

# **Ascend Charter Schools**

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

June 30, 2017

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Uniform Guidance Schedules  
Together With Independent Auditors' Reports  
  
June 30, 2017

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## **Independent Auditors' Report**

### **Board of Trustees Ascend Charter Schools**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Ascend Charter Schools (the "School"), which comprise the statement of financial position as of June 30, 2017, 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, 2017, 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 Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of activities by school for the year ended June 30, 2017 on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 21 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 30, 2017

## Ascend Charter Schools

### Statement of Financial Position June 30, 2017

#### ASSETS

##### Current Assets

Cash and cash equivalents	\$ 5,496,217
Cash - loan payable held in escrow	200,000
Grants and contracts receivable	3,121,856
Prepaid expenses and other current assets	<u>519,892</u>
Total Current Assets	9,337,965

Property and equipment, net	23,198,550
Security deposits	114,493
Restricted cash	<u>225,049</u>
	<u>\$ 32,876,057</u>

#### LIABILITIES AND NET ASSETS

##### Current Liabilities

Accounts payable and accrued expenses	\$ 1,200,165
Accrued payroll and payroll taxes	2,252,678
Refundable advances	109,840
Loan payable - landlord	81,250
Loan payable - current portion	501,773
Due to related party	<u>1,626,649</u>
Total Current Liabilities	5,772,355

Due to related party	947,317
Deferred rent	13,129,534
Loan payable - related party	400,000
Loans payable	<u>13,054,764</u>
Total Liabilities	33,303,970

Net assets (deficit), unrestricted	<u>(427,913)</u>
	<u>\$ 32,876,057</u>

See notes to financial statements

## Ascend Charter Schools

### Statement of Activities Year Ended June 30, 2017

#### OPERATING REVENUE

State and local per pupil operating revenue	
General and special education	\$ 63,257,290
Facilities	3,742,361
Federal grants	3,355,124
E-Rate and IDEA	867,713
State and city grants	<u>298,512</u>
 Total Operating Revenue	 <u>71,521,000</u>

#### EXPENSES

Program Services	
Regular education	44,816,221
Special education	<u>14,237,572</u>
Total Program Services	59,053,793
Supporting Services	
Management and general	<u>12,129,335</u>
 Total Expenses	 <u>71,183,128</u>
 Surplus from Operations	 <u>337,872</u>

#### SUPPORT AND OTHER REVENUE

Contributions	172,558
Rental income	120,000
Interest and other revenue	<u>59,838</u>
Total Support and Other Revenue	<u>352,396</u>

Change in Net Assets	690,268
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#### NET ASSETS (DEFICIT), UNRESTRICTED

Beginning of year	(628,258)
 Transfer of net (deficit) pursuant to merger of related charter schools	 <u>(489,923)</u>
 End of year	 <u><u>\$ (427,913)</u></u>

See notes to financial statements

# Ascend Charter Schools

## Statement of Functional Expenses Year Ended June 30, 2017

	Program Services			Management and General	Total
	Regular Education	Special Education	Total		
Salaries and wages	\$ 21,614,024	\$ 7,431,007	\$ 29,045,031	\$ 3,625,710	\$ 32,670,741
Employee benefits and payroll taxes	3,931,060	1,349,012	5,280,072	658,982	5,939,054
Professional fees	931,752	287,040	1,218,792	390,436	1,609,228
Management fees	3,049,398	447,033	3,496,431	5,031,451	8,527,882
Consultants - education	22,091	79,960	102,051	-	102,051
Legal fees	-	-	-	85,483	85,483
Curriculum and classroom supplies	1,345,097	198,423	1,543,520	3	1,543,523
Office supplies	-	-	-	249,340	249,340
Non-capitalized furniture and equipment	146,631	49,620	196,251	24,770	221,021
Leased equipment, furniture and fixtures	1,170,116	411,613	1,581,729	194,348	1,776,077
Communications	415,853	143,099	558,952	70,024	628,976
Occupancy	7,191,351	2,477,610	9,668,961	1,209,331	10,878,292
Insurance	219,944	72,950	292,894	34,944	327,838
Repairs and maintenance	662,994	219,349	882,343	110,797	993,140
Security	62,423	18,048	80,471	10,603	91,074
Marketing and recruiting	161,991	45,958	207,949	18,650	226,599
Staff development	360,750	90,976	451,726	30,882	482,608
Travel and meals	1,453,765	229,537	1,683,302	16,833	1,700,135
Postage, printing and copying	66,372	20,583	86,955	10,612	97,567
Dues and subscriptions	161,966	55,385	217,351	27,117	244,468
Depreciation and amortization	1,374,725	459,715	1,834,440	230,524	2,064,964
Interest	473,918	150,654	624,572	79,173	703,745
Miscellaneous	-	-	-	19,322	19,322
Total Expenses	\$ 44,816,221	\$ 14,237,572	\$ 59,053,793	\$ 12,129,335	\$ 71,183,128

See notes to financial statements

## Ascend Charter Schools

### Statement of Cash Flows Year Ended June 30, 2017

#### **CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 690,268
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	2,064,964
Deferred rent	2,068,408
Changes in operating assets and liabilities	
Grants and contracts receivable	(1,066,314)
Prepaid expenses and other current assets	265,355
Security deposits	(16,027)
Accounts payable and accrued expenses	(868,124)
Accrued payroll and payroll taxes	438,877
Refundable advances	45,189
Due to related party	138,335
Net Cash from Operating Activities	<u>3,760,931</u>

#### **CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property and equipment	(4,665,265)
Restricted cash	110,939
Net Cash from Investing Activities	<u>(4,554,326)</u>

#### **CASH FLOWS FROM FINANCING ACTIVITIES**

Loan payable - landlord	81,250
Proceeds from loan payable	2,499,628
Payments made on capital lease obligation	(29,429)
Net Cash from Financing Activities	<u>2,551,449</u>

Net Change in Cash and Cash Equivalents	1,758,054
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#### **CASH AND CASH EQUIVALENTS**

Beginning of year	<u>3,738,163</u>
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End of year	<u>\$ 5,496,217</u>
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#### **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the year for interest	\$ 703,745
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See notes to financial statements

## **Ascend Charter Schools**

### **Notes to Financial Statements**

June 30, 2017

#### **1. Organization and Tax Status**

Ascend Charter Schools (the “School”) is a New York State, not-for-profit educational corporation that was incorporated to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School’s mission is to equip their students with the knowledge, confidence and character to succeed in college and beyond.

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

Brooklyn Ascend Charter School (“Brooklyn Ascend”) – Brooklyn Ascend was granted a provisional charter on January 15, 2008 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. Brooklyn Ascend obtained a renewal to its charter expiring on June 30, 2018.

Brownsville Ascend Charter School (“Brownsville Ascend”) – Brownsville Ascend was granted a provisional charter on January 13, 2009 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. Brownsville Ascend obtained a renewal to its charter which expired on June 30, 2017. In February 2017, Brownsville Ascend obtained a 2<sup>nd</sup> renewal to its charter expiring on June 30, 2022.

Bushwick Ascend Charter School (“Bushwick Ascend”) – Bushwick Ascend was granted a provisional charter on February 9, 2010 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. Bushwick Ascend obtained a renewal to its charter expiring on June 30, 2018.

Canarsie Ascend Charter School (“Canarsie Ascend”) – Canarsie Ascend was granted a provisional charter on September 13, 2011 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. Canarsie Ascend obtained a renewal to its charter expiring in September 2018.

Central Brooklyn Ascend Charter School (“Central Brooklyn Ascend”) – Central Brooklyn Ascend was granted a provisional charter on January 1, 2013 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The charter will expire in June 2019.

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. The plan of merger was approved by the New York State Board of Regents, the Charter Schools Institute of the State University of New York, and the New York City Department of Education on March 22, 2016 and June 13, 2016.

The School provided education to approximately 3,978 students in the kindergarten through tenth grades during the 2016-2017 academic year.

## **Ascend Charter Schools**

### **Notes to Financial Statements**

June 30, 2017

#### **1. Organization and Tax Status (*continued*)**

The School uses two outside vendors to serve breakfast and lunch to its students through Brownsville Ascend, who files for reimbursement of expenses through the New York State and Federal school food program. The School covers the cost of breakfast and lunch for families who experience hardship and who do not qualify for free or reduced meals. The Office of Pupil Transportation provides free transportation to some of the students.

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

#### **2. Summary of Significant Accounting Policies**

##### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

##### ***Net Assets Presentation***

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

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

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

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

## **Ascend Charter Schools**

### **Notes to Financial Statements June 30, 2017**

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

##### ***Net Assets Presentation (continued)***

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

##### ***Cash and Cash Equivalents***

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

##### ***Restricted Cash***

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

##### ***Property and Equipment***

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

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

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

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

##### ***Refundable Advances***

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

## **Ascend Charter Schools**

### **Notes to Financial Statements**

June 30, 2017

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

### ***Deferred Rent***

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

### ***Revenue and Support***

Revenue from state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

### ***Marketing and Recruiting Costs***

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

### ***Functional Allocation of Expense***

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

### ***Accounting for Uncertainty in Income Taxes***

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

## **Ascend Charter Schools**

### **Notes to Financial Statements June 30, 2017**

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

##### ***Subsequent Events Evaluation by Management***

The School has evaluated its subsequent events through October 30, 2017, the date that the accompanying financial statements were available to be issued.

On July 1, 2017, the School entered into an operating lease agreement expiring in June 2020. Future minimum lease payments under the operating lease amount to \$1,511,573.

On July 19, 2017, the School was granted a provisional charter to operate Central Brooklyn Ascend Charter Schools 2 and 3, valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York.

On August 30, 2017, the School entered into an agreement to lease property at 744 East 87<sup>th</sup> Street and 751 East 86<sup>th</sup> Street in Brooklyn, New York for a period of 30 years. Future minimum lease payments on the property amount to \$32,975,357.

#### **3. Grants and Contracts Receivable**

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

#### **4. Related Party Transactions (not disclosed elsewhere)**

The School is an affiliate of Ascend Learning, Inc. ("Ascend"), a New York State not-for-profit corporation, by common management. The School entered into an agreement with Ascend on July 26, 2016 which calls for Ascend to design, select and implement the School's educational program as well as the professional development activities for all the School personnel; recruit, supervise and evaluate the School's director; propose employment policies and practices relating to School personnel; and manage the School's business administration. For the year ended June 30, 2017, each charter school paid Ascend an annual fee ranging from 11.5% to 15% of the School's per pupil operating revenue, per pupil facilities revenue and federal Individuals with Disabilities Education Act revenue. The management fee for the year ended June 30, 2017 amounted to \$8,527,882.

The School entered into a sublease agreement with Ascend on July 1, 2011. There are two amendments to the agreement. The terms of the agreement permit Ascend to use the 6th floor of the building the School occupies. Ascend increased use of the floor over the term of the lease, and rent increased accordingly. Rental income amounted to \$120,000 for the year ended June 30, 2017.

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

## Ascend Charter Schools

### Notes to Financial Statements

June 30, 2017

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

For operational efficiency and purchasing power, the School shares certain expenses with Ascend. Net shared operational expenses consisting primarily of legal expenses, architectural and professional developmental cost. The net balance due to the related party at June 30, 2017 was \$2,573,966.

#### 5. Property and Equipment

Property and equipment consist of the following as of June 30, 2017:

Computers	\$ 1,728,263
Equipment	961,456
Furniture and fixtures	1,579,619
Software	38,124
Website development	143,277
Leasehold improvements	25,592,474
Construction in progress	<u>422,904</u>
	30,466,117
Accumulated depreciation and amortization	<u>(7,267,567)</u>
	<u>\$ 23,198,550</u>

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

#### 6. Loan Payable Held in Escrow

On February 3, 2012, Bushwick Ascend entered into a \$7,500,000 loan agreement with the Nonprofit Finance Fund ("NFF") for the purpose of financing the cost of renovations and improvements to the School's building at 741-757 Knickerbocker Avenue, Brooklyn, NY. (see Note 13). On September 11, 2013, the final draw amount was disbursed and held in an escrow account. Per the loan agreement, the final draw is to be held in an escrow account, to be released when the final certificate of occupancy is obtained by the School. As of June 30, 2017, \$200,000 remains in escrow pending delivery of the final certificate of occupancy.

#### 7. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School will match employee contributions ranging from 2% to 4% of annual compensation. Total employer match for the year ended June 30, 2017 was \$194,880.

## **Ascend Charter Schools**

### **Notes to Financial Statements**

June 30, 2017

#### **8. Concentration of Credit Risk**

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

#### **9. Concentration of Revenue and Support**

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the year ended June 30, 2017, the School received approximately 93% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

#### **10. Commitments**

##### **School Facilities**

###### Brooklyn Ascend

On March 19, 2008, Brooklyn Ascend entered into an agreement to lease property at 205 Rockaway Parkway, Brooklyn, New York for a period of 15 years. The landlord has renovated the facility to conform to the School's specifications in phases. As of June 30, 2017, Brooklyn Ascend has reimbursed the landlord a total of \$2,326,850 for these renovations which are classified as leasehold improvements under property and equipment in the statement of financial position. Pursuant to the fourth lease amendment, annual fixed rent will be reduced for years 8 through 15 due to deletion of certain projects. On July 28, 2016, Brooklyn Ascend signed a fifth amendment to renew the lease for 10 years. The renewal period commences on September 1, 2023.

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

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

## **Ascend Charter Schools**

### **Notes to Financial Statements**

June 30, 2017

#### **10. Commitments (*continued*)**

##### **School Facilities (*continued*)**

###### Brooklyn Ascend (continued)

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

###### Brownsville Ascend

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

###### Bushwick Ascend

On July 29, 2011, the School entered into an agreement to lease property at 741-757 Knickerbocker Avenue, Brooklyn, New York for a period of 20 years, with a renewal option for an additional ten years. 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.

###### Canarsie Ascend

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

## Ascend Charter Schools

### Notes to Financial Statements June 30, 2017

#### 10. Commitments (*continued*)

##### School Facilities (*continued*)

###### Central Brooklyn Ascend

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

Future minimum lease payments under the facility leases are as follows for the years ending June 30:

2018	\$ 8,157,192
2019	8,956,650
2020	9,012,829
2021	9,242,056
2022	9,369,129
Thereafter	<u>130,949,652</u>
	<u>\$ 175,687,508</u>

##### Leased Equipment

The School entered into several furniture and equipment lease agreements expiring January 2018 through May 2019.

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

2018	\$ 1,170,529
2019	<u>432,273</u>
	<u>\$ 1,602,802</u>

#### 11. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

## **Ascend Charter Schools**

### **Notes to Financial Statements**

June 30, 2017

#### **12. Loan Payable – Landlord**

On July 28, 2016, pursuant to the fifth amendment to the 205 Rockaway Parkway lease, the landlord agreed to lend Brooklyn Ascend \$325,000 for the construction of a staircase. The loan accrues interest at 12% per annum. At June 30, 2017, the balance of the loan was \$81,250. As of the issuance of these financial statements, the loan has been repaid in full.

#### **13. Loans Payable**

##### **NFF Loan 1**

##### Bushwick Ascend

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

On March 2, 2012, Bushwick Ascend 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. Bushwick Ascend anticipates that the remaining permits and inspections will be complete by March 31, 2018, 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.

The loan is secured by a leasehold mortgage on the lower school property and a second priority interest in all of Bushwick Ascend’s assets. In addition, management fees due to Ascend are subordinated to payments due under 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.

Bushwick Ascend must maintain three financial performance covenants and two student enrollment covenants. Ascend must maintain four financial covenants. At June 30, 2017, Bushwick Ascend and Ascend each did not satisfy one covenant. Therefore, Bushwick Ascend is in violation of the debt covenant under the terms of the loan agreement. The School obtained a waiver from NFF for these violations.

## Ascend Charter Schools

### Notes to Financial Statements June 30, 2017

#### 13. Loans Payable (*continued*)

##### NFF Loan 2

###### Bushwick Ascend

On August 20, 2015, Bushwick Ascend entered into a \$2,850,000 loan agreement with the Nonprofit Finance Fund ("NFF") for the purpose of financing the cost of renovations and improvements to Bushwick Ascend's middle school building at 2 Aberdeen Street, Brooklyn, NY. The loan is guaranteed by Ascend with a limited guarantee of 15% of the principal amount of the loan by Build with Purpose, a not-for-profit organization. The disbursement period of the loan is the lesser of 18 months from the closing date or the completion of the construction project on the permanent facility, at which time the outstanding balance will be converted into a term loan. Construction was completed in January 2017 and converted into a term loan effective February 1, 2017. The loan is payable in equal monthly installments, amortized over 16 years with interest at 6.5% per annum. Voluntary advanced payments can be made without premium or penalty. The loan is secured by a leasehold mortgage on the middle school property and a second priority interest in all of Bushwick Ascend's assets.

In addition, management fees due to Ascend are subordinated to payments due under this loan payable. At June 30, 2017, the outstanding balance under the loan agreement was \$2,807,158.

The loan matures on August 1, 2025, at which time Bushwick Ascend 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.

###### Canarsie Ascend

On December 23, 2015, Canarsie Ascend entered into a \$1,900,000 loan agreement with the Nonprofit Finance Fund ("NFF") for the purpose of financing the cost of renovations and improvements to Canarsie Ascend's building at 97-19 Flatlands Avenue, Brooklyn, NY. The loan is guaranteed by Ascend with a limited guarantee of 15% of the principal amount of the loan by Build with Purpose, a not-for-profit organization. The disbursement period of the loan is the lesser of 12 months from the closing date or the completion of the construction project on the permanent facility, at which time the outstanding balance will be converted into a term loan. Construction was completed in January 2017. At conversion, the loan is payable in equal monthly installments, amortized over 20 years with interest at 6.5% per annum. Voluntary advanced payments can be made without premium or penalty. The loan is secured by a leasehold mortgage on the Canarsie Ascend middle school property and a second priority interest in all of the School's assets. In addition, management fees due to Ascend are subordinated to payments due under this loan payable. At June 30, 2017, the outstanding balance under the loan agreement was \$1,842,645.

The loan matures on January 1, 2026, at which time Canarsie Ascend 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.

## **Ascend Charter Schools**

### **Notes to Financial Statements June 30, 2017**

#### **13. Loans Payable (*continued*)**

##### **NFF Loan 2 (*continued*)**

###### Central Brooklyn Ascend

On August 4, 2015, the School entered into a \$2,000,000 loan agreement with the Nonprofit Finance Fund (“NFF”) for the purpose of financing the cost of renovations and improvements to the School’s building at 465 East 29th Street, Brooklyn NY. The loan is guaranteed by Ascend with a limited guarantee of 15% of the principal amount of the loan by Build with Purpose, a not-for-profit organization. The disbursement period of the loan is the lesser of 24 months from the closing date or the completion of the construction project on the permanent facility, at which time the outstanding balance will be converted into a term loan. Construction was completed in January 2017. At conversion, the loan is payable in equal monthly installments, amortized over 20 years with interest at 6.5% per annum. Voluntary advanced payments can be made without premium or penalty. The loan is secured by a leasehold mortgage on the new School property and a second priority interest in all of the School’s assets.

In addition, management fees due to Ascend are subordinated to payments due under this loan payable. At June 30, 2017, the outstanding balance under the loan agreement was \$1,979,366.

The note matures on August 1, 2025, at which time Central Brooklyn Ascend 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.

###### Brooklyn Ascend and Brownsville Ascend

On October 28, 2016, Brooklyn Ascend, as a Co-Borrower with Brownsville Ascend, closed on a \$600,000 loan agreement with the Nonprofit Finance Fund (“NFF”) for the purpose of financing the cost of renovations and improvements to the School’s building at 1501 Pitkin Avenue, Brooklyn, NY. The loan is guaranteed by Ascend. Brooklyn Ascend, Brownsville Ascend and Ascend must maintain various financial performance covenants in order to satisfy the terms of the loan. The loan is payable in monthly installments including interest at 6.5% per annum. Amount due per month will be in equal payments, amortized over 10 years. The loan is secured by a leasehold mortgage on the school property and a security interest in certain personal property of the schools. The note matures on October 28, 2026, at which time the schools can either pay the outstanding balance on the loan in full or refinance. The loan is a commitment that cannot be assigned without prior written approval from NFF. At June 30, 2017, the outstanding balance under the loan agreement was \$589,221.

At conversion date of each NFF 2 loan, each charter school and Ascend must maintain various financial performance covenants in order to satisfy the terms of the loan. At June 30, 2017, Bushwick Ascend did not satisfy a partial school enrollment covenant. Therefore, Bushwick Ascend is in violation of these debt covenants under the terms of the loan agreement. The School obtained a waiver from NFF for this violation.

## Ascend Charter Schools

### Notes to Financial Statements June 30, 2017

#### 13. Loans Payable (*continued*)

##### NFF Loan 2 (*continued*)

##### Brooklyn Ascend and Brownsville Ascend (*continued*)

Future minimum principal payments on NFF loan 1 and loan 2 are as follows for the years ending June 30:

2018	\$ 501,773
2019	6,299,017
2020	254,489
2021	271,532
2022	289,717
Thereafter	<u>5,940,010</u>
	<u>\$ 13,556,538</u>

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# **Ascend Charter Schools**

Supplementary Information

June 30, 2017

**Ascend Charter Schools**

Schedule of Activities by School  
Year Ended June 30, 2017

	Brooklyn Ascend	Brownsville Ascend	Bushwick Ascend	Canarsie Ascend	Central Brooklyn Ascend	Total
<b>OPERATING REVENUE</b>						
State and local per pupil operating revenue						
General and special education	\$ 20,178,741	\$ 16,116,823	\$ 12,989,152	\$ 8,681,451	\$ 5,291,123	\$ 63,257,290
Facilities	603,596	848,213	744,551	890,001	656,000	3,742,361
Federal grants	906,236	943,924	608,222	545,689	351,053	3,355,124
E-Rate and IDEA	286,098	182,411	221,960	102,490	74,754	867,713
State and city grants	99,169	80,195	47,472	44,509	27,167	298,512
Total Operating Revenue	<u>22,073,840</u>	<u>18,171,566</u>	<u>14,611,357</u>	<u>10,264,140</u>	<u>6,400,097</u>	<u>71,521,000</u>
<b>EXPENSES</b>						
Program Services						
Regular education	13,403,842	11,115,310	9,292,010	6,747,372	4,257,687	44,816,221
Special education	5,511,523	2,928,200	2,842,611	1,800,988	1,154,250	14,237,572
Total Program Services	18,915,365	14,043,510	12,134,621	8,548,360	5,411,937	59,053,793
Supporting Services						
Management and general	3,583,601	2,988,911	2,546,131	1,716,317	1,294,375	12,129,335
Total Expenses	<u>22,498,966</u>	<u>17,032,421</u>	<u>14,680,752</u>	<u>10,264,677</u>	<u>6,706,312</u>	<u>71,183,128</u>
Surplus from Operations	<u>(425,126)</u>	<u>1,139,145</u>	<u>(69,395)</u>	<u>(537)</u>	<u>(306,215)</u>	<u>337,872</u>
<b>SUPPORT AND OTHER REVENUE</b>						
Contributions	124,213	4,957	21,175	13,648	8,565	172,558
Rental income	120,000	-	-	-	-	120,000
Interest and other revenue	2,666	1,852	51,141	3,575	604	59,838
Total Support and Other Revenue	<u>246,879</u>	<u>6,809</u>	<u>72,316</u>	<u>17,223</u>	<u>9,169</u>	<u>352,396</u>
Change in Net Assets	(178,247)	1,145,954	2,921	16,686	(297,046)	690,268
<b>NET ASSETS (DEFICIT) UNRESTRICTED</b>						
Beginning of year	-	-	-	(628,258)	-	(628,258)
Transfer of net asset (deficit) pursuant to merger of related charter schools	<u>(3,692,079)</u>	<u>1,438,970</u>	<u>1,214,517</u>	<u>-</u>	<u>548,669</u>	<u>(489,923)</u>
End of year	<u>\$ (3,870,326)</u>	<u>\$ 2,584,924</u>	<u>\$ 1,217,438</u>	<u>\$ (611,572)</u>	<u>\$ 251,623</u>	<u>\$ (427,913)</u>

# **Ascend Charter Schools**

Uniform Guidance  
Reports and Schedules

June 30, 2017

**Ascend Charter Schools**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Education				
Passed Through the New York State Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021-17-4395	\$ -	\$ 605,380
Title I Grants to Local Educational Agencies	84.010	0021-17-4585	-	477,307
Title I Grants to Local Educational Agencies	84.010	0021-17-4780	-	410,706
Title I Grants to Local Educational Agencies	84.010	0021-17-4965	-	230,009
Title I Grants to Local Educational Agencies	84.010	0021-17-5170	-	170,689
			<u>-</u>	<u>1,894,091</u>
Improving Teacher Quality State Grants	84.367	0147-17-4395	-	13,603
Improving Teacher Quality State Grants	84.367	0147-17-4585	-	7,891
Improving Teacher Quality State Grants	84.367	0147-17-4780	-	12,929
Improving Teacher Quality State Grants	84.367	0147-17-4965	-	11,251
Improving Teacher Quality State Grants	84.367	0147-17-5170	-	9,097
			<u>-</u>	<u>54,771</u>
English Language Acquisition State Grants	84.365	0293-17-4780	-	31,910
Total U.S. Department of Education			<u>-</u>	<u>1,980,772</u>
U.S. Department of Agriculture				
Passed Through the New York State Education Department:				
Child Nutrition Cluster				
School Breakfast Program	10.553		-	298,261
National School Lunch Program (Lunch)	10.555		-	1,020,939
National School Lunch Program (Snack)	10.555		-	55,152
			<u>-</u>	<u>55,152</u>
Total U.S. Department of Agriculture			<u>-</u>	<u>1,374,352</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 3,355,124</u>

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

## **Ascend Charter Schools**

### **Notes to Schedule of Expenditures of Federal Awards Year ended June 30, 2017**

#### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

#### **2. Summary of Significant Accounting Policies**

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

#### **3. Non-Monetary Assistance**

Non-monetary assistance is reported in the Schedule based on the amount disbursed or received. The Organization received no non-monetary assistance for the year ended June 30, 2017.

#### **4. Indirect Cost Rate**

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

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

**Independent Auditors' Report**

**Board of Trustees  
Ascend Charter Schools**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ascend Charter Schools (the "School"), which comprise the statement of financial position as of June 30, 2017, 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 30, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 30, 2017

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

**Independent Auditors' Report**

**Board of Trustees  
Ascend Charter Schools**

**Report on Compliance for Each Major Federal Program**

We have audited Ascend Charter Schools's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

***Report on Internal Control over Compliance***

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

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

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

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

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 30, 2017

## Ascend Charter Schools

### Schedule of Findings and Questioned Costs Year Ended June 30, 2017

#### **Section I - Summary of Auditors' Results**

##### Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes X no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes X none reported

Noncompliance material to the financial statements noted?

\_\_\_\_\_ yes X no

##### Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

\_\_\_\_\_ yes X no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes X none reported

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

Unmodified

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

\_\_\_\_\_ yes X no

Identification of major federal programs:

CFDA Number(s)

84.010

10.553, 10.555

Name of Federal Program or Cluster

Title I Grants to Local Educational Agencies

Child Nutrition Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_yes X no

#### **Section II – Financial Statement Findings**

During our audit, we noted no material findings for the year ended June 30, 2017.

#### **Section III – Federal Award Findings and Questioned Costs**

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

#### **Section IV – Prior Year Findings**

There were no prior year audit findings.

Ascend Charter Schools

Independent Auditors' Communication of  
Internal Control Related Matters Identified in the Audit

June 30, 2017

**Board of Trustees and Management of  
Ascend Charter Schools**

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of Ascend Charter Schools (the "School") as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

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

We have other observations and recommendations that are opportunities for strengthening internal control and/or operating efficiency, presented in Addendum A to this letter.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various School personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

**Board of Trustees and Management**  
**Ascend Charter Schools**  
Page 2

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

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the personnel of the School during the course of our audit.

*PKF O'Connor Davies, LLP*

October 30, 2017

## **Ascend Charter Schools**

### **Addendum A**

#### **Other Observations and Recommendations for Strengthening Internal Control and/or Operating Efficiency**

##### **A. Pre-approvals on purchases**

During our audit of the School, we noted the School had a significant amount of debit card transactions for which approval was dated after the purchase date. Debit card transactions where pre-approval was not documented ranged from \$100 to \$2,000 with the majority of those items at or below \$500. According to the School's policies and procedures manual, all purchases should be pre-approved. The School may also change this policy to include a threshold for pre-approval of receipts.

Auditor noted that this is in part due to an adapting period during the transition to new accounting software with an integrated purchase order system.

##### **B. Insurance coverage of business personal property**

As part of our audit, we evaluated the School on adequacy of insurance coverage. We noted that the School was underinsured for business personal property. The replacement cost of fixed assets was approximately \$29,900,000 compared to the policy limit of \$25,100,000.

Auditor noted that the business personal property limit was increased to \$31,250,000 for the year ending June 30, 2018. We recommend that the School re-evaluate the insurance policy during the year to cover at minimum the replacement cost of fixed assets including leasehold improvements.

\* \* \* \* \*