

MOTT HAVEN ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2011
(With Comparative Totals for June 30, 2010)

MOTT HAVEN ACADEMY CHARTER SCHOOL
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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, 2011, and the related statements of activities, functional expenses 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 2010 financial statements and, in our report dated October 8, 2010, 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, 2011 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 21, 2011 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MBAF-ERE CPAs, LLC
New York, NY
October 21, 2011

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30, 2011 (with comparative totals for June 30, 2010)	2011	2010
Assets:		
Cash and cash equivalents	\$ 244,959	\$ 296,897
Cash - restricted	70,011	30,022
Grants and other receivables	201,234	266,503
Prepaid expenses and other assets	53,784	32,637
Property and equipment, net	337,082	76,984
Website, net	4,386	5,937
Construction in progress	-	117,440
Total Assets	\$ 911,456	\$ 826,420
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	\$ 232,746	\$ 201,654
Accrued salary and other payroll related expenses	159,799	149,659
Due to NYC Department of Education	31,526	11,839
Total Liabilities	424,071	363,152
Net Assets:		
Unrestricted	438,983	463,268
Temporarily restricted	48,402	-
Total Net Assets	487,385	463,268
Total Liabilities and Net Assets	\$ 911,456	\$ 826,420

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, 2011 (with comparative totals for June 30, 2010)	Unrestricted	Temporarily Restricted	Total 2011	Total 2010
Operating revenue:				
State and local per pupil operating revenue	\$ 2,831,949	\$ -	\$ 2,831,949	\$ 1,860,863
Government grants and contracts	420,136	-	420,136	374,965
Total operating revenue	3,252,085	-	3,252,085	2,235,828
Expenses:				
Program services				
General education	2,498,003	-	2,498,003	1,493,777
Special education	549,393	-	549,393	487,316
Management and general	519,753	-	519,753	375,807
Fundraising	28,119	-	28,119	25,126
Total operating expenses	3,595,268	-	3,595,268	2,382,026
Deficit from school operations	(343,183)	-	(343,183)	(146,198)
Support and other income:				
Contributions and other grants	197,144	170,000	367,144	212,308
Interest income	156	-	156	206
Net assets released from restriction	121,598	(121,598)	-	-
Total support and other income	318,898	48,402	367,300	212,514
Change in net assets	(24,285)	48,402	24,117	66,316
Net assets – beginning of year	463,268	-	463,268	396,952
Net assets – end of year	\$ 438,983	\$ 48,402	\$ 487,385	\$ 463,268

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, 2011 (with comparative totals for 2010)

	Program Services			Supporting Services			Total 2011	Total 2010
	General Education	Special Education	Total Program	Management and General	Fundraising	Total 2010		
Salaries	\$ 1,375,797	\$ 293,162	\$ 1,668,959	\$ 198,863	\$ 9,990	\$ 1,877,812	\$ 1,432,731	
Payroll taxes and employee benefits	320,117	68,212	388,329	46,272	2,324	436,925	297,872	
Classroom supplies	27,718	6,125	33,843	-	-	33,843	33,157	
Instructional materials	95,960	21,206	117,166	-	-	117,166	101,959	
Consultants	12,765	5,285	18,050	119,662	8,000	145,712	123,395	
Accounting	-	-	-	20,227	-	20,227	22,310	
Advertising and recruiting	26,143	6,192	32,335	2,064	-	34,399	12,446	
Professional development	67,625	14,944	82,569	51,678	-	134,247	92,079	
Facility expense	362,596	85,878	448,474	26,363	4,771	479,608	-	
Donated services	-	-	-	-	1,013	1,013	-	
Insurance	18,150	4,299	22,449	1,194	239	23,882	16,534	
Student transportation	40,597	8,972	49,569	-	-	49,569	84,393	
Student food services	5,889	1,301	7,190	-	-	7,190	13,730	
Office expense	9,261	2,046	11,307	42,166	273	53,746	54,716	
Dues and subscription	1,963	464	2,427	155	-	2,582	3,121	
Travel	480	114	594	38	31	663	1,603	
Telephone and internet	41,496	9,828	51,324	2,730	546	54,600	32,198	
Conference and meetings	9,160	2,024	11,184	-	-	11,184	8,029	
Furniture and fixtures - non-capitalizable	9,343	2,065	11,408	3,514	-	14,922	14,645	
Technology infrastructure and software	3,535	837	4,372	233	47	4,652	3,174	
Postage and delivery	2,267	537	2,804	149	30	2,983	1,832	
Printing and photocopying	-	-	-	-	-	-	3,558	
Depreciation and amortization	64,982	15,390	80,372	4,275	855	85,502	24,841	
Loss on abandonment of property and equipment	2,159	512	2,671	170	-	2,841	3,703	
Total expenses	\$ 2,498,003	\$ 549,393	\$ 3,047,396	\$ 519,753	\$ 28,119	\$ 3,595,268	\$ 2,382,026	

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, 2011

(with comparative totals for June 30, 2010)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 24,117	\$ 66,316
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	85,502	24,841
Loss on abandonment of property and equipment	2,841	3,703
Changes in operating assets and liabilities:		
Increase in cash - restricted	(39,989)	(5,022)
Decrease (increase) in grants and other receivables	65,269	(75,187)
Increase in prepaid expenses and other assets	(21,147)	(13,402)
Increase in accounts payable and accrued expenses	31,092	139,301
Increase in accrued salary and other payroll related expenses	10,140	96,103
Increase (decrease) in due to NYC Department of Education	19,687	(6,245)
Net cash provided by operating activities	177,512	230,408
Cash flows from investing activities:		
Purchase of property and equipment	(229,450)	(44,699)
Development of website	-	(4,800)
Construction in progress	-	(117,440)
Net cash used in investing activities	(229,450)	(166,939)
Net (decrease) increase in cash and cash equivalents	(51,938)	63,469
Cash and cash equivalents - beginning of year	296,897	233,428
Cash and cash equivalents - end of year	\$ 244,959	\$ 296,897

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:

Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

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 2011, the School operated classes for students in kindergarten to third 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 is 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.

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, 2011

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 \$70,011 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 \$201,234 and \$266,503 for the fiscal years ended June 30, 2011 and June 30, 2010, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2011. 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, 2011 and 2010.

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 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.

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, 2011.

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. 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.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

Donated Goods and Services

The School receives contributed goods and services that are an integral part of its operations. Such goods and services are only recorded as contributions in-kind, at their fair value, provided it meets the criteria for recognition. Professional services received are estimated at \$1,013 for the year ended June 30, 2011. These are reflected as donated goods and services both as income and expense in the accompanying financial statements.

Advertising

The School expenses advertising costs as incurred. The School incurred \$0 and \$300 of advertising costs for the years ended June 30, 2011 and 2010, respectively.

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.

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 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 and date of issuance. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with accounting principles generally accepted. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

Comparative Financial Information

The June 30, 2011 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, 2010 are presented. As a result, the June 30, 2010 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, 2010 information should be read in conjunction with the School's financial statements for the year ended June 30, 2010, 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, accounting in interim periods,

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NOTES TO FINANCIAL STATEMENTS June 30, 2011

disclosure, and transition.

The School classifies interest on underpayments of income tax as "Interest Expense," and classifies penalties in connection with underpayments of tax as "Other Expense." 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.

The School files informational returns in the United States federal and New York State jurisdictions. The School is subject to income tax examinations by the Internal Revenue Service of New York State for 2009 and 2010 returns.

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:

	2011	2010	Estimated Useful Lives
Furniture and fixtures	\$ 134,546	\$ 67,913	7 years
Computer hardware and software	148,266	41,433	3 years
Musical instruments	10,676	2,884	3 years
Leasehold improvements	141,867	-	10 years
Equipment	17,467	-	3 years
	452,822	112,230	
Less: accumulated depreciation and amortization	(115,740)	(35,246)	
	\$ 337,082	\$ 76,984	

Depreciation expense for the years ended June 30, 2011 and 2010 was \$83,951 and \$23,565, respectively.

4. WEBSITE:

Development costs related to the School's website amounting to \$7,755 have been capitalized. These costs are amortized over the estimated life of five years using the straight-line method. Amortization expense for the years ended June 30, 2011 and 2010 was \$1,551 and \$1,276, respectively. Accumulated amortization totaled \$3,369 and \$1,818 as of June 30, 2011 and 2010, respectively.

5. RETIREMENT PLAN:

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's contribution becomes fully vested after the

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NOTES TO FINANCIAL STATEMENTS June 30, 2011

first year. For the fiscal years ended June 30, 2011 and 2010, pension expense for the School was \$65,960 and \$49,971, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

6. DUE TO NYC DEPARTMENT OF EDUCATION: During the fiscal year ended June 30, 2011, the NYC Department of Education paid the School Per Pupil grant funds that the Department thought was due to the School. The School determined that an overpayment totaling \$31,526 had been made.

7. 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.

8. TEMPORARILY RESTRICTED NET ASSETS: Temporarily restricted net assets are purpose restricted and consist of the following at June 30, 2011:

Nurse Position	\$ 48,402
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Net assets were released from restrictions during the year ended June 30, 2011 by incurring expenses thus satisfying the restricted purposes as follows:

Student Achievement Specialist Staff Position	\$ 35,000
Nurse Position	86,598
	\$ 121,598

9. AGREEMENT FOR SCHOOL FACILITY: The School opened and operated for the first two school years at a temporary location in PS 43 at 165 Brown Place, Bronx, NY 10454. The School has relocated to a 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 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 the fiscal year ending June 30, 2011, the rent expense was \$162,662, which is located in facility expense in the accompanying statement of functional expenses.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

- 10. CONCENTRATIONS:**
- A. Financial instruments that potentially subject the school to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceed the Federal Deposit Insurance Corporation (FDIC). The FDIC has temporarily increased the limit to \$250,000 through December 31, 2013.
 - B. The School received approximately 78% of its total revenue from per pupil funding from New York City Department of Education.
 - C. For the year ended June 30, 2011, the School owed approximately 90% of its accounts payable to one vendor.

**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, 2011, and have issued our report thereon dated October 21, 2011. 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 21, 2011.

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.

MBAFERE CPA₇₆ LLC

New York, NY
October 21, 2011