

FRUCHTER ROSEN & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
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October 10, 2012

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

In planning and performing our audit of the financial statements of Brooklyn Ascend Charter School (the "School") as of and for the year ended June 30, 2012, 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 was not designed to identify all deficiencies in internal control that might be 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.

This communication is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the School and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate your cooperation and the assistance we received during the course of our audit.

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

New York, New York  
October 10, 2012

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF  
BROOKLYN ASCEND CHARTER SCHOOL

We have audited the accompanying statement of financial position of Brooklyn Ascend Charter School (the "School") (a not-for-profit corporation) as of June 30, 2012, and the related statements of activities, and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the School's 2011 financial statements and, in our report dated October 26, 2011, we expressed an unqualified opinion on those financial statements.

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 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 audit provides 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, 2012, and the changes in its net assets and its cash flows for the year 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 10, 2012 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 10, 2012

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

|  | 2012                | 2011                |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| Current assets:  |                     |                     |
| Cash and cash equivalents  | \$ 94,624           | \$ 485,446          |
| Grants and contracts receivable  | 225,092             | 135,804             |
| Prepaid expenses and other current assets  | 18,227              | 6,150               |
| Due from related parties   | 130,605             | -                   |
| Total current assets   | 468,548             | 627,400             |
| Other assets:  |                     |                     |
| Property and equipment, net of accumulated depreciation<br>and amortization of \$490,995 and \$239,782, respectively | 1,959,248           | 1,410,844           |
| Security deposits  | 6,135               | 6,135               |
| Restricted cash  | 70,172              | 70,067              |
| Total other assets   | 2,035,555           | 1,487,046           |
| <b>TOTAL ASSETS</b>  | <b>\$ 2,504,103</b> | <b>\$ 2,114,446</b> |
| <br><b>LIABILITIES AND NET ASSETS</b>  |                     |                     |
| Current liabilities:   |                     |                     |
| Accounts payable and accrued expenses  | \$ 285,279          | \$ 160,158          |
| Accrued payroll and payroll taxes  | 244,648             | 167,675             |
| Due to related parties   | -                   | 2,793               |
| Refundable advances  | 18,591              | 37,498              |
| Total current liabilities  | 548,518             | 368,124             |
| Other liabilities:   |                     |                     |
| Due to related party   | 172,641             | -                   |
| Deferred rent  | 3,094,211           | 2,029,931           |
| Total other liabilities  | 3,266,852           | 2,398,055           |
| Net assets:  |                     |                     |
| Unrestricted   | (1,316,338)         | (288,680)           |
| Temporarily restricted   | 5,071               | 5,071               |
| Total net assets   | (1,311,267)         | (283,609)           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 2,504,103</b> | <b>\$ 2,114,446</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,

|  | 2012                  |                           |                       | 2011                |
|--|-----------------------|---------------------------|-----------------------|---------------------|
|  | Unrestricted          | Temporarily<br>restricted | Total                 |                     |
| Revenue and support:                           |                       |                           |                       |                     |
| State and local per pupil<br>operating revenue | \$ 7,869,777          | \$ -                      | \$ 7,869,777          | \$ 5,877,978        |
| Federal grants                                 | 260,556               | -                         | 260,556               | 336,458             |
| State and city grants                          | 42,910                | -                         | 42,910                | 102,064             |
| Contributions and private grants               | 31,301                | -                         | 31,301                | 5,000               |
| Rental income                                  | 968,787               | -                         | 968,787               | 395,417             |
| Interest and other income                      | 84,450                | -                         | 84,450                | 7,261               |
| Total revenue and support                      | <u>9,257,781</u>      | <u>-</u>                  | <u>9,257,781</u>      | <u>6,724,178</u>    |
| Expenses:                                      |                       |                           |                       |                     |
| Program services:                              |                       |                           |                       |                     |
| Regular education                              | 7,504,877             | -                         | 7,504,877             | 5,642,684           |
| Special education                              | 806,396               | -                         | 806,396               | 545,716             |
| Total program services                         | <u>8,311,273</u>      | <u>-</u>                  | <u>8,311,273</u>      | <u>6,188,400</u>    |
| Supporting services:                           |                       |                           |                       |                     |
| Management and general                         | 1,974,166             | -                         | 1,974,166             | 1,068,662           |
| Total expenses                                 | <u>10,285,439</u>     | <u>-</u>                  | <u>10,285,439</u>     | <u>7,257,062</u>    |
| Changes in net assets                          | (1,027,658)           | -                         | (1,027,658)           | (532,884)           |
| Net assets - beginning of year                 | <u>(288,680)</u>      | <u>5,071</u>              | <u>(283,609)</u>      | <u>249,275</u>      |
| Net assets - end of year                       | <u>\$ (1,316,338)</u> | <u>\$ 5,071</u>           | <u>\$ (1,311,267)</u> | <u>\$ (283,609)</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,

|   | 2012           | 2011         |
|---|----------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                |              |
| Changes in net assets   | \$ (1,027,658) | \$ (532,884) |
| Adjustments to reconcile changes in net assets<br>to net cash provided by operating activities: |                |              |
| Depreciation and amortization   | 251,213        | 125,715      |
| Changes in certain assets and liabilities:  |                |              |
| (Increase) in grants and contracts receivable   | (89,288)       | (2,042)      |
| (Increase) Decrease in prepaid expenses and other current assets                                | (12,077)       | 10,508       |
| Increase in accounts payable and accrued expenses   | 125,121        | 116,164      |
| Increase in accrued payroll and payroll taxes   | 76,973         | 64,940       |
| Increase in due to related parties  | 39,243         | 2,793        |
| (Decrease) Increase in refundable advances  | (18,907)       | 19,745       |
| Increase in deferred rent   | 1,064,280      | 1,237,174    |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | 408,900        | 1,042,113    |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |                |              |
| Purchase of property and equipment  | (799,617)      | (597,768)    |
| (Increase) in restricted cash   | (105)          | (50,067)     |
| NET CASH (USED IN) INVESTING ACTIVITIES   | (799,722)      | (647,835)    |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS  | (390,822)      | 394,278      |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR   | 485,446        | 91,168       |
| CASH AND CASH EQUIVALENTS - END OF YEAR   | \$ 94,624      | \$ 485,446   |

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, 2012 AND 2011

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 565 students in kindergarten through fifth grade during the 2011-2012 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, 2012 and 2011.

The School's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

IRS Form 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. All Forms 990 filed by the School are subject to examination.

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, 2012 AND 2011

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, 2012 and 2011.

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, 2012 AND 2011

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. No amortization is recorded on construction in progress until property is placed into service. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

|                        |                |
|------------------------|----------------|
| Leasehold improvements | 11 to 20 years |
| Furniture and fixtures | 7 years        |
| Equipment              | 5 years        |
| Software               | 3 years        |
| Website development    | 3 years        |

Refundable Advances

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

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 2011 financial statements from which the summarized information was derived.

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

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

Reclassifications

Certain 2011 accounts have been reclassified to the 2012 financial statements presentation. The reclassification has no effect on 2011 total assets, liabilities, net assets, and change in net assets.

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 consist of the following at June 30,:

|   | 2012         | 2011         |
|---|--------------|--------------|
| Leasehold improvements                          | \$ 1,855,066 | \$ 988,657   |
| Furniture and fixtures                          | 210,235      | 158,372      |
| Equipment                                       | 325,126      | 235,144      |
| Software  | 13,019       | 5,474        |
| Website development                             | 46,797       | 46,797       |
| Construction in progress                        | -            | 216,182      |
|   | 2,450,243    | 1,650,626    |
| Less: Accumulated depreciation and amortization | 490,995      | 239,782      |
|   | \$ 1,959,248 | \$ 1,410,844 |

Depreciation and amortization expense was \$251,213 and \$125,715 for the years ended June 30, 2012 and 2011, respectively.

Construction in progress at June 30, 2011 consisted of architect fees and leasehold improvements in connection with the School's facility expansion which was completed and put into service during the year ended June 30, 2012.

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 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. A new agreement was signed on April 12, 2012 and 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. The School pays to Ascend an annual fee of 9% of the School’s per pupil operating revenues. Ascend may also charge the School for the operation of after-school and summer programs. The management fee for the years ended June 30, 2012 and 2011 amounted to \$710,241 and \$531,875, respectively. In addition, Ascend shares operating expenses with the School and for the years ended June 30, 2012 and 2011 net shared expenses amounted to \$56,736 and \$158,121, respectively.

The School entered into a sub-lease agreement with Ascend for three years commencing on July 1, 2011. The terms of the agreement permit Ascend to use the 6<sup>th</sup> floor of the building the School occupies. For the year ended June 30, 2012, rental income amounted to \$16,200.

The School entered into a real estate management agreement with Ascend for one year, commencing on November 11, 2010. The agreement terminated on November 1, 2011 and was not renewed at that time. Ascend’s services included, but was 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 paid Ascend a monthly fee of \$10,000. The real estate management fee paid to Ascend amounted to \$40,000 and \$80,000 for the years ended June 30, 2012 and 2011, respectively.

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 of the building the School occupies. As per the terms of the agreement, the sub-lease is for one year, commencing September 1, 2010. Upon the expiration of the agreement on August 31, 2011, the School entered into a sub-lease agreement with Brownsville Ascend for the use of the 1<sup>st</sup> through 4<sup>th</sup> floors of the 123 East 98<sup>th</sup> Street facility, the future home of Brooklyn Ascend Middle School. As per the terms of the agreement, the sub-lease is for the period from September 1, 2011 through July 31, 2012. For the years ended June 30, 2012 and 2011, rental income from Brownsville Ascend totaled \$952,587 and \$395,417, respectively. In addition, the School shares and pays for salaries and other expenses on behalf of Brownsville Ascend in the amount of \$238,266 and \$252,478 for the years ended June 30, 2012 and 2011, respectively.

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

The School is related to Bushwick Ascend Charter School (“Bushwick Ascend”), a charter school related by common management. The School shares and pays for salaries and other expenses on behalf of Bushwick Ascend in the amount of \$164,163 and \$122,317 for the years ended June 30, 2012 and 2011, respectively.

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

|   | 2012       | 2011     |
|---|------------|----------|
| Ascend                                    | \$ 178,393 | \$ 2,598 |
| Brownsville Ascend                        | (54,475)   | 989      |
| Bushwick Ascend                           | (81,882)   | (794)    |
| Net amounts due to (from) related parties | \$ 42,036  | \$ 2,793 |

The long term portion of due to related party represents a balance of \$172,641 payable to Ascend during the year ending June 30, 2014.

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. In prior years, the School had reimbursed the landlord a total of \$622,800 for these renovations which are classified as leasehold improvements in the statements of financial position.

On January 19, 2011, the School 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. The School will gradually occupy the facility in four phases as it grows its middle school student population. From September 1, 2011 through July 31, 2012, the School sub-leased the first through fourth floors to Brownsville Ascend. (see Note 4)

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE 5 - COMMITMENTS (Continued)

On July 2, 2012, the School entered into an agreement as a co-lessee with Brownsville Ascend to become a future tenant at 1501 Pitkin Avenue, Brooklyn, NY (see Note 11 – Subsequent Events). The occupancy period for the School is 17 years of the 20 year lease agreement. The facility will become the home of Brooklyn Ascend High School, which will begin with the 2015-2016 academic year. The space will be shared with Brownsville Ascend.

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

The future minimum lease payments are as follows:

|                      |            |                      |
|----------------------|------------|----------------------|
| Year ending June 30, | 2013       | \$ 1,647,099         |
|                      | 2014       | 1,955,846            |
|                      | 2015       | 2,331,352            |
|                      | 2016       | 2,891,659            |
|                      | 2017       | 3,387,159            |
|                      | Thereafter | <u>48,487,234</u>    |
|                      |            | <u>\$ 60,700,349</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 statements of financial position from inception of the lease. The differences between rent cash payments and straight-line rent charged in the statements of financial position amounted to \$1,064,280 and \$1,237,174 for the years ended June 30, 2012 and 2011, respectively.

Rent expense for the years ended June 30, 2012 and 2011 was \$2,895,186 and \$2,300,371, respectively.

Furniture and Equipment Leases

The School leases furniture and equipment under three non-cancelable operating leases, expiring at various dates from October 2012 to June 2014. On July 14, 2011, the School co-signed one of the lease agreements with co-lessees Ascend, Brooklyn Ascend and Bushwick Ascend. The lease is for three years expiring June 30, 2014. Payment is made to the lessor by Ascend who in turn bills a portion to each related school.

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE 5 - COMMITMENTS (Continued)

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, 2013 | \$ | 311,361           |
|  | 2014                      |    | <u>104,025</u>    |
|  |                           |    | <u>\$ 415,386</u> |

Lease expense under these operating leases for the years ended June 30, 2012 and 2011 was \$351,367 and \$237,031, respectively.

NOTE 6 - REVENUE CONCENTRATION

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

NOTE 7 - 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 9 - 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, 2012 and 2011 amounted to \$17,913 and \$4,731, respectively.

BROOKLYN ASCEND CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of \$5,071 at June 30, 2012 and 2011. The funds will be used for the purchase of school lockers in the 2012-2013 academic year.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 10, 2012, the date the financial statements were available to be issued.

On July 2, 2012, the School entered into an agreement as a co-lessee with Brownsville Ascend to become a future tenant at 1501 Pitkin Avenue, Brooklyn, NY (see Note 5).

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56<sup>TH</sup> STREET

NEW YORK, NEW YORK 10019

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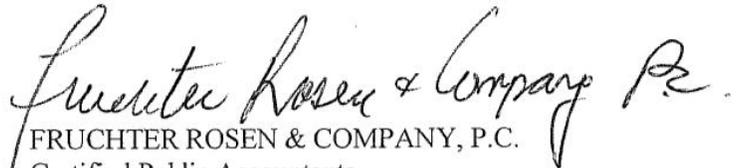
TEL: (212) 957-3600

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INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF  
BROOKLYN ASCEND CHARTER SCHOOL

We have audited the financial statements of Brooklyn Ascend Charter School as of and for the year ended June 30, 2012, and have issued our report thereon dated October 10, 2012, which contained an unqualified opinion on the financial statements as a whole. The schedule of functional expenses for the year ended June 30, 2012 with comparative totals for 2011 is presented for the 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.

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

New York, New York  
October 10, 2012

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

2012

|   | Program Services    |                   |                     | Supporting Services    |                      | 2011                |
|---|---------------------|-------------------|---------------------|------------------------|----------------------|---------------------|
|   | Regular Education   | Special Education | Total               | Management and General | Total                |                     |
| Salaries and wages                      | \$ 2,837,536        | \$ 320,740        | \$ 3,158,276        | \$ 524,318             | \$ 3,682,594         | \$ 2,351,378        |
| Employee benefits and payroll taxes     | 584,260             | 66,042            | 650,302             | 107,959                | 758,261              | 467,096             |
| Legal                                   | 1,452               | 164               | 1,616               | 268                    | 1,884                | 12,936              |
| Professional fees                       | 515,523             | 58,272            | 573,795             | 296,363                | 870,158              | 628,636             |
| Management fees                         | 273,096             | 11,000            | 284,096             | 426,145                | 710,241              | 531,875             |
| Consultants                             | 3,174               | 128               | 3,302               | -                      | 3,302                | 69,595              |
| Curriculum and classroom supplies       | 187,213             | 7,541             | 194,754             | -                      | 194,754              | 163,035             |
| Office supplies                         | 18,133              | 2,050             | 20,183              | 3,350                  | 23,533               | 16,206              |
| Non-capitalized furniture and equipment | 8,532               | 964               | 9,496               | 1,577                  | 11,073               | 7,668               |
| Leased equipment                        | 270,737             | 30,603            | 301,340             | 50,027                 | 351,367              | 237,031             |
| Communications                          | 40,584              | 4,587             | 45,171              | 7,499                  | 52,670               | 74,031              |
| Occupancy                               | 2,230,817           | 252,160           | 2,482,977           | 412,209                | 2,895,186            | 2,300,371           |
| Repairs and maintenance                 | 95,251              | 10,767            | 106,018             | 17,600                 | 123,618              | 47,270              |
| Security                                | 25,314              | 2,861             | 28,175              | 4,678                  | 32,853               | 7,980               |
| Insurance                               | 28,851              | 3,158             | 32,009              | 5,070                  | 37,079               | 30,541              |
| Marketing and recruiting                | 66,928              | 7,328             | 74,256              | 11,764                 | 86,020               | 34,766              |
| Staff development                       | 97,688              | 3,935             | 101,623             | 61,369                 | 162,992              | 87,429              |
| Travel and meals                        | 17,272              | 1,406             | 18,678              | 1,802                  | 20,480               | 40,784              |
| Postage, printing, and copying          | 6,186               | 699               | 6,885               | 1,144                  | 8,029                | 8,643               |
| Dues and subscriptions                  | 2,764               | 111               | 2,875               | -                      | 2,875                | 9,979               |
| Depreciation and amortization           | 193,566             | 21,880            | 215,446             | 35,767                 | 251,213              | 125,715             |
| Miscellaneous                           | -                   | -                 | -                   | 5,257                  | 5,257                | 4,097               |
|   | <u>\$ 7,504,877</u> | <u>\$ 806,396</u> | <u>\$ 8,311,273</u> | <u>\$ 1,974,166</u>    | <u>\$ 10,285,439</u> | <u>\$ 7,257,062</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 year ended June 30, 2012 and have issued our report thereon dated October 10, 2012. 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.

Internal Control over Financial Reporting

In planning and performing our audit, 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 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*.

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 10, 2012