

MOTT HAVEN ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2017)

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, 2018, 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.

An Independent Member of Baker Tilly International

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, 2018, 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 2017 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated October 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 24, 2018, 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 24, 2018

MOTT HAVEN ACADEMY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2017)

ASSETS	2018	2017
Cash	\$ 85,328	\$ 164,330
Cash - restricted	70,256	70,221
Grants and other receivables	770,314	427,904
Prepaid expenses and other assets	19,495	50,038
Property and equipment, net	153,519	166,146
Website, net	1,434	3,734
	\$ 1,100,346	\$ 882,373
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 282,115	\$ 212,013
Accrued salary and other payroll related expenses	425,777	381,116
Due to NY Foundling	574,643	125,160
Due to NYC Department of Education	9,291	2,000
	1,291,826	720,289
NET ASSETS		
Unrestricted	(201,480)	162,084
Temporarily restricted	10,000	-
	(191,480)	162,084
	\$ 1,100,346	\$ 882,373

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, 2018
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018</u>	<u>2017</u>
OPERATING REVENUE				
State and local per pupil operating revenue	\$ 6,594,654	\$ -	\$ 6,594,654	\$ 5,266,332
Government grants and contracts	1,031,574	-	1,031,574	703,415
	<u>7,626,228</u>	<u>-</u>	<u>7,626,228</u>	<u>5,969,747</u>
EXPENSES				
Program services				
General education	6,911,894	-	6,911,894	5,397,003
Special education	2,118,990	-	2,118,990	1,434,340
Pre-K education	59,405	-	59,405	485,389
Management and general	788,913	-	788,913	585,551
Fundraising	76,064	-	76,064	39,363
	<u>9,955,266</u>	<u>-</u>	<u>9,955,266</u>	<u>7,941,646</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(2,329,038)</u>	<u>-</u>	<u>(2,329,038)</u>	<u>(1,971,899)</u>
SUPPORT AND OTHER INCOME				
Contributions and other grants	860,219	533,000	1,393,219	1,115,127
New York Foundling grants	178,000	-	178,000	178,000
In-kind building lease and rent	404,220	-	404,220	321,096
Interest and other income	35	-	35	49
Net assets released from restrictions	523,000	(523,000)	-	-
	<u>1,965,474</u>	<u>10,000</u>	<u>1,975,474</u>	<u>1,614,272</u>
CHANGE IN NET ASSETS	(363,564)	10,000	(353,564)	(357,627)
NET ASSETS - BEGINNING OF YEAR	<u>162,084</u>	<u>-</u>	<u>162,084</u>	<u>519,711</u>
NET ASSETS - END OF YEAR	<u>\$ (201,480)</u>	<u>\$ 10,000</u>	<u>\$ (191,480)</u>	<u>\$ 162,084</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, 2018
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	No. of Positions	Program Services				Supporting Services		2018	2017
		General Education	Special Education	Pre-K Education	Total	Management and General	Fundraising		
Personnel service costs									
Administrative staff personnel	13	\$ 575,486	\$ 174,773	\$ -	\$ 750,259	\$ 311,573	\$ 60,906	\$ 1,122,738	\$ 707,953
Instructional personnel	63	3,178,360	978,521	28,453	4,185,334	-	-	4,185,334	3,356,358
Non-instructional personnel	4	207,585	60,715	8,588	276,888	8,588	-	285,476	239,676
Total salaries and staff	80	3,961,431	1,214,009	37,041	5,212,481	320,161	60,906	5,593,548	4,303,987
Payroll taxes and employee benefits		844,658	258,851	7,898	1,111,407	68,265	12,986	1,192,658	928,890
Retirement benefits		97,941	30,015	916	128,872	7,916	1,506	138,294	112,695
Legal services		-	-	-	-	1,750	-	1,750	-
Accounting and audit services		-	-	-	-	162,897	-	162,897	141,365
Other purchased, professional, and consulting services		35,583	10,926	188	46,697	27,690	-	74,387	102,943
Building lease and rent		660,440	202,397	6,175	869,012	63,531	-	932,543	750,960
In-kind building lease and rent		286,275	87,731	2,677	376,683	27,537	-	404,220	321,096
Repairs and maintenance		27,622	8,465	258	36,345	2,657	-	39,002	42,850
Insurance		32,411	9,933	303	42,647	3,118	-	45,765	40,438
Supplies and materials		131,002	40,314	116	171,432	1,195	-	172,627	89,249
Equipment and furnishings		5,756	1,768	30	7,554	3,893	39	11,486	9,606
Staff development		180,260	55,292	1,352	236,904	13,911	-	250,815	256,792
Marketing and recruitment		25,047	7,676	234	32,957	2,409	-	35,366	34,097
Technology		56,650	17,441	-	74,091	-	-	74,091	79,099
Food service		206,265	63,212	1,929	271,406	19,842	-	291,248	231,560
Student services		285,641	87,898	277	373,816	2,847	-	376,663	322,847
Office expense		-	-	-	-	58,222	627	58,849	40,947
Depreciation and amortization		71,936	22,147	-	94,083	-	-	94,083	125,456
Other		2,976	915	11	3,902	1,072	-	4,974	6,769
		\$ 6,911,894	\$ 2,118,990	\$ 59,405	\$ 9,090,289	\$ 788,913	\$ 76,064	\$ 9,955,266	\$ 7,941,646

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, 2018
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	\$ 7,291,109	\$ 5,802,225
Other cash received	1,975,474	1,614,272
Cash paid to employees and suppliers	<u>(9,266,394)</u>	<u>(7,624,089)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>189</u>	<u>(207,592)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(79,156)</u>	<u>(40,983)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(79,156)</u>	<u>(40,983)</u>
NET DECREASE IN CASH	(78,967)	(248,575)
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	<u>234,551</u>	<u>483,126</u>
CASH AND CASH - RESTRICTED - END OF YEAR	<u>\$ 155,584</u>	<u>\$ 234,551</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ (353,564)	\$ (357,627)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	94,083	125,456
Changes in operating assets and liabilities:		
Grants and other receivables	(342,410)	(190,384)
Due from NYC Department of Education	-	20,862
Prepaid expenses and other assets	30,543	(33,897)
Accounts payable and accrued expenses	70,102	43,783
Accrued salary and other payroll related expenses	44,661	57,055
Due to NY Foundling	449,483	125,160
Due to NYC Department of Education	<u>7,291</u>	<u>2,000</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 189</u>	<u>\$ (207,592)</u>
Cash and cash - restricted consist of:		
Cash	\$ 85,328	\$ 164,330
Cash - restricted	<u>70,256</u>	<u>70,221</u>
Total	<u>\$ 155,584</u>	<u>\$ 234,551</u>

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 2018, the School operated classes for students in kindergarten through sixth grade. The sixth grade was added in 2018. 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, 2018

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 \$70,256 and \$70,221 is held aside for contingency purposes at June 30, 2018 and 2017, respectively, 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 \$770,314 and \$427,904 at June 30, 2018 and 2017, respectively. The School determined that no allowance for uncollectible accounts was necessary at June 30, 2018 and 2017. 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, 2018

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, 2018 and 2017.

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 24, 2018, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2018 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, 2017 are presented. As a result, the June 30, 2017 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2017 information should be read in conjunction with the School's financial statements for the year ended June 30, 2017, 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 2015.

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, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. This reclassification had no effect on previously reported change in net assets.

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.

3. LIQUIDITY AND DEPENDENCE

At June 30, 2018, the School has a working capital deficit of approximately \$417,000 driven primarily by rent and facility costs owed to The New York Foundling ("NY Foundling"), which is further explained in Note 4. The School has had losses of approximately \$354,000 and \$358,000 for the years ending June 30, 2018 and 2017, respectively, and a deteriorating cash position. NY Foundling, a related party that shares board members with the School, is committed to provide financial support through November 2019 while the School is expanding classes for students up to eighth grade.

NY Foundling subsidizes rent and facility costs. Such support is recorded as contributions in-kind at fair value. Support received is estimated at \$404,220 and \$321,096 for the years ending June 30, 2018 and 2017, respectively, and is reflected as both income and expense in the accompanying financial statements. In addition, NY Foundling reimbursed the School for after school program expenses amounting to \$178,000 for each of the years ending June 30, 2018 and 2017.

Management believes that these actions will enable the School to continue operations through 2019.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, which originally expired on August 31, 2020 but was amended and renewed through August 31, 2025. 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. Future minimum lease payments are as follows for the years ending June 30,:

2019	\$	1,150,443
2020		1,368,343
2021		1,404,660
2022		1,404,660
2023		1,404,660
Thereafter		<u>3,628,705</u>
	\$	<u>10,361,471</u>

For the years ending June 30, 2018 and 2017, the School incurred building lease and rent costs of \$1,336,763 and \$1,072,056, respectively, of which \$404,220 and \$321,096 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 \$575,000 in building lease and rent costs as of June 30, 2018.

5. PROPERTY AND EQUIPMENT

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

	2018	2017	Estimated Useful Lives
Furniture and fixtures	\$ 318,931	\$ 307,574	7 years
Computer hardware and software	370,289	347,099	3 years
Musical instruments	12,470	12,470	3 years
Leasehold improvements	149,088	149,088	10 years
Equipment	<u>133,561</u>	<u>88,952</u>	3 years
	984,339	905,183	
Less: accumulated depreciation	<u>(830,820)</u>	<u>(739,037)</u>	
	<u>\$ 153,519</u>	<u>\$ 166,146</u>	

Depreciation expense for the years ended June 30, 2018 and 2017 was \$91,783 and \$123,156, respectively.

6. WEBSITE

Development costs related to the School's website amounting to \$19,255 have been capitalized as of June 30, 2018 and 2017. 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, 2018 and 2017 was \$2,300. Accumulated amortization totaled \$17,821 and \$15,521 as of June 30, 2018 and 2017, respectively.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018 and 2017, employer contribution expense for the School was \$138,294 and \$112,695, 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 69% and 70% of its total revenue from per pupil funding from the NYCDOE during the years ending June 30, 2018 and 2017, respectively. The School received approximately 13% and 8% of its total revenue from the NY Foundling during the years ending June 30, 2018 and 2017, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are purpose restricted and consist of \$10,000 for the purpose of upgrading playground equipment at June 30, 2018:

Net assets were released from restrictions during the year ended June 30, 2018 by incurring expenses and the passing of time, thus satisfying the restrictions as follows:

Family coordinator and school nurse	\$ 145,000
Support services/Social worker and behavior specialist	126,000
Time restriction - 2018	150,000
Haven Kids rock music program	27,000
Academic programming	50,000
Afternoon academy	<u>25,000</u>
	<u>\$ 523,000</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, 2018, 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 24, 2018.

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 24, 2018.

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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 24, 2018