

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

October 31, 2016

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

We have audited the financial statements of Canarsie 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

CANARSIE ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2016

(with comparative financial information for June 30, 2015)

CANARSIE 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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NEW YORK, NEW YORK 10019

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
CANARSIE ASCEND CHARTER SCHOOL

Report on the Financial Statements

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 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 and for the year ended 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

CANARSIE ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 806,526	\$ 210,448
Grants and contracts receivable	129,780	91,772
Prepaid expenses and other current assets	44,316	21,210
Total current assets	980,622	323,430
Other assets		
Property and equipment, net of accumulated depreciation and amortization of \$383,963 and \$195,366, respectively	1,902,516	843,673
Security deposits	10,665	3,910
Restricted cash	75,003	50,017
Total other assets	1,988,184	897,600
TOTAL ASSETS	\$ 2,968,806	\$ 1,221,030
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 272,045	\$ 163,033
Accrued payroll and payroll taxes	201,992	118,053
Refundable advances	3,469	57,037
Due to related parties	278,032	233,981
Loan payable - current portion	27,564	-
Total current liabilities	783,102	572,104
Other liabilities:		
Deferred rent	1,570,250	1,273,500
Loan payable - related party	200,000	200,000
Loan payable	1,043,712	-
Total other liabilities	2,813,962	1,473,500
Total liabilities	3,597,064	2,045,604
Unrestricted net assets	(628,258)	(824,574)
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 2,968,806	\$ 1,221,030

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

CANARSIE 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 year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Operating revenue:		
State and local per pupil operating revenue		
General and special education	\$ 6,044,225	\$ 3,566,792
Facilities	628,004	298,204
Federal grants	351,619	392,477
State and city grants	76,495	199,098
Total operating revenue	<u>7,100,343</u>	<u>4,456,571</u>
Operating expenses:		
Program services:		
Regular education	4,404,508	3,551,714
Special education	1,407,356	478,521
Total program services	<u>5,811,864</u>	<u>4,030,235</u>
Supporting services:		
Management and general	1,096,323	685,562
Total operating expenses	<u>6,908,187</u>	<u>4,715,797</u>
Surplus (Deficit) from operations	192,156	(259,226)
Support and other revenue:		
Contributions	3,626	2,600
Interest and other income	534	534
Total support and other revenue	<u>4,160</u>	<u>3,134</u>
Changes in unrestricted net assets	196,316	(256,092)
Unrestricted net assets - beginning of year	<u>(824,574)</u>	<u>(568,482)</u>
Unrestricted net assets - end of year	<u>\$ (628,258)</u>	<u>\$ (824,574)</u>

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

CANARSIE 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 year ended June 30, 2015)

	2016					2015
	Program Services			Management and General		
	Regular Education	Special Education	Total	General	Total	
Salaries and wages	\$ 1,918,208	\$ 675,197	\$ 2,593,405	\$ 197,620	\$ 2,791,025	\$ 1,676,462
Employee benefits and payroll taxes	314,227	110,606	424,833	32,375	457,208	325,570
Professional fees	152,770	40,439	193,209	65,416	258,625	224,585
Management fees	356,157	39,325	395,482	593,221	988,703	464,967
Consultants - education	-	2,843	2,843	-	2,843	22,453
Legal fees	-	-	-	8,782	8,782	4,698
Curriculum and classroom supplies	160,412	17,712	178,124	-	178,124	251,457
Office supplies	-	-	-	35,389	35,389	15,513
Non-capitalized furniture and equipment	5,993	2,110	8,103	617	8,720	12,229
Leased equipment, furniture and fixtures	190,228	66,959	257,187	19,599	276,786	266,109
Communications	50,844	17,897	68,741	5,238	73,979	62,767
Occupancy	744,410	262,027	1,006,437	76,691	1,083,128	1,105,316
Insurance	26,893	9,466	36,359	2,771	39,130	26,470
Repairs and maintenance	60,331	21,236	81,567	6,215	87,782	24,875
Security	22,964	8,083	31,047	2,365	33,412	29,587
Marketing and recruiting	20,857	5,674	26,531	1,438	27,969	5,774
Staff development	45,829	10,081	55,910	3,078	58,988	43,816
Travel and meals	159,484	56,137	215,621	16,430	232,051	11,345
Postage, printing and copying	12,328	4,339	16,667	1,270	17,937	3,380
Dues and subscriptions	32,954	11,600	44,554	3,395	47,949	13,421
Depreciation and amortization	129,619	45,625	175,244	13,353	188,597	121,062
Miscellaneous	-	-	-	11,060	11,060	3,941
Total expenses	\$ 4,404,508	\$ 1,407,356	\$ 5,811,864	\$ 1,096,323	\$ 6,908,187	\$ 4,715,797

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

CANARSIE ASCEND CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 196,316	\$ (256,092)
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	188,597	121,062
(Increase) Decrease in certain assets:		
Grants and contracts receivable	(38,008)	(23,251)
Prepaid expenses and other current assets	(23,106)	(16,357)
Security deposit	(6,755)	(3,360)
Increase (Decrease) in certain liabilities:		
Accounts payable and accrued expenses	109,012	22,032
Accrued payroll and payroll taxes	83,939	24,173
Refundable advances	(53,568)	57,037
Due to related parties	44,051	153,977
Deferred rent	296,750	596,750
NET CASH PROVIDED BY OPERATING ACTIVITIES	797,228	675,971
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,247,440)	(472,355)
(Increase) in restricted cash	(24,986)	(25,016)
NET CASH (USED IN) INVESTING ACTIVITIES	(1,272,426)	(497,371)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from loan payable	1,071,276	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	596,078	178,600
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	210,448	31,848
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 806,526	\$ 210,448
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 7,572	\$ -

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

CANARSIE 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

Canarsie Ascend Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on September 13, 2011 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was also 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. The School obtained a renewal to its charter expiring in September 2018. 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 2013 and the School provided education to approximately 398 students in the kindergarten through third 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 years ended June 30, 2016 and 2015, respectively.

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.

CANARSIE 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)

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.

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.

CANARSIE 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 exceeded insured levels by approximately \$632,000. 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 depreciation is recorded on construction-in-progress until property and equipment is placed into service.

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

Leasehold improvements	Useful life or related lease
Furniture and fixtures	5 years
Equipment	3 and 5 years
Software	10 years

CANARSIE 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	\$ 1,215,612	\$ 504,817
Furniture and fixtures	316,823	259,966
Equipment	235,774	198,098
Software	4,374	4,374
Construction in progress	<u>513,896</u>	<u>71,784</u>
	2,286,479	1,039,039
Less: Accumulated depreciation and amortization	<u>(383,963)</u>	<u>(195,366)</u>
	<u>\$ 1,902,516</u>	<u>\$ 843,673</u>

Depreciation and amortization expense was \$188,597 and \$121,062 for the years ended June 30, 2016 and 2015, respectively.

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

CANARSIE 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 February 24, 2012 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. For the years ended June 30, 2016 and 2015, the School paid 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, respectively. The management fee for the years ended June 30, 2016 and 2015 was \$988,703 and \$464,967, respectively. In addition, Ascend shares operating expenses with the School and for the years ended June 30, 2016 and 2015, net shared expenses amounted to \$178,822 and \$426,153, respectively.

On September 30, 2013, the School received an interest-free loan of \$200,000 from Ascend. The proceeds were used to finance the School’s operations. The outstanding principal balance of the loan at June 30, 2016 and 2015 was \$200,000. The loan matures on June 30, 2019, at which time the outstanding balance will be due in full.

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 \$4,756 and \$5,170 for the years ended June 30, 2016 and 2015, respectively.

The School is related to Brownsville Ascend Charter School (“Brownsville Ascend”), a charter school related by common management and Board members. Brownsville Ascend shares and pays for salaries and other expenses on behalf of the School in the net amounts of \$151,245 and \$10,264 for the years ended June 30, 2016 and 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 \$6,030 and \$519 for the years ended June 30, 2016 and 2015, respectively.

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

CANARSIE 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	\$ 369,663	\$ 185,326
Brooklyn Ascend	27,774	23,017
Brownsville Ascend	(129,352)	21,893
Bushwick Ascend	11,244	5,214
Central Brooklyn Ascend	(1,297)	(1,469)
Net amounts due to related parties	\$ 278,032	\$ 233,981

As of the issuance of this report, the School has paid \$50,000 towards the balance due to Ascend. The net balances due to the other related parties at June 30, 2016 remain outstanding.

NOTE 5 - COMMITMENTS

Facility Lease

On April 1, 2013, the School 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 the School will be responsible for any real estate taxes arising out of the School's occupancy.

Year ending June 30,	2017	\$ 890,000
	2018	890,000
	2019	975,000
	2020	975,000
	2021	975,000
	Thereafter	14,150,000
		\$ 18,855,000

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 \$296,750 and \$596,750 for the years ended June 30, 2016 and 2015, respectively.

Occupancy expense for the years ended June 30, 2016 and 2015 was \$1,083,128 and \$1,105,316, respectively.

Furniture and Equipment Lease

On July 1, 2013, the School co-signed a furniture and equipment lease agreement with co-lessees Ascend, Brooklyn Ascend, Brownsville Ascend and Bushwick Ascend. The lease is for three years expiring in December 2016.

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

NOTE 5 - COMMITMENTS (Continued)

Furniture and Equipment Lease (Continued)

On May 26, 2016, the School co-signed an equipment lease agreement with co-lessees Ascend, Brooklyn Ascend, Brownsville Ascend, and Bushwick Ascend. The lease term is for three years expiring in May 2019.

The minimum future rental payments under the non-cancelable operating leases are as follows:

Year ending June 30,	2017	\$ 180,910
	2018	57,637
	2019	<u>52,833</u>
		<u>\$ 291,380</u>

Lease expense under the operating lease for the years ended June 30, 2016 and 2015 was \$251,991 and \$246,655, respectively.

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 December 23, 2015 the School 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 the School’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. 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.

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

NOTE 7 - LOAN PAYABLE (Continued)

The loan matures on January 1, 2026, 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 starting in December, 2016 are as follows:

June 30, 2017	\$	27,564
2018		49,747
2019		53,079
2020		56,633
2021		60,426
Thereafter		<u>1,652,550</u>
		<u>\$ 1,900,000</u>

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 years ended June 30, 2016 and 2015 was \$2,197 and \$2,910, respectively.

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

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

156 WEST 56TH STREET

NEW YORK, NEW YORK 10019

TEL: (212) 957-3600

FAX: (212) 957-3696

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
CANARSIE 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 Canarsie 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
CANARSIE 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

CANARSIE 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

156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600

FAX: (212) 957-3696

October 31, 2016

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

In planning and performing our audit of the financial statements of Canarsie 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

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

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EXHIBIT I– CURRENT YEAR OBSERVATION

A.	General Ledger Maintenance and Account Analysis	1
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CANARSIE 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.

