

MOTT HAVEN ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

MOTT HAVEN ACADEMY CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mott Haven Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Mott Haven Academy Charter School (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.

Auditor's 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 of 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 auditor's 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 Mott Haven Academy Charter 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.

Emphasis of a Matter

The School is financially dependent on the New York Foundling (NOTE 3).

Report on Summarized Comparative Information

We have previously audited Mott Haven Academy Charter School's 2016 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated October 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017, on our consideration of Mott Haven Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering Mott Haven Academy Charter School's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 23, 2017

MOTT HAVEN ACADEMY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

ASSETS	2017	2016
Cash	\$ 164,330	\$ 412,940
Cash - restricted	70,221	70,186
Grants and other receivables	427,904	237,520
Due from NYC Department of Education	-	20,862
Prepaid expenses and other assets	50,038	16,141
Property and equipment, net	166,146	248,319
Website, net	3,734	6,034
	<u>\$ 882,373</u>	<u>\$ 1,012,002</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 337,173	\$ 168,230
Accrued salary and other payroll related expenses	381,116	324,061
Due to NYC Department of Education	2,000	-
	<u>720,289</u>	<u>492,291</u>
NET ASSETS		
Unrestricted	162,084	432,304
Temporarily restricted	-	87,407
	<u>162,084</u>	<u>519,711</u>
	<u>\$ 882,373</u>	<u>\$ 1,012,002</u>

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

MOTT HAVEN ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>2016</u>
OPERATING REVENUE				
State and local per pupil operating revenue	\$ 5,266,332	\$ -	\$ 5,266,332	\$ 5,360,436
Government grants and contracts	703,415	-	703,415	660,394
	<u>5,969,747</u>	<u>-</u>	<u>5,969,747</u>	<u>6,020,830</u>
EXPENSES				
Program services				
General education	5,397,003	-	5,397,003	4,928,816
Special education	1,434,340	-	1,434,340	1,325,433
Pre-K education	485,389	-	485,389	375,605
Management and general	585,551	-	585,551	514,789
Fundraising	39,363	-	39,363	43,579
	<u>7,941,646</u>	<u>-</u>	<u>7,941,646</u>	<u>7,188,222</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(1,971,899)</u>	<u>-</u>	<u>(1,971,899)</u>	<u>(1,167,392)</u>
SUPPORT AND OTHER INCOME				
Contributions and other grants	602,073	834,150	1,436,223	1,222,817
New York Foundling grants	178,000	-	178,000	116,108
Interest and other income	49	-	49	88
Net assets released from restrictions	921,557	(921,557)	-	-
	<u>1,701,679</u>	<u>(87,407)</u>	<u>1,614,272</u>	<u>1,339,013</u>
CHANGE IN NET ASSETS	(270,220)	(87,407)	(357,627)	171,621
NET ASSETS - BEGINNING OF YEAR	<u>432,304</u>	<u>87,407</u>	<u>519,711</u>	<u>348,090</u>
NET ASSETS - END OF YEAR	<u>\$ 162,084</u>	<u>\$ -</u>	<u>\$ 162,084</u>	<u>\$ 519,711</u>

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

MOTT HAVEN ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	No. of Positions	Program Services			Supporting Services		2017	2016
		General Education	Special Education	Pre-K Education	Management and General	Fundraising		
Personnel service costs								
Administrative staff personnel	7	\$ 400,439	\$ 104,708	\$ -	\$ 505,147	\$ 188,954	\$ 707,953	\$ 618,400
Instructional personnel	51	2,351,137	624,866	345,611	3,321,614	17,372	3,356,358	2,869,866
Non-instructional personnel	5	183,149	50,376	-	233,525	6,151	239,676	304,250
Total salaries and staff	63	2,934,725	779,950	345,611	4,060,286	212,477	4,303,987	3,792,516
Payroll taxes and employee benefits		648,765	172,419	53,832	875,016	46,971	928,890	809,657
Retirement benefits		83,352	22,205	-	105,757	6,049	112,695	103,885
Legal services		-	-	-	-	-	-	2,829
Accounting and audit services		-	-	-	-	141,365	141,365	167,150
Other purchased, professional, and consulting services		48,523	12,896	6,189	67,608	35,335	102,943	78,085
Building lease and rent		766,738	203,773	37,875	1,008,386	63,670	1,072,056	1,227,815
Repairs and maintenance		29,784	7,916	2,677	40,377	2,473	42,850	71,026
Insurance		29,388	7,810	800	37,998	2,440	40,438	38,796
Supplies and materials		65,414	17,385	5,617	88,416	833	89,249	110,966
Equipment and furnishings		6,318	1,679	346	8,343	1,254	9,606	14,075
Staff development		190,722	50,687	1,920	243,329	13,463	256,792	186,018
Marketing and recruitment		25,094	6,669	250	32,013	2,084	34,097	5,241
Technology		62,491	16,608	-	79,099	-	79,099	83,592
Food service		152,664	40,573	25,646	218,883	12,677	231,560	193,798
Student services		249,944	66,428	4,626	320,998	1,849	322,847	124,920
Office expense		-	-	-	-	40,609	40,947	40,026
Depreciation and amortization		99,115	26,341	-	125,456	-	125,456	115,138
Bad debt		-	-	-	-	-	-	18,373
Other		3,766	1,001	-	4,767	2,002	6,769	4,316
		\$ 5,397,003	\$ 1,434,340	\$ 485,389	\$ 7,316,732	\$ 585,551	\$ 7,941,646	\$ 7,188,222
						\$ 39,363		

MOTT HAVEN ACADEMY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	\$ 5,802,225	\$ 6,013,378
Other cash received	1,614,272	1,244,561
Cash paid to employees and suppliers	<u>(7,624,124)</u>	<u>(7,212,751)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(207,627)</u>	<u>45,188</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(40,983)</u>	<u>(152,215)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(40,983)</u>	<u>(152,215)</u>
NET DECREASE IN CASH	(248,610)	(107,027)
CASH - BEGINNING OF YEAR	<u>412,940</u>	<u>519,967</u>
CASH - END OF YEAR	<u>\$ 164,330</u>	<u>\$ 412,940</u>
Reconciliation of change in net assets to net cash (used in) provided by operating activities:		
Change in net assets	\$ (357,627)	\$ 171,621
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	125,456	115,138
Bad debt expense	-	18,373
Changes in operating assets and liabilities:		
Cash - restricted	(35)	(35)
Grants and other receivables	(190,384)	(100,568)
Due from NYC Department of Education	20,862	(19,674)
Prepaid expenses and other assets	(33,897)	48,840
Accounts payable and accrued expenses	168,943	(15,138)
Accrued salary and other payroll related expenses	57,055	(173,369)
Due to NYC Department of Education	<u>2,000</u>	<u>-</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (207,627)</u>	<u>\$ 45,188</u>

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. NATURE OF THE ORGANIZATION

Mott Haven Academy 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 Educational Law of the State of New York. The School was granted a provisional charter on January 15, 2008, valid for a term of five years, by the Board of Regents of the University of the State of New York. The charter was first renewed through June 30, 2016, and then renewed again through June 30, 2020.

The School opened its doors in the fall of 2008 in the South Bronx with a rigorous academic program and a highly structured and supportive school culture. While the School is comprised of students from many backgrounds, it is uniquely designed to meet the needs of at-risk students who receive foster care and prevention services through the New York City child welfare system.

The School is exempt from Federal income tax under section 501(a) of the Internal Revenue Code ("IRC") as an organization described in Section 501(c)(3) of the IRC 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) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC.

In fiscal year 2017, the School operated classes for students in kindergarten through fifth grade. The School also has a Pre-K program named "Little Haven" which is funded by the New York City Department of Education ("NYCDOE").

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the School's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported as such in the statement of activities.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Cash – restricted

An escrow account of \$70,221 is held aside for contingency purposes at June 30, 2017 as required by the NYCDOE.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give by donors. Grants and other receivables are expected to be collected within one year, are recorded at net realizable value, and amount to \$427,904 and \$237,520 at June 30, 2017 and 2016, respectively. The School determined that no allowance for uncollectible accounts was necessary at June 30, 2017 and 2016. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

Revenue is 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. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred would be reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

In-Kind Contributions

The School receives contributed goods and services that are an integral part of its operations. Such support is recorded as contributions in-kind, at their fair value, provided it meets the criteria for recognition. In-kind contributions consist of rent subsidies and are reflected as both income and expense in the accompanying financial statements.

Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. The School has established a \$1,000 threshold above which assets are evaluated to be capitalized. Property and equipment acquired with certain government contract funds is recorded as an expense pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the years ended June 30, 2017 and 2016.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through October 23, 2017, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2017 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2016 are presented. As a result, the June 30, 2016 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2016 information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, disclosure, and transition.

The School files informational returns in the Federal and New York State jurisdictions. With few exceptions, the School is no longer subject to Federal, state, or local income tax examinations for fiscal years before 2014.

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the School would classify it as "Interest Expense." The School would classify penalties in connection with underpayments of income tax as "Other Expense."

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the effect the update will have on its financial statements.

3. LIQUIDITY AND DEPENDENCE

At June 30, 2017, the School has a working capital deficit of \$78,000 driven primarily by rent and facility costs owed to The New York Foundling (“The Foundling”), which is further explained in Note 4. Management has obtained a letter from The Foundling, a related party that shares board members with the School, committing to provide financial support through November 2018 while the School is getting ready for expanding classes for students up to eighth grade. Management believes that these actions will enable the School to continue as a going concern through October 24, 2018.

The Foundling subsidizes rent and facility costs. Such support is recorded as contributions in-kind at fair value, provided it meets the criteria for recognition. Support received is estimated at \$321,096 and \$476,854 for the years ending June 30, 2017 and 2016, respectively, and is reflected as both income and expense in the accompanying financial statements.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

4. RELATED PARTY

The School is located at 170 Brown Place, Bronx, New York, 10454. The new LEED certified, environmentally friendly building is leased by NY Foundling. The School subleases a portion of the building from NY Foundling. NY Foundling occupies the remaining space in the building. NY Foundling is a related party and shares two board members with the School.

The School is obligated under a non-cancelable operating sublease for office and classroom space expiring on August 31, 2020, with a renewal option after 10 years. However, the structure of the lease accounts for state "renewal and re-authorization of its charter." In the event that the School is closed by its authorizer, the School would be released from the sublease. The annual rent is calculated based on the number of students enrolled multiplied by 100 square feet. For the years ending June 30, 2017 and 2016, the School incurred building lease and rent costs of \$1,072,056 and \$1,227,815, respectively, of which \$321,096 and \$476,854 was contributed by NY Foundling as a subsidy. Such subsidy has been recorded as contributions in-kind at fair value. These amounts are reflected as both income and expense in the accompanying financial statements. The School owed NY Foundling approximately \$125,000 in building lease and rent costs as of June 30, 2017.

NY Foundling reimbursed the School for after school program expenses amounting to \$178,000 and \$116,108 for the years ending June 30, 2017 and 2016, respectively.

5. PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>	Estimated Useful Lives
Furniture and fixtures	\$ 307,574	\$ 301,449	7 years
Computer hardware and software	347,099	326,086	3 years
Musical instruments	12,470	12,470	3 years
Leasehold improvements	149,088	149,088	10 years
Equipment	<u>88,952</u>	<u>75,107</u>	3 years
	905,183	864,200	
Less: accumulated depreciation	<u>(739,037)</u>	<u>(615,881)</u>	
	<u>\$ 166,146</u>	<u>\$ 248,319</u>	

Depreciation expense for the years ended June 30, 2017 and 2016 was \$123,156 and \$112,838, respectively.

6. WEBSITE

Development costs related to the School's website amounting to \$19,255 have been capitalized as of June 30, 2017 and 2016. These costs are amortized over the estimated life of five years using the straight-line method. Amortization expense for each of the years ended June 30, 2017 and 2016 was \$2,300. Accumulated amortization totaled \$15,521 and \$13,221 as of June 30, 2017 and 2016, respectively.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7. EMPLOYEE BENEFITS

The School adopted a 401(k) retirement plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan either the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contributions. The Plan provides for the School to contribute up to 4% of participating employee salaries. The School contribution becomes fully vested after the first year. For the years ended June 30, 2017 and 2016, employer contribution expense for the School was \$112,695 and \$103,885, respectively, which is included in retirement benefits in the accompanying statement of functional expenses.

8. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School. The accompanying financial statements make no provision for the possible disallowance or refund.

9. CONCENTRATIONS

Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation ("FDIC") insured limit of \$250,000.

The School received approximately 70% and 73% of its total revenue from per pupil funding from the NYCDOE during the years ending June 30, 2017 and 2016, respectively. The School received approximately 8% and 10% of its total revenue from the NY Foundling during the years ending June 30, 2017 and 2016, respectively.

One vendor accounted for approximately 71% of the School's accounts payable at June 30, 2017. Three vendors accounted for approximately 62% of the School's accounts payable at June 30, 2016.

10. TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from restrictions during the year ended June 30, 2017 by incurring expenses and the passing of time, thus satisfying the restrictions as follows:

Family coordinator and school nurse	\$ 125,000
Middle school start up	325,000
Data tech specialist	35,000
Support services/Social worker and behavior specialist	126,000
Time restriction - 2017	232,673
Haven Kids rock music program	24,734
Academic programming and afternoon academy	45,000
Classroom items and fieldtrips	<u>8,150</u>
	<u>\$ 921,557</u>



Independent Auditor's 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
Mott Haven Academy Charter School

We have audited, 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, the financial statements of Mott Haven Academy Charter School (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 23, 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 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*.

We noted certain matters that we reported to management of the School in a separate letter dated October 23, 2017.

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.

MBAF CPAs, LLC

New York, NY
October 23, 2017

Mott Haven Academy Charter School

Communication With Those Charged With Governance

October 23, 2017





October 23, 2017

To the Audit Committee
Mott Haven Academy Charter School

We have audited the financial statements of Mott Haven Academy Charter School (the "School") for the year ended June 30, 2017 and are prepared to issue our report thereon dated October 23, 2017. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

A. Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter April 25, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Mott Haven Academy Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on in July 2017.

C. Auditor Independence:

We affirm that MBAF CPAs, LLC is independent with respect to Mott Haven Academy Charter School.

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mott Haven Academy Charter School are described in Note 2 to the financial statements. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Allowance for Doubtful Accounts:

As of June 30, 2017, Mott Haven Academy Charter School recorded grants and other receivables of \$427,904. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the school leadership and a review of subsequent collections we concur with management's conclusion.

Functional Statement Allocation:

Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Depreciation:

Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful lives of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Risk Management in Note 8 to the financial statements describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

There was 1 audit adjustment that did not affect net assets. The adjustment was as follows:

- To reclassify approximately \$18,000 from deferred revenue to accounts payable for funding related to a child nutrition grant that is to be returned to New York State.

Last year there was 2 audit adjustment that did not affect net assets.

Proposed and Uncorrected:

There were no audit adjustments proposed and uncorrected during the fiscal year.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 23, 2017.

J. Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

K. Other Audit Findings or Issues:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of Mott Haven Academy Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MBAF CPAs, LLC

MBAF CPAs, LLC