

Ascend Charter Schools

Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2018 and 2017

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Independent Auditors' Report

Board of Trustees
Ascend Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Ascend Charter Schools (the "School"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

PKF O'CONNOR DAVIES, LLP

500 Mamaroneck Avenue, Harrison, NY 10528 | Tel: 914.381.8900 | Fax: 914.381.8910 | www.pkfod.com

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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, 2018 and 2017, and the changes in its net assets and its cash flows for the years 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 June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of activities and functional expenses by school for the year ended June 30, 2018 on pages 20 through 25 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 26 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, 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 solely 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 the effectiveness of the School's 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.

PKF O'Connor Davies, LLP

Ascend Charter Schools

Statements of Financial Position

	June 30,	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9,309,933	\$ 5,496,217
Cash - loan payable held in escrow	-	200,000
Grants and contracts receivable	4,013,967	3,121,856
Prepaid expenses and other current assets	251,548	519,892
Total Current Assets	13,575,448	9,337,965
Property and equipment, net	8,122,089	23,198,550
Security deposits	323,055	114,493
Restricted cash	225,229	225,049
	\$ 22,245,821	\$ 32,876,057
 LIABILITIES AND NET ASSETS (DEFICIT)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,990,824	\$ 1,200,165
Accrued payroll and payroll taxes	2,629,264	2,252,678
Refundable advances	90,245	109,840
Loan payable - related party	400,000	400,000
Loan payable - landlord	-	81,250
Loans payable - current portion	-	501,773
Due to related parties	2,302,253	1,626,649
Total Current Liabilities	7,412,586	6,172,355
Due to related party	947,317	947,317
Deferred rent	14,799,329	13,129,534
Loans payable	-	13,054,764
Total Liabilities	23,159,232	33,303,970
Net assets (deficit), unrestricted	(913,411)	(427,913)
	\$ 22,245,821	\$ 32,876,057

See notes to financial statements

Ascend Charter Schools

Statements of Activities

	Year Ended June 30,	
	2018	2017
OPERATING REVENUE		
State and local per pupil operating revenue		
General and special education	\$ 73,076,058	\$ 63,257,290
Facilities	6,807,861	3,742,361
Federal grants	4,007,441	3,355,124
Federal E-Rate and IDEA	677,796	867,713
State and city grants	335,223	298,512
Total Operating Revenue	84,904,379	71,521,000
EXPENSES		
Program Services		
Regular education	52,901,912	44,816,221
Special education	18,292,081	14,237,572
Total Program Services	71,193,993	59,053,793
Supporting Services		
Management and general	14,760,654	12,129,335
Total Expenses	85,954,647	71,183,128
(Deficit) Surplus from Operations	(1,050,268)	337,872
SUPPORT AND OTHER REVENUE		
Contributions	51,163	172,558
Rental income	135,000	120,000
Interest and other revenue	121,249	59,838
Gain on transfer of leases and loans to related party	257,358	-
Total Support and Other Revenue	564,770	352,396
Change in Net Assets	(485,498)	690,268
NET ASSETS (DEFICIT), UNRESTRICTED		
Beginning of year	(427,913)	(628,258)
Transfer of net (deficit) pursuant to merger of related charter schools	-	(489,923)
End of year	\$ (913,411)	\$ (427,913)

See notes to financial statements

Ascend Charter Schools

Statement of Functional Expenses
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

	No. of Positions	2018			2017		
		Program Services		Total	Management and General	Total	
		Regular Education	Special Education				
Personnel Services Costs							
Administrative staff personnel	108	\$ 4,587,365	\$ 1,740,930	\$ 6,328,295	\$ 3,400,045	\$ 9,728,340	\$ 8,448,427
Instructional personnel	413	20,089,186	7,628,757	27,717,943	-	27,717,943	23,374,055
Non-instructional personnel	31	-	-	-	873,720	873,720	848,259
Total Salaries and Staff	552	24,676,551	9,369,687	34,046,238	4,273,765	38,320,003	32,670,741
Employee benefits and payroll taxes		5,237,952	1,990,982	7,228,934	909,512	8,138,446	5,939,054
Professional fees		1,007,563	251,283	1,258,846	446,187	1,705,033	1,609,228
Management fees		3,475,579	564,891	4,040,470	6,117,261	10,157,731	8,527,882
Consultants - education		125,526	63,335	188,861	38,815	227,676	102,051
Legal fees		-	-	-	114,378	114,378	85,483
Curriculum and classroom supplies		1,586,569	255,127	1,841,696	-	1,841,696	1,543,523
Office supplies		-	-	-	310,424	310,424	249,340
Non-capitalized furniture and equipment		161,629	57,501	219,130	27,242	246,372	221,021
Leased equipment, furniture and fixtures		1,317,332	484,699	1,802,031	226,543	2,028,574	1,776,077
Communications		423,535	166,769	590,304	73,556	663,860	628,976
Occupancy		10,378,965	3,862,677	14,241,642	1,752,980	15,994,622	10,878,292
Insurance		249,346	90,702	340,048	40,653	380,701	327,838
Repairs and maintenance		459,392	158,905	618,297	79,270	697,567	993,140
Security		89,764	28,374	118,138	14,713	132,851	91,074
Marketing and recruiting		233,216	76,021	309,237	28,707	337,944	226,599
Staff development		615,334	127,304	742,638	30,729	773,367	482,608
Travel and meals		1,593,721	284,891	1,878,612	24,125	1,902,737	1,700,135
Postage, printing and copying		75,126	26,242	101,368	12,569	113,937	97,567
Dues and subscriptions		180,106	69,086	249,192	31,086	280,278	244,468
Depreciation and amortization		888,423	330,984	1,219,407	152,719	1,372,126	2,064,964
Interest		126,283	32,621	158,904	18,912	177,816	703,745
Miscellaneous		-	-	-	36,508	36,508	19,322
Total Expenses		<u>\$ 52,901,912</u>	<u>\$ 18,292,081</u>	<u>\$ 71,193,993</u>	<u>\$ 14,760,654</u>	<u>\$ 85,954,647</u>	<u>\$ 71,183,128</u>

See notes to financial statements

Ascend Charter Schools

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (485,498)	\$ 690,268
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,372,126	2,064,964
Deferred rent	3,687,619	2,068,408
Gain on transfer of leases and loans to related party	(257,358)	-
Changes in operating assets and liabilities		
Grants and contracts receivable	(892,111)	(1,066,314)
Prepaid expenses and other current assets	268,344	265,355
Security deposits	(208,562)	(16,027)
Accounts payable and accrued expenses	790,659	(868,124)
Accrued payroll and payroll taxes	376,586	438,877
Refundable advances	(19,595)	45,189
Due to related party	675,604	138,335
Net Cash from Operating Activities	5,307,814	3,760,931
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,180,871)	(4,665,265)
Restricted cash	(180)	110,939
Release of loans payable held in escrow	200,000	-
Net Cash from Investing Activities	(981,051)	(4,554,326)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments to) proceeds from loan payable - landlord	(81,250)	81,250
(Payments to) proceeds from loans payable	(431,797)	2,499,628
Payments made on capital lease obligation	-	(29,429)
Net Cash from Financing Activities	(513,047)	2,551,449
Net Change in Cash and Cash Equivalents	3,813,716	1,758,054
CASH AND CASH EQUIVALENTS		
Beginning of year	5,496,217	3,738,163
End of year	\$ 9,309,933	\$ 5,496,217
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 177,816	\$ 703,745
Non-cash investing activities		
Leasehold improvements transferred to related party	14,885,206	-
Deferred rent transferred to related party	2,017,824	-
Non-cash financing activity		
Loans payable paid by related party resulting from transfer of leases	13,124,740	-

See notes to financial statements

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status

Ascend Charter Schools (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’s mission is to equip their students with the knowledge, confidence and character to succeed in college and beyond.

The accompanying financial statements include the following charter schools collectively forming the School:

Brooklyn Ascend Charter School (“Brooklyn Ascend”) – Brooklyn Ascend was granted a provisional charter on January 15, 2008 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. Brooklyn Ascend obtained a renewal to its charter expiring on June 30, 2023.

Brownsville Ascend Charter School (“Brownsville Ascend”) – Brownsville Ascend was granted a provisional charter on January 13, 2009 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. Brownsville Ascend obtained a renewal to its charter which expired on June 30, 2017. In February 2017, Brownsville Ascend obtained a 2nd renewal to its charter expiring on June 30, 2022.

Bushwick Ascend Charter School (“Bushwick Ascend”) – Bushwick Ascend was granted a provisional charter on February 9, 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. Bushwick Ascend obtained a renewal to its charter expiring on June 30, 2023.

Canarsie Ascend Charter School (“Canarsie Ascend”) – Canarsie Ascend was granted a provisional charter on September 13, 2011 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. Canarsie Ascend obtained a renewal to its charter expiring in September 2023.

Central Brooklyn Ascend Charter School (“Central Brooklyn Ascend”) – Central Brooklyn Ascend 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 charter will expire in June 2019.

On July 19, 2017, the School was granted a provisional charter to operate Cypress Hills Ascend Charter School (“Cypress Hills Ascend”) (formerly known as Central Brooklyn Ascend Charter School 2) and Central Brooklyn Ascend Charter School 3, 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. Classes commenced at Cypress Hills Ascend in September 2018.

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

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status (*continued*)

Brooklyn Ascend were dissolved and ceased to exist as legal entities in conjunction with the merger. 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.

The School provided education to approximately 4,369 students in the kindergarten through eleventh grades during the 2017-2018 academic year.

The School uses two outside vendors to serve breakfast and lunch to its students through Brownsville Ascend, who files for 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.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies *(continued)*

Net Assets Presentation (continued)

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily and permanently restricted net assets at June 30, 2018 and 2017.

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.

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

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$5,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case such assets are expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 and 5 years
Furniture and fixtures	5 years
Software	3 years
Website development	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2018 and 2017.

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

2. 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 it is recognized as revenue.

Deferred Rent

The School records its rent in accordance with U.S. GAAP 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 statements of financial position.

Revenue and Support

Revenue from 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.

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 at the date of donation.

Marketing and Recruiting Costs

The School uses marketing and recruitment specifically aimed at hiring staff and obtaining new students. Accordingly, all costs in marketing and recruiting were allocated to program and management and general expenditures and expensed as incurred. For the years ended June 30, 2018 and 2017, marketing and recruiting costs totaled \$337,994 and \$226,599.

Prior Year Summarized Financial Information

The statement of functional expenses includes prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2017, from which the summarized financial information was derived.

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 25, 2018.

On October 4, 2018, the Charter Schools Institute of the State University of New York approved two applications for Central Brooklyn Ascend Charter Schools 4 and 5, which are planned to open in September 2019.

3. 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.

4. Related Party Transactions (not disclosed elsewhere)

The School is an affiliate of Ascend Learning, Inc. ("Ascend"), a New York State not-for-profit corporation, by common management. The School entered into an agreement with Ascend on July 1, 2017 which calls for Ascend to design, select and implement the School's educational program as well as the professional development activities for all the School personnel; recruit, supervise and evaluate the School's director; propose employment policies and practices relating to School personnel; and manage the School's business administration. For the years ended June 30, 2018 and 2017, each charter school paid Ascend an annual fee ranging from 11.5% to 15% of the School's per pupil operating revenue, per pupil facilities revenue and federal Individuals with Disabilities Education Act revenue. The management fee for the years ended June 30, 2018 and 2017 amounted to \$10,157,731 and \$8,527,882.

The School entered into a sublease agreement with Ascend on July 1, 2011. There are two amendments to the agreement. The terms of the agreement permit Ascend to use the 6th floor of the building the School occupies. Ascend increased use of the floor over the term of

Ascend Charter Schools

Notes to Financial Statements June 30, 2018 and 2017

4. Related Party Transactions (not disclosed elsewhere) (continued)

the lease, and rent increased accordingly. Rental income amounted to \$135,000 and \$120,000 for the years ended June 30, 2018 and 2017.

On September 30, 2013, the School received an interest-free loan of \$400,000 from Ascend. The proceeds were used to finance the School's operations. The outstanding principal balance of the loan at June 30, 2018 and 2017 was \$400,000. The loan matures on June 30, 2019, at which time the outstanding balance will be due in full.

The School is an affiliate of Friends of Ascend Charter Schools, Inc. ("FOA"), a New York State not-for-profit corporation, by common management. FOA's purpose is to support the operation of the School by managing the School's real estate and facilities-related needs, and by raising funds and resources that will enable FOA to provide support to the School and to enhance the experience of the School's students.

During fiscal 2018, the lease agreements of five facilities used by the School were transferred to FOA (see Note 10) and new sublease agreements were entered into between FOA (sublandlord) and the School (subtenant). As a result of these transfers, leasehold improvements pertaining to the transferred leases with net book value of \$14,885,206 and unamortized deferred rent amounting to \$2,017,824 were transferred to FOA. In addition, the balance of loans payable of \$13,124,740 used to finance the leasehold improvements were transferred to and paid in full by FOA on June 28, 2018. The transfer of leases and loans to FOA resulted in a non-operating gain of \$257,358 which is reported as gain on transfer of leases and loans to related party in the statements of activities.

For operational efficiency and purchasing power, the School shares certain operating expenses with Ascend and FOA. The net balance due to the related parties at June 30, 2018 and 2017 was \$3,249,570 and \$2,573,966.

5. Property and Equipment

Property and equipment consist of the following as of June 30:

	2018	2017
Computers	\$ 2,076,030	\$ 1,728,263
Equipment	975,321	961,456
Furniture and fixtures	1,954,864	1,579,619
Software	38,124	38,124
Website development	143,277	143,277
Leasehold improvements	8,792,053	25,592,474
Construction in progress	415,360	422,904
	<u>14,395,029</u>	<u>30,466,117</u>
Accumulated depreciation and amortization	<u>(6,272,940)</u>	<u>(7,267,567)</u>
	<u>\$ 8,122,089</u>	<u>\$ 23,198,550</u>

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

5. Property and Equipment (*continued*)

Construction-in-progress at June 30, 2018 and 2017 is comprised of architect fees and other soft costs for the planning, development, and construction of the Bushwick Ascend and Canarsie Ascend middle school facilities.

6. Loan Payable Held in Escrow

On February 3, 2012, Bushwick Ascend entered into a \$7,500,000 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 741-757 Knickerbocker Avenue, Brooklyn, NY. (see Note 13). On September 11, 2013, the final draw amount was disbursed and held in an escrow account. Per the loan agreement, the final draw is to be held in an escrow account, to be released when the final certificate of occupancy is obtained by the School. The escrow was released in 2018 as part of the transfer of leases and loans to FOA (see Note 4), and as a result of satisfaction of outstanding items related to the loan.

7. Employee Benefit 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. Total employer match for the years ended June 30, 2018 and 2017 was \$244,400 and \$194,880.

8. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2018 and 2017, approximately \$9,285,000 and \$5,471,000 of cash was maintained with an institution in excess of FDIC limits.

9. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2018 and 2017, the School received approximately 94% and 93% of total revenue and support 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.

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

10. Commitments

School Facilities

Brooklyn Ascend

On March 19, 2008, Brooklyn Ascend entered into an agreement to lease property at 205 Rockaway Parkway, Brooklyn, New York for a period of 15 years. The landlord has renovated the facility to conform to the School's specifications in phases. As of June 30, 2018, Brooklyn Ascend has reimbursed the landlord a total of \$2,622,350 for these renovations which are classified as leasehold improvements under property and equipment in the statements of financial position. Pursuant to the fourth lease amendment, annual fixed rent will be reduced for years 8 through 15 due to deletion of certain projects. On July 28, 2016, Brooklyn Ascend signed a fifth amendment to renew the lease for 10 years. The renewal period commences on September 1, 2023.

On January 19, 2011, Brooklyn Ascend entered into an agreement to lease property at 123 East 98th Street, Brooklyn, New York for a period of 20 years. This location became the home of Brooklyn Ascend Middle School starting with the 2012-2013 academic year.

On July 2, 2012, Brooklyn Ascend entered into an agreement as a co-lessee with Brownsville Ascend to become a future tenant located at 1501 Pitkin Avenue, Brooklyn, New York. The occupancy period for the School is 17 years of the 20 year lease agreement. The facility became the home of Brooklyn Ascend High School, which began with the 2015-2016 academic year. The space is shared with Brownsville Ascend.

Pursuant to each facility lease agreement, the School will also reimburse the landlords for the proportionate share of the real estate taxes and any other costs associated with the leasing of the premises.

Brownsville Ascend

On June 22, 2010, Brownsville Ascend entered into an agreement to lease property at 1501 Pitkin Avenue, Brooklyn, NY. As per the terms of the agreement, the lease is for 20 years, renewable for up to 20 additional years. The construction of the facility will be completed in phases. There are five amendments to the agreement as well as an additional letter agreement related to roof play space. Effective as of the fourth amendment, Brooklyn Ascend entered into the agreement as a co-lessee, and effective as of the 2015-2016 academic year, Brooklyn Ascend High School became a co-tenant of the building. Both schools will reimburse the landlord for their share of real estate taxes. Brownsville Ascend moved into the new permanent lease facility on August 20, 2012.

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

10. Commitments (*continued*)

School Facilities (*continued*)

Bushwick Ascend

On July 29, 2011, the School entered into an agreement to lease property at 741-757 Knickerbocker Avenue, Brooklyn, New York for a period of 20 years, with a renewal option for an additional ten years. The lease provides for rent escalations and the School is responsible for utilities, real estate taxes and other operating expenses. As part of the agreement, the School has the right to mortgage its interest in the lease under a leasehold mortgage and assign the lease as collateral security for such leasehold mortgage. The facility is currently tax exempt, but the School will be responsible for any real estate taxes arising out of the School's occupancy.

On March 30, 2015, the School entered into an agreement to lease property at 2 Aberdeen Street, Brooklyn, New York. As per the terms of the agreement, the lease is for a period of 30 years, commencing on June 1, 2015 and ending on June 30, 2045. This location became the home of Bushwick Ascend Middle School starting with the 2015-2016 academic year. The facility is currently tax exempt, but the School will be responsible for any real estate taxes arising out of the School's occupancy.

On May 18, 2018, the two Bushwick Ascend leases were transferred to FOA and a new sublease agreement between FOA (sublandlord) and the School (subtenant) was entered into for a period of 28 years ending on June 30, 2045 (see Note 4).

Rent expense on all subleases with FOA are recorded on the straight-line basis in accordance with U.S. GAAP.

Canarsie Ascend

On April 1, 2013, Canarsie Ascend entered into an agreement to lease property at 9719 Flatlands Avenue, Brooklyn, NY. As per the terms of the agreement, the lease is for 20 years, renewable for up to 10 additional years. The facility is currently tax exempt, but Canarsie Ascend will be responsible for any real estate taxes arising out of the School's occupancy.

On August 30, 2017, Canarsie Ascend entered into an agreement to lease property at 744 East 87th Street and 751 East 86th Street in Brooklyn, New York for a period of 30 years, commencing on June 15, 2017 and ending June 30, 2047. The property is currently exempt from real estate taxes, but the School will be responsible for any real estate taxes arising out of the School's occupancy. On September 12, 2017, the lease agreement was transferred to FOA and a new sublease agreement between FOA (sublandlord) and the School (subtenant) was executed for a period of 30 years ending on June 30, 2047 (see Note 4).

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

10. Commitments (*continued*)

School Facilities (*continued*)

Central Brooklyn Ascend

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 property is currently exempt from real estate taxes, but the School will be responsible for any real estate taxes arising out of the School's occupancy. On September 12, 2017, the lease agreement was transferred to FOA and a new sublease agreement between FOA (sublandlord) and the School (subtenant) was executed for a period of 28 years ending on June 30, 2045 (see Note 4).

On September 12, 2017, the School entered into an agreement with FOA to sublease property at 1886 Nostrand Avenue, Brooklyn, NY. As per the terms of the agreement, the lease is for 28 years, commencing on August 15, 2017 and ending on June 30, 2045. The property is currently exempt from real estate taxes, but the School will be responsible for any real estate taxes arising out of the School's occupancy.

Cypress Hills Ascend

On February 22, 2018, the School entered into an agreement with FOA to sublease property at 396 Grant Avenue, Brooklyn, NY. As per the terms of the agreement, the lease is for 30 years, commencing on February 1, 2018 and ending on June 30, 2048. The property is currently exempt from real estate taxes, 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 leases (including the subleases with FOA) are as follows for the years ending June 30:

2019	\$ 14,280,096
2020	15,484,624
2021	16,180,435
2022	16,644,604
2023	16,850,603
Thereafter	<u>325,683,154</u>
	<u>\$ 405,123,516</u>

Rent expense is recognized on the straight-line basis over the term of the lease. The difference between cash payments under the lease agreements and the straight-line rent have been recognized as deferred rent in the accompanying statement of financial position from inception of the lease. The difference between rent cash payments and straight-line rent included in occupancy expense in the accompanying statement of functional expenses amounted to \$3,687,620 and \$2,068,408 for the years ended June 30, 2018 and 2017.

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

10. Commitments (*continued*)

Leased Equipment

The School entered into several furniture and equipment lease agreements expiring June 2020.

Future minimum rental payments under the non-cancelable operating leases are as follows for the years ending June 30:

2019	\$ 769,041
2020	<u>431,878</u>
	<u>\$ 1,200,919</u>

11. Contingency

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.

12. Loan Payable – Landlord

On July 28, 2016, pursuant to the fifth amendment to the 205 Rockaway Parkway lease, the landlord agreed to lend Brooklyn Ascend \$325,000 for the construction of a staircase. The loan accrues interest at 12% per annum. At June 30, 2018 and 2017, the balance of the loan was \$0 and \$81,250.

13. Loans Payable

NFF Loan 1

Bushwick Ascend

On February 3, 2012, Bushwick Ascend entered into a \$7,500,000 loan agreement with the Nonprofit Finance Fund (“NFF”) for the purpose of financing the cost of renovations and improvements to the lower School building at 741-757 Knickerbocker Avenue, Brooklyn, NY. The loan is guaranteed by Ascend. Of the \$8,000,000 construction project, \$7,500,000 was funded by NFF while the remaining \$500,000 was contributed by Bushwick Ascend. At June 30, 2017, the outstanding balance under the loan agreement was \$6,338,148. The balance of the loan was transferred to and paid in full by FOA in June 2018.

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

13. Loans Payable (*continued*)

NFF Loan 2

Bushwick Ascend

On August 20, 2015, Bushwick Ascend entered into a \$2,850,000 loan agreement with the Nonprofit Finance Fund (“NFF”) for the purpose of financing the cost of renovations and improvements to Bushwick Ascend’s middle school building at 2 Aberdeen 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 18 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. Construction was completed in January 2017 and converted into a term loan effective February 1, 2017. The loan is payable in equal monthly installments, amortized over 16 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 middle school property and a second priority interest in all of Bushwick Ascend’s assets. In addition, management fees due to Ascend are subordinated to payments due under this loan payable. At June 30, 2017, the outstanding balance under the loan agreement was \$2,807,158. The balance of the loan was transferred to and paid in full by FOA in June 2018.

Canarsie Ascend

On December 23, 2015, Canarsie Ascend entered into a \$1,900,000 loan agreement with the Nonprofit Finance Fund (“NFF”) for the purpose of financing the cost of renovations and improvements to Canarsie Ascend’s building at 97-19 Flatlands Avenue, 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 12 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. Construction was completed in January 2017. At conversion, the loan is 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 Canarsie Ascend middle 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. At June 30, 2017, the outstanding balance under the loan agreement was \$1,842,645. The balance of the loan was transferred to and paid in full by FOA in June 2018.

Ascend Charter Schools

Notes to Financial Statements
June 30, 2018 and 2017

13. Loans Payable (*continued*)

NFF Loan 2 (*continued*)

Central Brooklyn Ascend

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. Construction was completed in January 2017. At conversion, the loan is 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. At June 30, 2017, the outstanding balance under the loan agreement was \$1,979,366. The balance of the loan was transferred to and paid in full by FOA in June 2018.

Brooklyn Ascend and Brownsville Ascend

On October 28, 2016, Brooklyn Ascend, as a co-borrower with Brownsville Ascend, closed on a \$600,000 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 1501 Pitkin Avenue, Brooklyn, NY. The loan is guaranteed by Ascend. Brooklyn Ascend, Brownsville Ascend and Ascend must maintain various financial performance covenants in order to satisfy the terms of the loan. The loan is payable in monthly installments including interest at 6.5% per annum. Amount due per month will be in equal payments, amortized over 10 years. The loan is secured by a leasehold mortgage on the school property and a security interest in certain personal property of the schools. The note matures on October 28, 2026, at which time the schools 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 June 30, 2017, the outstanding balance under the loan agreement was \$589,221. The balance of the loan was transferred to and paid in full by FOA in June 2018.

Ascend Charter Schools

Supplementary Information

June 30, 2018

Ascend Charter Schools

Schedule of Activities by School
Year Ended June 30, 2018

	Brooklyn Ascend	Brownsville Ascend	Bushwick Ascend	Canarsie Ascend	Central Brooklyn Ascend	Total
OPERATING REVENUE						
State and local per pupil operating revenue						
General and special education	\$ 23,272,757	\$ 17,058,277	\$ 14,457,911	\$ 11,145,128	\$ 7,141,985	\$ 73,076,058
Facilities	1,511,462	1,465,193	1,118,918	1,456,750	1,255,538	6,807,861
Federal grants	1,130,817	1,071,202	702,315	688,832	414,275	4,007,441
Federal E-Rate and IDEA	214,028	139,226	162,334	100,809	61,399	677,796
State and city grants	<u>102,147</u>	<u>79,800</u>	<u>74,523</u>	<u>45,561</u>	<u>33,192</u>	<u>335,223</u>
Total Operating Revenue	<u>26,231,211</u>	<u>19,813,698</u>	<u>16,516,001</u>	<u>13,437,080</u>	<u>8,906,389</u>	<u>84,904,379</u>
EXPENSES						
Program Services						
Regular education	16,007,599	12,486,566	9,631,959	10,041,098	4,734,690	52,901,912
Special education	<u>5,579,261</u>	<u>3,854,153</u>	<u>4,418,654</u>	<u>2,190,853</u>	<u>2,249,160</u>	<u>18,292,081</u>
Total Program Services	21,586,860	16,340,719	14,050,613	12,231,951	6,983,850	71,193,993
Supporting Services						
Management and general	<u>4,260,340</u>	<u>3,487,274</u>	<u>3,027,695</u>	<u>2,503,489</u>	<u>1,481,856</u>	<u>14,760,654</u>
Total Expenses	<u>25,847,200</u>	<u>19,827,993</u>	<u>17,078,308</u>	<u>14,735,440</u>	<u>8,465,706</u>	<u>85,954,647</u>
 (Deficit) Surplus from Operations	<u>384,011</u>	<u>(14,295)</u>	<u>(562,307)</u>	<u>(1,298,360)</u>	<u>440,683</u>	<u>(1,050,268)</u>
SUPPORT AND OTHER REVENUE						
Contributions	49,553	-	-	600	1,010	51,163
Rental income	135,000	-	-	-	-	135,000
Interest and other revenue	11,996	10,013	90,319	6,075	2,846	121,249
Gain on transfer of leases and loans	<u>5,147</u>	<u>5,147</u>	<u>172,430</u>	<u>36,030</u>	<u>38,604</u>	<u>257,358</u>
Total Support and Other Revenue	<u>201,696</u>	<u>15,160</u>	<u>262,749</u>	<u>42,705</u>	<u>42,460</u>	<u>564,770</u>
 Change in Net Assets	585,707	865	(299,558)	(1,255,655)	483,143	(485,498)
NET ASSETS (DEFICIT), UNRESTRICTED						
Beginning of year	<u>(3,870,326)</u>	<u>2,584,924</u>	<u>1,217,438</u>	<u>(611,572)</u>	<u>251,623</u>	<u>(427,913)</u>
 End of year	<u>\$ (3,284,619)</u>	<u>\$ 2,585,789</u>	<u>\$ 917,880</u>	<u>\$ (1,867,227)</u>	<u>\$ 734,766</u>	<u>\$ (913,411)</u>

See independent auditors' report

Ascend Charter Schools

Schedule of Functional Expenses
Brooklyn Ascend Charter School
Year Ended June 30, 2018

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	31	\$ 1,358,080	\$ 511,401	\$ 1,869,481	\$ 1,159,761	\$ 3,029,242
Instructional personnel	137	6,528,322	2,458,314	8,986,636	-	8,986,636
Non-instructional personnel	5	-	-	-	214,093	214,093
Total Salaries and Staff	173	7,886,402	2,969,715	10,856,117	1,373,854	12,229,971
Employee benefits and payroll taxes		1,641,653	618,182	2,259,835	285,983	2,545,818
Professional fees		332,485	115,968	448,453	110,864	559,317
Management fees		996,257	154,896	1,151,153	1,656,535	2,807,688
Consultants - education		49,492	10,699	60,191	-	60,191
Legal fees		-	-	-	33,380	33,380
Curriculum and classroom supplies		504,108	78,378	582,486	-	582,486
Office supplies		-	-	-	78,196	78,196
Non-capitalized furniture and equipment		54,973	20,701	75,674	9,578	85,252
Leased equipment, furniture and fixtures		476,752	179,526	656,278	83,052	739,330
Communications		152,543	57,442	209,985	26,576	236,561
Occupancy		2,620,423	986,750	3,607,173	456,490	4,063,663
Insurance		73,013	26,462	99,475	11,906	111,381
Repairs and maintenance		174,226	65,607	239,833	30,351	270,184
Security		37,156	13,991	51,147	6,473	57,620
Marketing and recruiting		99,040	33,028	132,068	13,890	145,958
Staff development		154,732	30,854	185,586	5,700	191,286
Travel and meals		346,327	63,420	409,747	7,542	417,289
Postage, printing and copying		12,896	4,856	17,752	2,248	20,000
Dues and subscriptions		55,785	21,006	76,791	9,721	86,512
Depreciation and amortization		338,111	127,319	465,430	58,901	524,331
Interest		1,225	461	1,686	212	1,898
Miscellaneous		-	-	-	(1,112)	(1,112)
Total Expenses		<u>\$ 16,007,599</u>	<u>\$ 5,579,261</u>	<u>\$ 21,586,860</u>	<u>\$ 4,260,340</u>	<u>\$ 25,847,200</u>

See independent auditors' report

Ascend Charter Schools

Schedule of Functional Expenses
Brownsville Ascend Charter School
Year Ended June 30, 2018

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	25	\$ 1,107,435	\$ 372,867	\$ 1,480,302	\$ 686,147	\$ 2,166,449
Instructional personnel	94	4,966,635	1,672,236	6,638,871	-	6,638,871
Non-instructional personnel	18	-	-	-	426,750	426,750
Total Salaries and Staff	137	6,074,070	2,045,103	8,119,173	1,112,897	9,232,070
Employee benefits and payroll taxes		1,338,290	450,594	1,788,884	245,203	2,034,087
Professional fees		131,272	44,198	175,470	81,076	256,546
Management fees		887,961	132,339	1,020,300	1,352,491	2,372,791
Consultants - education		31,277	9,758	41,035	-	41,035
Legal fees		-	-	-	35,288	35,288
Curriculum and classroom supplies		368,394	54,905	423,299	-	423,299
Office supplies		-	-	-	83,749	83,749
Non-capitalized furniture and equipment		38,288	12,891	51,179	7,015	58,194
Leased equipment, furniture and fixtures		305,486	102,855	408,341	55,971	464,312
Communications		69,614	23,439	93,053	12,755	105,808
Occupancy		2,018,683	679,678	2,698,361	369,865	3,068,226
Insurance		71,271	23,343	94,614	12,421	107,035
Repairs and maintenance		183,208	61,685	244,893	33,568	278,461
Security		21,314	7,176	28,490	3,905	32,395
Marketing and recruiting		30,836	7,617	38,453	2,950	41,403
Staff development		147,975	27,535	175,510	9,624	185,134
Travel and meals		489,472	77,047	566,519	4,000	570,519
Postage, printing and copying		19,397	6,531	25,928	3,554	29,482
Dues and subscriptions		34,085	11,476	45,561	6,245	51,806
Depreciation and amortization		195,477	65,816	261,293	35,816	297,109
Interest		30,196	10,167	40,363	5,533	45,896
Miscellaneous		-	-	-	13,348	13,348
Total Expenses		\$ 12,486,566	\$ 3,854,153	\$ 16,340,719	\$ 3,487,274	\$ 19,827,993

See independent auditors' report

Ascend Charter Schools

Schedule of Functional Expenses
 Bushwick Ascend Charter School
 Year Ended June 30, 2018

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	27	\$ 987,559	\$ 491,862	\$ 1,479,421	\$ 791,940	\$ 2,271,361
Instructional personnel	85	3,771,071	1,878,215	5,649,286	-	5,649,286
Non-instructional personnel	3	-	-	-	114,802	114,802
Total Salaries and Staff	115	4,758,630	2,370,077	7,128,707	906,742	8,035,449
Employee benefits and payroll taxes		1,051,602	523,760	1,575,362	200,379	1,775,741
Professional fees		27,274	8,640	35,914	83,300	119,214
Management fees		638,698	120,058	758,756	1,237,970	1,996,726
Consultants - education		67,483	16,937	84,420	-	84,420
Legal fees		-	-	-	21,471	21,471
Curriculum and classroom supplies		269,441	50,647	320,088	-	320,088
Office supplies		-	-	-	75,387	75,387
Non-capitalized furniture and equipment		15,965	7,951	23,916	3,042	26,958
Leased equipment, furniture and fixtures		225,057	112,092	337,149	42,884	380,033
Communications		99,450	49,532	148,982	18,950	167,932
Occupancy		1,894,540	943,592	2,838,132	360,999	3,199,131
Insurance		45,363	21,640	67,003	8,058	75,061
Repairs and maintenance		17,829	8,880	26,709	3,397	30,106
Marketing and recruiting		49,328	18,732	68,060	5,813	73,873
Staff development		111,814	28,684	140,498	6,987	147,485
Travel and meals		166,006	41,067	207,073	6,060	213,133
Postage, printing and copying		13,833	6,890	20,723	2,636	23,359
Dues and subscriptions		42,916	21,375	64,291	8,177	72,468
Depreciation and amortization		136,182	67,827	204,009	25,949	229,958
Interest		548	273	821	104	925
Miscellaneous		-	-	-	9,390	9,390
Total Expenses		\$ 9,631,959	\$ 4,418,654	\$ 14,050,613	\$ 3,027,695	\$ 17,078,308

See independent auditors' report

Ascend Charter Schools

Schedule of Functional Expenses
Canarsie Ascend Charter School
Year Ended June 30, 2018

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	16	\$ 790,259	\$ 181,769	\$ 972,028	\$ 483,195	\$ 1,455,223
Instructional personnel	55	3,136,047	722,421	3,858,468	-	3,858,468
Non-instructional personnel	3	-	-	-	60,618	60,618
Total Salaries and Staff	74	3,926,306	904,190	4,830,496	543,813	5,374,309
Employee benefits and payroll taxes		806,638	185,761	992,399	111,723	1,104,122
Professional fees		468,059	80,576	548,635	159,433	708,068
Management fees		547,833	77,904	625,737	1,112,420	1,738,157
Consultants - education		16,088	24,109	40,197	-	40,197
Legal fees		-	-	-	15,941	15,941
Curriculum and classroom supplies		298,793	42,490	341,283	-	341,283
Office supplies		-	-	-	60,804	60,804
Non-capitalized furniture and equipment		39,510	9,099	48,609	5,472	54,081
Leased equipment, furniture and fixtures		247,637	57,028	304,665	34,299	338,964
Communications		59,229	13,640	72,869	8,203	81,072
Occupancy		2,628,598	605,340	3,233,938	364,074	3,598,012
Insurance		39,165	8,818	47,983	5,108	53,091
Repairs and maintenance		72,997	16,811	89,808	10,110	99,918
Security		31,295	7,207	38,502	4,334	42,836
Marketing and recruiting		36,036	7,080	43,116	3,075	46,191
Staff development		142,169	24,404	166,573	6,055	172,628
Travel and meals		375,263	56,047	431,310	4,220	435,530
Postage, printing and copying		24,735	5,696	30,431	3,426	33,857
Dues and subscriptions		32,964	7,591	40,555	4,566	45,121
Depreciation and amortization		153,469	35,342	188,811	21,256	210,067
Interest		94,314	21,720	116,034	13,063	129,097
Miscellaneous		-	-	-	12,094	12,094
Total Expenses		\$ 10,041,098	\$ 2,190,853	\$ 12,231,951	\$ 2,503,489	\$ 14,735,440

See independent auditors' report

Ascend Charter Schools

Schedule of Functional Expenses
Central Brooklyn Ascend Charter School
Year Ended June 30, 2018

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	9	\$ 344,031	\$ 183,031	\$ 527,062	\$ 279,003	\$ 806,065
Instructional personnel	42	1,687,111	897,571	2,584,682	-	2,584,682
Non-instructional personnel	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,457</u>	<u>57,457</u>
Total Salaries and Staff	53	2,031,142	1,080,602	3,111,744	336,460	3,448,204
Employee benefits and payroll taxes		399,771	212,685	612,456	66,222	678,678
Professional fees		9,659	1,901	11,560	50,328	61,888
Management fees		404,830	79,694	484,524	757,845	1,242,369
Consultants - education		-	1,833	1,833	-	1,833
Legal fees		-	-	-	8,298	8,298
Curriculum and classroom supplies		145,832	28,708	174,540	-	174,540
Office supplies		-	-	-	12,288	12,288
Non-capitalized furniture and equipment		12,892	6,859	19,751	2,136	21,887
Leased equipment, furniture and fixtures		62,400	33,198	95,598	10,337	105,935
Communications		42,698	22,716	65,414	7,073	72,487
Occupancy		1,216,722	647,317	1,864,039	201,551	2,065,590
Insurance		20,534	10,438	30,972	3,161	34,133
Repairs and maintenance		11,132	5,922	17,054	1,844	18,898
Marketing and recruiting		17,977	9,564	27,541	2,978	30,519
Staff development		58,644	15,828	74,472	2,362	76,834
Travel and meals		216,653	47,310	263,963	2,303	266,266
Postage, printing and copying		4,264	2,269	6,533	706	7,239
Dues and subscriptions		14,356	7,637	21,993	2,378	24,371
Depreciation and amortization		65,184	34,679	99,863	10,798	110,661
Miscellaneous		-	-	-	2,788	2,788
Total Expenses		<u>\$ 4,734,690</u>	<u>\$ 2,249,160</u>	<u>\$ 6,983,850</u>	<u>\$ 1,481,856</u>	<u>\$ 8,465,706</u>

See independent auditors' report

Ascend Charter Schools

Uniform Guidance
Schedules and Reports

June 30, 2018

Ascend Charter Schools

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Education				
Pass-through the New York State Education Department:				
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021-17-4395	\$ -	\$ 544,800
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021-17-4585	-	429,543
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021-17-4780	-	369,607
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021-17-4965	-	206,991
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021-17-5170	-	153,608
			<u>-</u>	<u>1,704,549</u>
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-17-4395	-	222,994
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-17-4585	-	166,625
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-17-4780	-	145,531
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-17-4965	-	108,014
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-17-5170	-	69,064
			<u>-</u>	<u>712,228</u>
English Language Acquisition State Grants	84.365	0293-17-4780	-	16,900
Total U.S. Department of Education			<u>-</u>	<u>2,433,677</u>
U.S. Department of Agriculture				
Pass-through the New York State Education Department:				
Child Nutrition Cluster				
School Breakfast Program	10.553		-	331,205
National School Lunch Program (Lunch)	10.555		-	1,155,575
National School Lunch Program (Snack)	10.555		-	86,984
			<u>-</u>	<u>1,573,764</u>
Total U.S. Department of Agriculture			<u>-</u>	<u>1,573,764</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 4,007,441</u>

See independent auditors' report and notes to the schedule of expenditures of federal awards

Ascend Charter Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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*

Independent Auditors' Report

**Board of Trustees
Ascend Charter Schools**

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 Ascend Charter Schools (the "School"), which comprise the statement of financial position as of June 30, 2018, 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 25, 2018.

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.

Compliance and Other Matters

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

Purpose of this Report

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

PKF O'Connor Davies, LLP

Harrison, New York
October 25, 2018

**Report on Compliance for Each Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance**

Independent Auditors' Report

Board of Trustees
Ascend Charter Schools

Report on Compliance for Each Major Federal Program

We have audited Ascend Charter Schools' (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2018. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 25, 2018

Ascend Charter Schools

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to the financial statements noted?

_____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes X no

Identification of major federal programs:

CFDA Number(s)

84.010

Name of Federal Program or Cluster

Title I Grants to Local Educational Agencies(LEAs)

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____yes X no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2018.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior Year Findings

There were no prior year audit findings.

Ascend Charter Schools

Independent Auditors' Report on Communication of
Internal Control Matters

June 30, 2018



Independent Auditors' Communication on Internal Control Matters

The Board of Trustees Ascend Charter Schools

In planning and performing our audit of the financial statements of Ascend Charter Schools (the "School") as of and for the year ended June 30, 2018, 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 entity'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 deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, audit committee, Board of Trustees, 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 would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the personnel of the School during the course of our audit.

PKF O'Connor Davies, LLP
October 25, 2018