

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF  
BROOKLYN ASCEND CHARTER SCHOOL

We have audited the accompanying statements of financial position of Brooklyn Ascend Charter School (the "School") (a not-for-profit corporation) as of June 30, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

New York, New York  
October 26, 2011

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30,

	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 485,446	\$ 91,168
Grants and contracts receivable	135,804	133,762
Prepaid expenses	6,150	16,658
Total current assets	627,400	241,588
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$239,782 and \$114,066, respectively	1,410,844	938,791
Security deposits	6,135	6,135
Restricted cash	70,067	20,000
Total other assets	1,487,046	964,926
<b>TOTAL ASSETS</b>	<b>\$ 2,114,446</b>	<b>\$ 1,206,514</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 160,158	\$ 43,994
Accrued payroll and payroll taxes	167,675	102,735
Due to related parties	2,793	-
Refundable advances	37,498	17,753
Total current liabilities	368,124	164,482
Deferred rent	2,029,931	792,757
Total liabilities	2,398,055	957,239
Net assets:		
Unrestricted	(288,680)	229,275
Temporarily restricted	5,071	20,000
Total net assets	(283,609)	249,275
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,114,446</b>	<b>\$ 1,206,514</b>

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

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,

	2011			2010
	Unrestricted	Temporarily restricted	Total	
Revenue and support:				
State and local per pupil				
operating revenue	\$ 5,877,978	\$ -	\$ 5,877,978	\$ 3,162,375
Federal grants	336,458	-	336,458	343,261
State and city grants	102,064	-	102,064	368,503
Contributions and private grants	5,000	-	5,000	20,912
Rental income	395,417	-	395,417	142,856
Interest and other income	7,261	-	7,261	1,008
Net assets released from restriction - satisfaction of purpose restriction	14,929	(14,929)	-	-
Total revenue and support	<u>6,739,107</u>	<u>(14,929)</u>	<u>6,724,178</u>	<u>4,038,915</u>
Expenses:				
Program services:				
Regular education	5,642,684	-	5,642,684	3,108,359
Special education	545,716	-	545,716	470,490
Total program services	<u>6,188,400</u>	<u>-</u>	<u>6,188,400</u>	<u>3,578,849</u>
Supporting services:				
Management and general	1,068,662	-	1,068,662	586,020
Fundraising	-	-	-	603
Total expenses	<u>7,257,062</u>	<u>-</u>	<u>7,257,062</u>	<u>4,165,472</u>
Surplus (deficit) from operations	(517,955)	(14,929)	(532,884)	(126,557)
Loss on disposal of equipment	-	-	-	6,325
Changes in net assets	(517,955)	(14,929)	(532,884)	(132,882)
Net assets - beginning of year	<u>229,275</u>	<u>20,000</u>	<u>249,275</u>	<u>382,157</u>
Net assets - end of year	<u>\$ (288,680)</u>	<u>\$ 5,071</u>	<u>\$ (283,609)</u>	<u>\$ 249,275</u>

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

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (532,884)	\$ (132,882)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	125,715	80,731
Loss on disposal of equipment	-	6,325
Changes in certain assets and liabilities:		
(Increase) in grants and contracts receivable	(2,042)	(58,733)
Decrease in prepaid expenses	10,508	34,675
(Increase) in security deposits	-	(3,230)
Increase (Decrease) in accounts payable and accrued expenses	116,164	(290,806)
Increase (Decrease) in accrued payroll and payroll taxes	64,940	(56,512)
Increase in due to related parties	2,793	12,825
Increase (Decrease) in refundable advances	19,745	(34,027)
Increase in deferred rent	1,237,174	712,287
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,042,113</b>	<b>270,653</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(597,768)	(302,709)
(Increase) in restricted cash	(50,067)	(20,000)
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b>(647,835)</b>	<b>(322,709)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	394,278	(52,056)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>91,168</b>	<b>143,224</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 485,446</b>	<b>\$ 91,168</b>

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

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Brooklyn Ascend Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 15, 2008 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 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. The School will prepare kindergarten to twelfth grade students to thrive in competitive high schools and four year colleges. The School provided education to approximately 427 students in grades kindergarten through fourth during the 2010-2011 academic year.

Food Service

The New York City Department of Education provides free lunches directly to some of the School's students. Such costs are not included in these financial statements. The School covers the cost of lunches for families who experience hardship and who do not qualify for free lunches.

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, 2011 and 2010.

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.

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.

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Financial statement presentation follows the requirements of Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) 958-205. Under ASC 958-205, the School is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets classifications are described as follows:

Unrestricted

Unrestricted net assets of the School are assets whose use has not been restricted by an outside donor or by law. The unrestricted net assets represent the portion of expendable funds that are available for the support of the operations of the School.

Temporarily Restricted

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time or period or for a specific purpose. Temporarily restricted gifts are recorded as additions to temporarily restricted net assets in the period received. When restricted net assets are expended for their stipulated purpose, temporarily restricted net assets become unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

Permanently Restricted

Permanently restricted net assets are those contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled or otherwise removed by actions of the School. The income derived from these permanently restricted funds is usually classified as unrestricted and can be used for the general purpose of the School.

The School had no permanently restricted net assets at June 30, 2011 and 2010.

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.

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, 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. 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. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Leasehold improvements	15 years
Furniture and fixtures	7 years
Equipment	5 years
Software	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.

Comparative Financial Information

The accompanying statements of activities and functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statements of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2010 financial statements from which the summarized information was derived.

Reclassifications

Certain 2010 accounts have been reclassified to the 2011 financial statements presentation. The reclassification has no effect on 2010 total assets, liabilities, net assets, and change in net assets.

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal entitlements and a city grant. 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>2011</u>	<u>2010</u>
Leasehold improvements	\$ 988,657	\$ 757,204
Furniture and fixtures	158,372	110,738
Equipment and software	287,415	141,040
Construction in progress	<u>216,182</u>	<u>43,875</u>
	1,650,626	1,052,857
Less: Accumulated depreciation and amortization	<u>239,782</u>	<u>114,066</u>
	<u>\$ 1,410,844</u>	<u>\$ 938,791</u>

Depreciation and amortization expense was \$125,715 and \$80,731 for the years ended June 30, 2011 and 2010, respectively.

Construction in progress consists of architect fees and leasehold improvements in connection with Phase III of the School's facility expansion that was completed in September 2011.

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Ascend Learning, Inc. ("Ascend"), a New York State not-for-profit corporation. The School entered into an agreement with Ascend on May 1, 2008 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, and manage the School's business administration. The School pays to Ascend an annual fee of 9% of the School's general operating revenues. The management fee for the year ended June 30, 2011 and 2010 was \$531,875 and \$285,683, respectively. Additionally, Ascend paid for shared expenses on behalf of the School in the net amount of \$158,121 for the year ended June 30, 2011. At June 30, 2011 and 2010, balance due to Ascend amounted to \$2,598 and \$0, respectively. This balance was paid in full prior to the issuance of this report.

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

The School entered into a real estate management agreement with Ascend for one year, commencing on November 11, 2010. Ascend's services include, but is not limited to, identifying and evaluating properties suitable for the School's future middle school, evaluating and recommending an architect, securing a real estate attorney, negotiating contracts, overseeing the design of the construction of the preliminary plans for the grades 5-8 facility and monitoring the construction to ensure that build-out is according to specifications. For these services the School pays Ascend a monthly fee of \$10,000. The real estate management fees paid to Ascend for the year ended June 30, 2011 was \$80,000. There was no balance due to Ascend at June 30, 2011.

The School entered into a sub-lease agreement with Brownsville Ascend Charter School ("Brownsville Ascend"), a related charter school by common management, for the use of the 5<sup>th</sup> and 6<sup>th</sup> floors. As per the terms of the agreement, the sub-lease is for one year, commencing September 1, 2010. For the years ended June 30, 2011 and 2010, rental income from Brownsville totaled \$395,417 and \$142,856. In addition, the School shares and pays for salaries and other expenses on behalf of Brownsville in the amount of \$252,478 and \$10,210 for the year ended June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, balance due to Brownsville Ascend amounted to \$989 and \$-0-, respectively. This balance was paid in full prior to the issuance of this report.

The School is related to Bushwick Ascend Charter School ("Bushwick Ascend"), a charter school related by common management. The School paid for start-up expenses on behalf of Bushwick Ascend in the amount of \$122,317 and \$2,921 for the years ended June 30, 2011 and 2010. At June 30, 2011 and 2010, balance due from Bushwick Ascend amounted to \$794 and \$0, respectively. This balance was paid in full prior to the issuance of this report.

NOTE 5 - COMMITMENTS

Facility Lease

The School entered into an agreement on March 19, 2008 to lease property at 205 Rockaway Parkway, Brooklyn, New York for a period of 15 years. The landlord will renovate the facility to conform to the School's specifications in phases. Phase I, which consists of the 2<sup>nd</sup> and 3<sup>rd</sup> floors of the building, was completed in August 2008. Phase II of the renovations, which consists of the 4<sup>th</sup> and 5<sup>th</sup> floors of the building, was completed in August 2009. Phase III of the renovations, which consists of the 6<sup>th</sup> floor of the building, was completed in September 2011. The School has reimbursed the landlord a total of \$622,800 for these renovations which are classified as leasehold improvements in the statements of financial position.

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

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

NOTE 5 - COMMITMENTS (Continued)

Facility Lease (Continued)

The future minimum lease payments are as follows:

Year ending June 30, 2012	\$ 1,006,873
2013	1,053,340
2014	1,260,800
2015	1,300,200
2016	1,630,200
Thereafter	<u>18,969,850</u>
	<u>\$ 25,221,263</u>

Rent expense is recognized on the straight-line basis. The differences between cash payments under the lease agreement and the straight-line rent have been recognized as deferred rent in the accompanying statement of financial position from inception of the lease. The differences between rent cash payments and straight-line rent charged in the statement of financial position amounted to \$1,237,174 and \$712,287 for the years ended June 30, 2011 and 2010 respectively.

Rent expense for the years ended June 30, 2011 and 2010 was \$2,300,371 and \$1,177,430, respectively.

Furniture and Equipment Leases

The School leases furniture and equipment under three non-cancelable operating leases, two expiring in 2012 and one expiring in 2013. The minimum future rental payments under the non-cancelable operating leases for the next two years and in the aggregate are:

Year ending June 30, 2012	\$ 186,609
2013	<u>171,536</u>
	<u>\$ 358,145</u>

Lease expense under these operating leases for the years ended June 30, 2011 and 2010 was \$237,031 and \$116,517, respectively. The School bills a portion of the furniture and equipment lease to the related charter schools (see Note 4).

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

NOTE 6 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 7 - 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 8 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 10 - RETIREMENT PLAN

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School will match employee contributions ranging from 2% and 4% of annual compensation. Employer match for the years ended June 30, 2011 and 2010 amounted to \$4,731 and \$443, respectively.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 26, 2011, the date the financial statements were available to be issued.

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INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF  
BROOKLYN ASCEND CHARTER SCHOOL

Our report on our audits of the basic financial statements of Brooklyn Ascend Charter School (a not-for-profit corporation) for the years ended June 30, 2011 and June 30, 2010 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

New York, New York  
October 26, 2011

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30,

2011

	Program Services			Supporting Services			2010
	Regular Education	Special Education	Total	Management and General	Fundraising	Total	
Salaries and wages	\$ 1,948,001	\$ 171,928	\$ 2,119,929	\$ 231,449	\$ -	\$ 2,351,378	\$ 1,510,000
Employee benefits and payroll taxes	386,965	34,153	421,118	45,978	-	467,096	271,926
Legal	10,498	1,197	11,695	1,241	-	12,936	14,375
Professional fees	424,986	48,435	473,421	155,215	-	628,636	479,311
Management fees	204,402	8,348	212,750	319,125	-	531,875	285,683
Consultants	66,384	3,211	69,595	-	-	69,595	4,033
Curriculum and classroom supplies	156,638	6,397	163,035	-	-	163,035	52,600
Office supplies	13,153	1,499	14,652	1,554	-	16,206	8,210
Non-capitalized furniture and equipment	6,224	709	6,933	735	-	7,668	6,356
Leased equipment	192,373	21,925	214,298	22,733	-	237,031	116,517
Communications	60,083	6,848	66,931	7,100	-	74,031	24,063
Occupancy	1,866,974	212,778	2,079,752	220,619	-	2,300,371	1,177,430
Repairs and maintenance	38,364	4,372	42,736	4,534	-	47,270	25,299
Security	6,477	738	7,215	765	-	7,980	12,318
Insurance	24,976	2,757	27,733	2,808	-	30,541	22,595
Marketing and recruiting	28,953	2,953	31,906	2,860	-	34,766	9,074
Staff development	52,004	2,124	54,128	33,301	-	87,429	33,500
Travel and meals	36,597	2,524	39,121	1,663	-	40,784	17,000
Postage, printing, and copying	7,015	800	7,815	828	-	8,643	10,695
Dues and subscriptions	9,587	392	9,979	-	-	9,979	2,615
Depreciation and amortization	102,030	11,628	113,658	12,057	-	125,715	80,731
Miscellaneous	-	-	-	4,097	-	4,097	1,143
	<u>\$ 5,642,684</u>	<u>\$ 545,716</u>	<u>\$ 6,188,400</u>	<u>\$ 1,068,662</u>	<u>\$ -</u>	<u>\$ 7,257,062</u>	<u>\$ 4,165,474</u>

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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  
BROOKLYN ASCEND CHARTER SCHOOL

We have audited the financial statements of Brooklyn Ascend Charter School (the “School”) as of and for the years ended June 30, 2011 and 2010 and have issued our report thereon dated October 26, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the School’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control over financial reporting.

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.

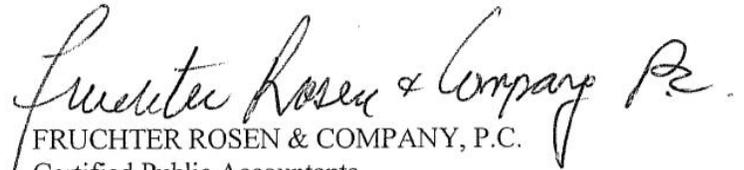
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be a material weakness as defined above.

TO THE BOARD OF TRUSTEES OF  
BROOKLYN ASCEND CHARTER SCHOOL

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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 audits, 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*.

This report 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.

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

New York, New York  
October 26, 2011

BROOKLYN ASCEND CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2011 AND 2010

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  
FAX: (212) 957-3696

October 26, 2011

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

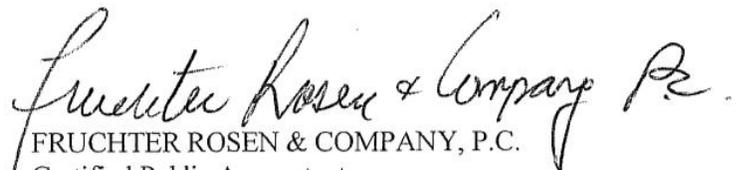
In planning and performing our audits of the financial statements of Brooklyn Ascend Charter School (the "School") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Exhibit I that accompanies this letter summarizes the corrective actions taken by the School on the prior year observations. We determined that these observations do not constitute a significant deficiency or a material weakness.

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.

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

New York, New York  
October 26, 2011

BROOKLYN ASCEND CHARTER SCHOOL  
MANAGEMENT LETTER  
JUNE 30, 2011 AND 2010

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BROOKLYN ASCEND CHARTER SCHOOL  
MANAGEMENT LETTER

EXHIBIT I - CORRECTIVE ACTIONS TAKEN ON PRIOR YEAR OBSERVATION

In conjunction with performing the audit of the School's financial statements for the year ended June 30, 2011, we followed up on the status of implantation of audit recommendations made for the year ended June 30, 2010. The status update on those matters is summarized below.

A. INCOMPLETE EMPLOYEE FILES

Observation

While conducting our audit, we noted that personnel files contain incomplete data. We tested 19 employee files and noted the following:

- Eighteen files containing Forms I-9 did not have the list of documents that establish identity and employment eligibility, as required in Section 2 of the form, yet the School signed Section 2.
- One employee file was missing the employee contract.

Recommendation

Complete and current personnel files should be established and maintained for each employee including copies of contracts, results of fingerprint clearance, and the necessary documentation and information to prove that the employee is legally permitted to work in the United States. We strongly recommend that the School make every effort to update and complete these files and develop a checklist that includes all required documentation.

Based on our recommendation and prior to the issuance of the Financial Statements, the School has obtained, updated, corrected and completed the missing information in the employee files.

Corrective Action Taken

During our 2011 audit, all employee files selected for testing were found to be complete.

B. APPROVAL OF REIMBURSEMENT CHECKS

Observation

Even though all reimbursement checks that we tested were adequately supported by receipts, invoices, and other documentation, we noted that the Chief Operating Officer approved her own reimbursement checks.

Recommendation

We recommend the President or an authorized Board member approve all reimbursement checks payable to the Chief Operating Officer. Adopting this policy will significantly strengthen internal control over cash disbursements.

Corrective Action Taken

During our 2011 audit, we observed that all examined reimbursement checks to COO were signed by authorized personnel other than the COO.

BROOKLYN ASCEND CHARTER SCHOOL  
MANAGEMENT LETTER

C. ESCROW ACCOUNT FOR DISSOLUTION

Observation

Although the School opened an escrow account in the event of dissolution, it is underfunded for a second year charter school. Pursuant to the Charter Agreement, under section 2851 (2) (t) of the New York State Education Law, the NYCDOE requires each New York City Chancellor-Authorized Charter School to set up an escrow of at least \$70,000 by the third year of operation. The timeline to adhere to is as follows:

- By April 1<sup>st</sup> of year 1 of operation, the balance of the escrow account must be at least \$10,000
- By April 1<sup>st</sup> of year 2 of operation, the balance of the escrow account must be at least \$30,000
- By April 1<sup>st</sup> of year 3 of operation, the balance of the escrow account must be at least \$70,000

At June 30, 2010, the School maintained a balance of \$20,000.

Recommendation

We recommend that the School currently replenish the escrow account to at least the \$30,000 threshold and \$70,000 by April 1, 2011.

Corrective Action Taken

During our 2011 audit, we observed that the escrow balance met the minimum balance of \$70,000 required after the 3<sup>rd</sup> year of operation.

D. SUPPORTING DOCUMENTATION FOR DEBIT CARDS

Observation

During the audit process it was noted that appropriate supporting documentation was not obtained/retained, during the start up period, for some of the disbursements charged with the debit cards. It was also noted that withdrawals of cash for \$100 was made for which there was no receipt to substantiate the withdrawal. This practice could result in the payment of unsupported debit card purchases and thereby unauthorized expenses. During the testing of four debit card statements for the current year, it was noted that supporting documentation was missing that totaled approximately \$1,400.

Recommendation

To strengthen internal controls over disbursements, especially the debit card transactions, it is recommended that appropriate support be provided and maintained for all disbursements. Alternatively we recommend that the School consider an alternative method by which these employees can obtain needed funds.

Corrective Actions Taken

During our 2011 audit, we noted that management had implemented measures to retain supporting documents on debit card transactions. Additionally, debit card usage has decreased significantly as compared to prior year.

BROOKLYN ASCEND CHARTER SCHOOL  
MANAGEMENT LETTER

E. MAINTAINANCE OF PROPERTY AND EQUIPMENT RECORDS

Observation

We noted the following matters related to the School's maintenance of property and equipment records:

The School's inventory listing of property and equipment by location appear to be incomplete and does not agree to the fixed asset register maintained in the books and records of the School. There should be a clear trail of capital assets from the inventory listing to the fixed asset register.

New additions to the property and equipment records were not properly recorded. Some of the assets were substantially funded through the E-Rate program and the balance was paid for by the School. The School recorded the asset at the amount of payment, not the full market value of the asset. This resulted in the understatement of the property and equipment accounts and revenue. Capitalized items are to be recorded at the current market value, including all costs to get the asset prepared and ready for its intended use, regardless of the funding sources that purchased the asset.

Recommendation

There should be a clear trail of tracing the capital assets from the inventory listing to the financial fixed asset register maintained by the School. On an annual basis, the School should take a physical inventory of all capital assets to ensure the completeness and accuracy of the School's records.

Acquired fixed assets should be stated at acquisition cost, including all costs necessary to bring the asset to its location in working condition

Corrective Actions Taken

During the 2011 audit, we observed that E-rate funding was properly recorded to reflect the full market value of the asset. The amount recorded was inclusive of the portion reimbursed to vendor through the E-rate program. In addition, the school purchased an inventory tracking system and has substantially implemented the software.