Parkway, Room 308
Brooklyn, NY 11212

We have audited the financial statements of Central Brooklyn Ascend Charter School (the "School") for the year ended June 30, 2016, and have issued our report thereon dated October 31, 2016. 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 10, 2016, 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.

Auditor Independence

Fruchter Rosen & Company, P.C. have complied with all relevant ethical requirements regarding independence.

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, 2016. 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.

Significant Accounting Estimates

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 statements 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 statements 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 October 31, 2016.

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.

We have issued a separate report to you, also dated October 31, 2016, containing our comments on the School's internal control.

Other Matters

This information is intended solely for the use of the Audit Committee, the Board of Trustees and management of the 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

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)

INDEPENDENT AUDITORS' REPORT ON COMMUNICATION
OF INTERNAL CONTROL MATTERS

JUNE 30, 2016

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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NEW YORK, NEW YORK 10019

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October 31, 2016

To the Board of Trustees of
Central Brooklyn Ascend Charter School
205 Rockaway Parkway, Room 308
Brooklyn, NY 11212

In planning and performing our audit of the financial statements of Central Brooklyn Ascend Charter School (the "School") (a not-for-profit corporation) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the 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.

Exhibit I accompanying this letter summarizes an observation for the year ended June 30, 2016 that we determined did not constitute a significant deficiency or a material weakness. Management's response to the observation has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Trustees, federal, state, and local awarding agencies, The Charter Schools 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 have already discussed these comments and suggestions with management. We would be pleased to discuss these comments with you at greater length and assist you in the implementation of any of our recommendations should you desire. We appreciate your cooperation and the assistance we received during the course of our audit.


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

New York, New York
October 31, 2016

CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
JUNE 30, 2016

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CENTRAL BROOKLYN ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
JUNE 30, 2016

EXHIBIT I– CURRENT YEAR OBSERVATION

A. GENERAL LEDGER MAINTENANCE AND ACCOUNT ANALYSIS

Observation

Although schedules were prepared during our audit field work, these schedules and reconciliations were not prepared and updated throughout the fiscal year. This resulted in various adjustments to the general ledger during the year end closing and preparation of the audit package, which delayed the start and completion of the audit. These adjustments and delays could have been minimized had accounts been analyzed and compared with the general ledger on a regular basis throughout the year.

Recommendation

Management should be analyzing accounts and reconciling with the general ledger more completely on a monthly or quarterly basis. Additional in-depth account analysis will help the School detect and correct errors on a more timely basis. Management should also increase the financial support throughout the year.

Management's Response

Management is in agreement with the recommendation. We completed a major accounting system transition in the fiscal year just ended. Prior to the transition, which took place on April 1, 2016, we were current with monthly reconciliations and reviews, but did not complete the full transition in a timely enough fashion to permit monthly reviews through the end of the fiscal year. The transition was much needed as we had outgrown QuickBooks, Ascend's original accounting system.

We have added a senior level controller, as of October 16, whose responsibilities include just those recommended above – account analysis and general ledger maintenance. The controller will ensure that we complete all reconciliations on a monthly basis and will review the general ledger and post entries in a timely fashion throughout the year. Further, as recommended, management has increased the capacity of the team more generally, to offer additional support throughout the year.