

**MOTT HAVEN ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS**

JUNE 30, 2010

(With Comparative Totals From Inception (January 18, 2008) to June 30, 2009)

MOTT HAVEN ACADEMY CHARTER SCHOOL
TABLE OF CONTENTS
June 30, 2010

| | Page |
|--|-------------|
| Independent Auditors' Report | 1 |
| Financial Statements: | |
| Statement of Financial Position | 2 |
| Statement of Activities | 3 |
| Statement of Functional Expenses | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6-10 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 11-12 |

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Mott Haven Academy Charter School

We have audited the accompanying statement of financial position of Mott Haven Academy Charter School (the "School") as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year ended June 30, 2010. 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 2009 financial statements and, in our report dated October 15, 2009, 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 Mott Haven Academy Charter School as of June 30, 2010 and the changes in its net assets and its cash flows for the year ended June 30, 2010, 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 08, 2010 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 considered in assessing the results of our audit.

ERE LLP

New York, NY
October 08, 2010

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

| As of June 30, | 2010 | 2009 |
|---|-------------------|-------------------|
| Assets: | | |
| Cash and cash equivalents - unrestricted | \$ 296,897 | \$ 233,428 |
| Cash - restricted | 30,022 | 25,000 |
| Grants and other receivables | 266,503 | 191,316 |
| Prepaid expenses and other assets | 32,637 | 19,235 |
| Property and equipment, net | 76,984 | 59,553 |
| Website, net | 5,937 | 2,413 |
| Construction in progress | 117,440 | - |
| Total Assets | \$ 826,420 | \$ 530,945 |
| Liabilities and Net Assets: | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 201,654 | \$ 62,353 |
| Accrued salary and other payroll related expenses | 149,659 | 53,556 |
| Due to NYC Department of Education | 11,839 | 18,084 |
| Total Liabilities | 363,152 | 133,993 |
| Net assets - unrestricted | 463,268 | 396,952 |
| Total Liabilities and Net Assets | \$ 826,420 | \$ 530,945 |

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, 2010 (With Comparative Totals
From Inception (January 15, 2008) to June 30, 2009)**

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Operating revenue: | | |
| State and local per pupil operating revenue | \$ 1,860,863 | \$ 1,324,629 |
| Government grants and contracts | 374,965 | 432,741 |
| Total operating revenue | 2,235,828 | 1,757,370 |
| Expenses: | | |
| Program services | | |
| General education | 1,493,777 | 876,167 |
| Special education | 487,316 | 356,071 |
| Management and general | 375,807 | 344,562 |
| Fundraising | 25,126 | 11,104 |
| Total operating expenses | 2,382,026 | 1,587,904 |
| (Deficit) surplus from school operations | (146,198) | 169,466 |
| Support and other income: | | |
| Contributions and other grants | 212,308 | 226,908 |
| Interest income | 206 | 578 |
| Total support and other income | 212,514 | 227,486 |
| Change in net assets | 66,316 | 396,952 |
| Net assets - unrestricted – beginning of year | 396,952 | - |
| Net assets - unrestricted – end of year | \$ 463,268 | \$ 396,952 |

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, 2010 (With Comparative Totals From Inception (January 15, 2008) to June 30, 2009)

| | General Education | Special Education | Total Program | Management and General | Fundraising | 2010 | 2009 |
|--|----------------------|----------------------|---------------------|---------------------------|------------------|---------------------|---------------------|
| Salaries | \$ 923,816 | \$ 336,184 | \$ 1,260,000 | \$ 153,827 | \$ 18,904 | \$ 1,432,731 | \$ 980,725 |
| Payroll taxes and employee benefits | 192,066 | 69,894 | 261,960 | 31,982 | 3,930 | 297,872 | 196,280 |
| Classroom supplies | 28,510 | 4,641 | 33,151 | - | - | 33,151 | 19,586 |
| Instructional materials | 87,690 | 14,275 | 101,965 | - | - | 101,965 | 98,160 |
| Consultants | 5,695 | 19,594 | 25,289 | 96,856 | 1,250 | 123,395 | 81,271 |
| Accounting | - | - | - | 15,970 | - | 15,970 | 18,500 |
| Legal | - | - | - | 6,340 | - | 6,340 | 5,050 |
| Advertising and recruiting | 10,032 | 1,742 | 11,774 | 672 | - | 12,446 | 1,816 |
| Professional development | 70,745 | 11,517 | 82,262 | 6,818 | - | 89,080 | 39,799 |
| Insurance | 13,062 | 2,315 | 15,377 | 992 | 165 | 16,534 | 15,060 |
| Student transportation | 72,578 | 11,815 | 84,393 | - | - | 84,393 | 42,064 |
| Student food services | 11,808 | 1,922 | 13,730 | - | - | 13,730 | 7,479 |
| Office expense | 756 | 132 | 888 | 53,584 | 244 | 54,716 | 29,318 |
| Dues and subscription | 2,497 | 437 | 2,934 | 187 | - | 3,121 | 2,797 |
| Travel | - | - | - | 1,603 | - | 1,603 | 835 |
| Telephone and internet | 25,759 | 4,508 | 30,267 | 1,609 | 322 | 32,198 | 19,900 |
| Conference and meetings | 6,905 | 1,124 | 8,029 | 2,999 | - | 11,028 | 4,012 |
| Furniture and fixtures - non-capitalizable | 12,427 | 2,023 | 14,450 | 195 | - | 14,645 | 2,443 |
| Technology infrastructure and software | 2,533 | 443 | 2,976 | 190 | 8 | 3,174 | 6,882 |
| Postage and delivery | 1,465 | 256 | 1,721 | 93 | 18 | 1,832 | 1,457 |
| Printing and photocopying | 2,847 | 498 | 3,345 | 177 | 36 | 3,558 | 203 |
| Depreciation and amortization | 19,624 | 3,478 | 23,102 | 1,490 | 249 | 24,841 | 13,560 |
| Loss on abandonment of fixed assets | 2,962 | 518 | 3,480 | 223 | - | 3,703 | 717 |
| Total expenses | \$ 1,493,777 | \$ 487,316 | \$ 1,981,093 | \$ 375,807 | \$ 25,126 | \$ 2,382,026 | \$ 1,587,904 |

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

| For the Year Ended June 30, | 2010 | 2009 |
|---|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 66,316 | \$ 396,952 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 24,841 | 13,560 |
| Loss on abandonment of fixed asset | 3,703 | 717 |
| Changes in operating assets and liabilities: | | |
| Increase in cash - restricted | (5,022) | (25,000) |
| Increase in grants and other receivables | (75,187) | (191,316) |
| Increase in prepaid expenses and other assets | (13,402) | (19,235) |
| Increase in accounts payable and accrued expenses | 139,301 | 62,353 |
| Increase in accrued salary and other payroll related expenses | 96,103 | 53,556 |
| Decrease (increase) in due to NYC Department of Education | (6,245) | 18,084 |
| Net cash provided by operating activities | 230,408 | 309,671 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (44,699) | (73,288) |
| Development of website | (4,800) | (2,955) |
| Construction in progress | (117,440) | - |
| Net cash used in investing activities | (166,939) | (76,243) |
| Net increase in cash and cash equivalents - unrestricted | 63,469 | 233,428 |
| Cash and cash equivalents - unrestricted - beginning of year | 233,428 | - |
| Cash and cash equivalents - unrestricted - end of year | \$ 296,897 | \$ 233,428 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the year for: | | |
| Interest | \$ - | \$ - |
| Income taxes | \$ - | \$ - |
| Non-cash Investing and Financing Activities: | | |
| Loss on abandonment of fixed asset | \$ 3,703 | \$ 717 |

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2010

1. NATURE OF THE ORGANIZATION:

Mott Haven Academy Charter School (Haven Academy) (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 and renewable upon expiration by the Board of Regents of the University of the State of New York. 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 are currently in the foster care and child welfare system. 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).

In fiscal year 2010, the School operated classes for students in kindergarten to second grade.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting.

The classification of an organization'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 in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2010

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

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 equivalents consist of a money market account. In addition, an escrow account of \$30,022 is held aside for contingency purposes as required by the New York City Department of Education.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give. Grants and other receivables that are expected to be collected within one year and recorded at net realizable value are \$266,503 and \$191,316 for the fiscal years ended June 30, 2010 and June 30, 2009, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2010. 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.

The carrying value of the grants and other receivables approximates fair value. Management reviews those receivables due in more than one year for impairment and none was determined as of June 30, 2010 and 2009.

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. The School has established a \$1,000 threshold above which assets are capitalized. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. 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.

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 year ended June 30, 2010.

Planned Maintenance

Costs related to planned major maintenance are expensed as incurred.

Revenue Recognition

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.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2010

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 are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

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 using bases determined by management to be reasonable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through the auditors' report date. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

Comparative Financial Information

The June 30, 2010 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, 2009 are presented. As a result, the June 30, 2009 comparative information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such June 30, 2009 information should be read in conjunction with the School's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Implementation of New Accounting Pronouncements

Effective December 15, 2009, the School adopted a new 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, accounting in interim periods, disclosure, and transition. The cumulative effect of this change in accounting principle was immaterial.

The School is under regular audit by tax authorities. 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 filed. Management believes that its nonprofit

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2010

status would be sustained upon examination.

With few exceptions, the School is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for fiscal years before 2008.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3. PROPERTY AND EQUIPMENT:

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

| | 2010 | 2009 | Estimated Useful Lives |
|---|-----------|-----------|------------------------|
| Furniture and fixtures | \$ 67,913 | \$ 41,399 | 7 years |
| Computer hardware and software | 41,433 | 30,856 | 3 years |
| Musical instruments | 2,884 | - | 3 years |
| Website | 7,755 | 2,955 | 5 years |
| | 119,985 | 75,210 | |
| Less: accumulated depreciation and amortization | (37,064) | (13,244) | |
| | \$ 82,921 | \$ 61,966 | |

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 was \$24,841 and \$13,560, respectively.

4. PENSION PLAN:

Effective July 1, 2008 the School adopted a 401(k) profit sharing 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 contribution. The Plan provides for the School to contribute up to 4% of an employee's salary. The School contribution does not become vested until its first year when it becomes fully vested. For the fiscal years ended June 30, 2010 and 2009, pension expense for the School was \$49,971 and \$29,000, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

5. 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 protect itself from such risks and self insured on others.

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, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2010

6. **AGREEMENT FOR SCHOOL FACILITY:** The School has entered into a verbal agreement with the New York City Department of Education for dedicated and shared space at PS 43, a New York City public school located at 165 Brown Place, Bronx, New York. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the fiscal years ended June 30, 2010 and 2009 the School did not incur overtime permit fees.
7. **CONCENTRATIONS:**
- A. Financial instruments that potentially subject the school to a concentration of credit risk include cash accounts at a major financial institution that exceeded the Federal Deposit Insurance Corporation (FDIC) limits by approximately \$77,000 as of June 30, 2010. The FDIC has temporarily increased the limit to \$250,000 through December 31, 2013.
 - B. The School received approximately 76% of its total revenue from per pupil funding from New York City Department of Education.
 - C. The School's grants and other receivables exclusively consist of two major grantors.
8. **SUBSEQUENT EVENT:**
- The School opened and operated for two school years at a temporary location in PS 43 at 165 Brown Place, Bronx, NY 10454. The School has relocated to its new building, 170 Brown Place, Bronx, New York, 10454, as of August 2010. The new, LEED certified, environmentally friendly building is owned and operated by The New York Foundling. The School and The New York Foundling's Bronx Community Services will co-habitat in the building.
- The School has entered into a sublease agreement with the New York Foundling Hospital commencing on August 31, 2010. The School is obligated under a non-cancelable operating lease 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 fiscal year ending June 30, 2011 the rent will be \$265,300.
- The School has contracted with Signature Group Inc. to manufacture and install millwork at the 170 Brown Place location before the move in date. The total cost for this project is \$139,117, for the fiscal year ended June 30, 2010, construction in progress totaled \$117,440.

**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 the financial statements of Mott Haven Academy Charter School (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 08, 2010. 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 a 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 08, 2010.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

ERE LLP

New York, NY
October 08, 2010