

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

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TEL: (212) 957-3600  
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October 31, 2016

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

We have audited the financial statements of Bushwick 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

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

FINANCIAL STATEMENTS

JUNE 30, 2016  
(with comparative financial information for June 30, 2015)



FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF  
BUSHWICK ASCEND CHARTER SCHOOL

***Report on the Financial Statements***

We have audited the accompanying financial statements of Bushwick 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

BUSHWICK ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2106  
(with comparative financial information for June 30, 2015)

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 853,569	\$ 868,207
Cash - loan payable held in escrow	200,000	200,000
Grants and contracts receivable	230,217	191,116
Prepaid expenses and other current assets	169,598	21,137
Total current assets	1,453,384	1,280,460
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$2,025,979 and \$1,316,759, respectively	10,782,463	9,211,577
Security deposits	16,975	13,705
Restricted cash	70,168	70,135
Total other assets	10,869,606	9,295,417
<b>TOTAL ASSETS</b>	<b>\$ 12,322,990</b>	<b>\$ 10,575,877</b>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 587,004	\$ 241,388
Accrued payroll and payroll taxes	390,235	290,279
Current portion of loans payable	299,651	240,293
Capital lease obligation	4,555	-
Due to related parties	51,120	303,115
Refundable advances	14,203	14,542
Total current liabilities	1,346,768	1,089,617
Other Liabilities:		
Deferred rent	1,154,746	745,994
Loans payable	7,977,245	6,596,414
Due to related party	629,714	679,714
Total other liabilities	9,761,705	8,022,122
Total liabilities	11,108,473	9,111,739
Unrestricted net assets	1,214,517	1,464,138
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<b>\$ 12,322,990</b>	<b>\$ 10,575,877</b>

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



BUSHWICK 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)

	2016	2015
Operating revenue:		
State and local per pupil operating revenue	\$ 11,723,173	\$ 9,973,421
State and local per pupil facilities funding	520,943	179,652
Federal grants	528,016	370,739
State and city grants	46,742	259,547
Total operating revenue	12,818,874	10,783,359
Operating expenses:		
Program services:		
Regular education	8,342,689	6,763,579
Special education	2,605,944	1,927,562
Total program services	10,948,633	8,691,141
Supporting services:		
Management and general	2,127,636	1,445,006
Total operating expenses	13,076,269	10,136,147
(Deficit) Surplus from operations	(257,395)	647,212
Support and other revenue:		
Contributions	3,812	-
Interest and other income	3,962	2,586
Total support and other revenue	7,774	2,586
Changes in unrestricted net assets	(249,621)	649,798
Unrestricted net assets - beginning of year	1,464,138	814,340
Unrestricted net assets - end of year	\$ 1,214,517	\$ 1,464,138

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

BUSHWICK ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
SCHEDULE 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		
	Regular Education	Special Education	Total	General	Total	
Salaries and wages	\$ 3,891,853	\$ 1,281,236	\$ 5,173,089	\$ 517,272	\$ 5,690,361	\$ 4,386,857
Employee benefits and payroll taxes	672,766	221,481	894,247	89,418	983,665	828,476
Professional fees	248,643	79,462	328,105	118,903	447,008	329,299
Management fees	540,447	91,039	631,486	947,230	1,578,716	1,223,573
Consultants - education	1,312	715	2,027	-	2,027	30,402
Legal fees	-	-	-	29,868	29,868	9,996
Curriculum and classroom supplies	285,329	48,066	333,395	-	333,395	406,788
Office supplies	-	-	-	66,397	66,397	26,252
Non-capitalized furniture and equipment	30,206	9,944	40,150	4,015	44,165	17,275
Leased equipment, furniture and fixtures	268,003	88,230	356,233	35,621	391,854	390,961
Communications	57,576	18,955	76,531	7,653	84,184	89,524
Occupancy	1,095,385	360,611	1,455,996	145,589	1,601,585	881,884
Insurance	48,196	15,519	63,715	6,118	69,833	57,706
Repairs and maintenance	134,694	44,343	179,037	17,902	196,939	113,766
Security	35,826	11,794	47,620	4,762	52,382	1,887
Marketing and recruiting	25,737	6,673	32,410	1,933	34,343	44,766
Staff development	34,199	7,715	41,914	1,423	43,337	102,812
Travel and meals	91,248	30,040	121,288	12,128	133,416	18,100
Postage, printing and copying	14,047	4,624	18,671	1,867	20,538	10,135
Dues and subscriptions	48,536	15,978	64,514	6,451	70,965	41,047
Interest expense	333,624	109,832	443,456	44,343	487,799	511,134
Depreciation and amortization	485,062	159,687	644,749	64,470	709,219	608,835
Miscellaneous	-	-	-	4,273	4,273	4,672
<b>Total expenses</b>	<b>\$ 8,342,689</b>	<b>\$ 2,605,944</b>	<b>\$ 10,948,633</b>	<b>\$ 2,127,636</b>	<b>\$ 13,076,269</b>	<b>\$ 10,136,147</b>

The accompanying note are an intergral part of these financial statements.

BUSHWICK 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)

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in unrestricted net assets	\$ (249,621)	\$ 649,798
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	709,219	608,835
(Increase) Decrease in certain assets:		
Grants and contracts receivable	(39,101)	(124,869)
Prepaid expenses and other current assets	(148,461)	2,390
Security deposits	(3,270)	(290)
Increase (Decrease) in certain liabilities:		
Accounts payable and accrued expenses	345,616	(38,705)
Accrued payroll and payroll taxes	99,956	50,488
Refundable advances	(339)	14,528
Due to related parties	(301,995)	155,011
Increase in deferred rent	408,752	60,633
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>820,756</u>	<u>1,377,819</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,252,774)	(427,981)
(Increase) in restricted cash	(33)	(68)
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<u>(2,252,807)</u>	<u>(428,049)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from (Repayment of) loan payable	1,440,189	(366,939)
Payments made on capital lease obligation	(22,776)	-
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>1,417,413</u>	<u>(366,939)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(14,638)	582,831
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>868,207</u>	<u>285,376</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 853,569</u>	<u>\$ 868,207</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 561,887</u>	<u>\$ 511,134</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Equipment acquired under capital lease	<u>\$ 27,331</u>	<u>\$ -</u>

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

BUSHWICK 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

Bushwick Ascend Charter School (the “School”) is a New York State, not-for-profit educational corporation that was incorporated on February 9, 2010 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 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. In February 2015, the Board of Regents extended the School’s charter through June 30, 2018. The School’s mission is to equip their students with the knowledge, confidence, and character to succeed in college and beyond. The School provided education to approximately 742 students in kindergarten through sixth grades during the 2015-2016 academic year.

Food and Transportation Services

In partnership with Brownsville Ascend Charter School (see Note 5), 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 did not have net unrelated business income for the years ended June 30, 2016 and 2015.

The School’s accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position 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 up to three years from the extended due date of each return. Form 990 filed by the School is no longer subject to examination for the fiscal year ended June 30, 2012.

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.

BUSHWICK 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 of the School 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.

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.

BUSHWICK 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)

Cash and Cash Equivalents

The School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. As of June 30, 2016, cash balances exceeded insured levels by approximately \$673,000. 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. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Maintenance and repairs are expensed as incurred. No amortization 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 of the lease
Computers and equipment	3 and 5 years
Furniture and fixtures	5 years
Software	3 years
Website development	3 years

Refundable Advances

The School records certain government operating revenue as a refundable advance until related services are performed, at which time they are recognized as revenue.

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 statements of financial position.

BUSHWICK 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)

Comparative Financial Information

The accompanying statements of activities and schedule of 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 statements 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 consist 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,:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 11,302,557	\$ 9,738,115
Computers and equipment	501,211	356,635
Furniture and fixtures	340,180	111,732
Software	5,211	5,211
Website development	49,683	49,683
Construction in progress	<u>609,600</u>	<u>266,960</u>
	12,808,442	10,528,336
Less: accumulated depreciation and amortization	<u>(2,025,979)</u>	<u>(1,316,759)</u>
Total	<u>\$ 10,782,463</u>	<u>\$ 9,211,577</u>

Depreciation and amortization expense was \$709,219 and \$608,835 for the years ended June 30, 2016 and 2015, respectively.

Construction in progress consists of architect fees, inspections and permits incurred for the pending close-out of the renovation project at the lower school. Additionally, construction in progress at June 30, 2016 includes phase I improvements, architect fees and inspections in connection with renovations of the middle school.

BUSHWICK 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 - LOAN PAYABLE HELD IN ESCROW

On February 3, 2012, the School 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 6). 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. As of June 30, 2016, \$200,000 remains in escrow pending delivery of the final certificate of occupancy.

NOTE 5 - 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 10, 2010 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 pays to Ascend an annual fee of 13% 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 \$1,578,716 and \$1,223,573, 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 \$224,832 and \$336,798, respectively.

The School is related to Brooklyn Ascend Charter School (“Brooklyn Ascend”), a charter school related by common management and Board members. Brooklyn Ascend shares and pays for salaries and other expenses on behalf of the School in the amounts of \$3,307 and \$8,384 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 \$104,418 and \$46,094 for the years ended June 30, 2016 and 2015, respectively.

The School is related to Canarsie Ascend Charter School (“Canarsie Ascend”), a charter school related by common management and Board members. Canarsie Ascend shares and pays for salaries on behalf of the School 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. Central Brooklyn Ascend shares and pays for salaries and other expenses on behalf of the School in the net amounts of \$2,452 and \$26,393 for the years ended June 30, 2016 and 2015, respectively.



BUSHWICK 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 - RELATED PARTY TRANSACTIONS (Continued)

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

	2016	2015
Ascend	\$ 655,232	\$ 841,020
Brooklyn Ascend	37,744	41,051
Brownsville Ascend	(24,839)	79,579
Canarsie Ascend	(11,244)	(5,214)
Central Brooklyn Ascend	23,941	26,393
Net amounts due to related parties	\$ 680,834	\$ 982,829

The long term portion of due to related party represents a balance of \$629,714 and \$679,714 at years ended June 30, 2016 and 2015, respectively. The School has committed to paying \$50,000 towards the loan due to Ascend and is recorded as a part of the short term portion due to related party. The long term portion is due at a future date to be determined by both Boards of Trustees.

As of the issuance of the report, balances between Ascend and the schools remain the same.

NOTE 6 - LOANS PAYABLE

NFF Loan 1

On February 3, 2012, the School 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 the School towards the construction project. At June 30, 2016 and 2015, the outstanding balance under the loan agreement was \$6,596,415 and \$6,836,707, respectively.

On March 2, 2012, the School closed on the loan when it received the first draw. Per the loan agreement, the disbursement period of the loan is 15 months from the closing date or the completion of the new facility, at which time the outstanding balance will be converted into a term loan.

On October 1, 2013, construction was substantially completed. The School anticipates that the remaining permits and inspections will be complete as of June 30, 2017, and a new certificate of occupancy issued at that time. The loan is payable on a 20 year amortization in equal monthly installments of \$60,673 including interest at 7.25% per annum (includes 0.25% loan servicing fee). Voluntary advanced payments can be made without premium or penalty.

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NOTE 6 - LOANS PAYABLE (Continued)

The loan is secured by a leasehold mortgage on the lower 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 the loan payable. The note matures on March 1, 2019, 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.

The School must maintain three financial performance covenants and two student enrollment covenants. Ascend must maintain four financial covenants. At June 30, 2016, the School did not satisfy one covenant and Ascend did not satisfy three covenants. Therefore, the School is in violation of these debt covenants under the terms of the loan agreement. The School plans to obtain a waiver from NFF for these violations.

NFF Loan 2

On August 20, 2015 the School 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 the School'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. 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 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, 2016, the outstanding balance under the loan agreement was \$1,680,464.

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

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

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NOTE 6 - LOANS PAYABLE (Continued)

Future minimum principal payments on the two preceding loans are as follows, with NFF Loan 2 starting December, 2016:

June 30, 2017	\$ 299,651
2018	352,287
2019	6,140,061
2020	84,950
2021	90,639
Thereafter	<u>2,478,825</u>
	<u>\$ 9,446,413</u>

NOTE 7 - COMMITMENTS

Facility Lease

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. Phase I of the construction project was completed by the year ended June 30, 2011. Phase II, which is also the final phase of the project, was substantially completed by October 1, 2013. 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.

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.

The future minimum lease payments for the two facilities are as follows:

Year ending June 30, 2017	\$ 1,161,472
2018	1,286,472
2019	1,336,472
2020	1,349,192
2021	1,349,192
Thereafter	<u>28,159,399</u>
	<u>\$ 34,642,199</u>

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NOTE 7 - COMMITMENTS (Continued)

Rent expense is recognized on the straight-line basis over the term of the lease. The difference 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 statements of financial position amounted to \$408,752 and \$60,633 for the years ended June 30, 2016 and 2015, respectively.

Occupancy expense for the years ended June 30, 2016 and 2015 amounted to \$1,601,585 and \$881,884, respectively.

Furniture and Equipment Leases

On July 1, 2013, the School co-signed a furniture and equipment lease agreement with co-lessees Ascend, Brooklyn Ascend, and Brownsville Ascend and Canarsie Ascend. As a result, each school is responsible for paying its own share of the lease directly to the lessor. The lease is for three years expiring December 2016.

On June 17, 2014, the School co-signed a furniture and equipment lease agreement with co-lessees Ascend, Brooklyn Ascend, and Brownsville Ascend. As a result, each school is responsible for paying its own share of the lease directly to the lessor. The lease is for three years beginning October 1, 2014 and expiring September 2017.

On December 5, 2014, the School co-signed a furniture and equipment lease agreement with co-lessees Ascend, Brooklyn Ascend, and Brownsville Ascend. As a result, each school is responsible for paying its own share of the lease directly to the lessor. The lease is for three years beginning January 1, 2015 expiring December 2017.

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

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

Year ending June 30,	2017	\$	238,308
	2018		79,316
	2019		35,365
			<u>352,989</u>
		\$	<u>352,989</u>

NOTE 8 - CAPITAL LEASE OBLIGATION

The School leases equipment under one interest free capital lease that expires in September, 2016. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is being depreciated over its estimated useful life. Capital lease obligation at June 30, 2016 amounted to \$4,555.

BUSHWICK ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016  
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NOTE 9 - 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 10 - 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 11 - 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 12 - 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 years ended June 30, 2016 and 2015 amounted to \$24,057 and \$13,792, respectively.

NOTE 13 - SUBSEQUENT EVENTS

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

Effective July 1, 2016, Brooklyn Ascend, Brownsville Ascend, Bushwick Ascend, and Central Brooklyn Ascend merged into a single legal entity under Canarsie Ascend Charter School, which serves as the sole surviving education corporation. Pursuant to the merger, Canarsie Ascend Charter School changed its corporate name to Ascend Charter Schools. Brooklyn Ascend, Brownsville Ascend, Bushwick Ascend, and Central Brooklyn Ascend were dissolved and ceased to exist as legal entities in conjunction with the merger effective date. The plan of merger was approved by the New York State Board of Regents, the Charter Schools Institute of the State University of New York, and the New York City Department of Education on March 22, 2016 and June 13, 2016.

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

TO THE BOARD OF TRUSTEES OF  
BUSHWICK 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 Bushwick 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  
BUSHWICK 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 a certain matter that was 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

BUSHWICK 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.

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October 31, 2016

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

In planning and performing our audit of the financial statements of Bushwick 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 Department of Education of the City 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

BUSHWICK 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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BUSHWICK 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.