

MOTT HAVEN ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2019 AND 2018

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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2019 and 2018, and the changes in its net (deficit) assets and its cash flows for the years 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).

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, 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 28, 2019

MOTT HAVEN ACADEMY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS	2019	2018
Cash	\$ 295,239	\$ 85,328
Cash - restricted	70,291	70,256
Grants and other receivables	472,179	770,314
Due from NYC Department of Education	26,868	-
Prepaid expenses and other assets	62,469	19,495
Property and equipment, net	143,669	153,519
Website, net	-	1,434
	\$ 1,070,715	\$ 1,100,346
LIABILITIES AND NET (DEFICIT) ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 262,126	\$ 282,115
Accrued salary and other payroll related expenses	529,028	425,777
Due to NY Foundling	1,149,539	574,643
Due to NYC Department of Education	-	9,291
	1,940,693	1,291,826
NET (DEFICIT) ASSETS		
Net deficit - without donor restrictions	(1,024,065)	(201,480)
Net assets - with donor restrictions	154,087	10,000
	(869,978)	(191,480)
	\$ 1,070,715	\$ 1,100,346

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

MOTT HAVEN ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CHANGES IN NET DEFICIT WITHOUT DONOR RESTRICTIONS		
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 7,816,471	\$ 6,594,654
Government grants and contracts	<u>1,495,623</u>	<u>1,208,624</u>
	<u>9,312,094</u>	<u>7,803,278</u>
EXPENSES		
Program services		
General education	8,403,630	6,911,894
Special education	2,193,545	2,118,990
Pre-K education	95,065	59,405
Management and general	850,469	788,913
Fundraising	<u>115,606</u>	<u>76,064</u>
	<u>11,658,315</u>	<u>9,955,266</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(2,346,221)</u>	<u>(2,151,988)</u>
SUPPORT AND OTHER INCOME		
Contributions and other grants	156,647	108,169
New York Foundling contributions and grants	338,750	753,000
In-kind building lease and rent	443,955	404,220
Interest and other income	171	35
Net assets released from restrictions	<u>584,113</u>	<u>523,000</u>
	<u>1,523,636</u>	<u>1,788,424</u>
DECREASE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS	<u>(822,585)</u>	<u>(363,564)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and other grants	593,200	407,000
New York Foundling contributions and grants	135,000	126,000
Net assets released from restrictions	<u>(584,113)</u>	<u>(523,000)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>144,087</u>	<u>10,000</u>
CHANGE IN NET (DEFICIT) ASSETS	(678,498)	(353,564)
NET (DEFICIT) ASSETS - BEGINNING OF YEAR	<u>(191,480)</u>	<u>162,084</u>
NET DEFICIT - END OF YEAR	<u>\$ (869,978)</u>	<u>\$ (191,480)</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, 2019

	No. of Positions	Program Services				Supporting Services		2019
		General Education	Special Education	Pre-K Education	Total	Management and General	Fundraising	
Personnel service costs								
Administrative staff personnel	12	\$ 637,859	\$ 159,812	\$ 15,564	\$ 813,235	\$ 315,917	\$ 59,903	\$ 1,189,055
Instructional personnel	77	4,043,514	1,072,827	28,453	5,144,794	12,933	12,933	5,170,660
Non-instructional personnel	7	245,668	51,715	16,245	313,628	11,280	-	324,908
Total salaries and staff	96	4,927,041	1,284,354	60,262	6,271,657	340,130	72,836	6,684,623
Payroll taxes and employee benefits		1,019,519	265,763	12,470	1,297,752	70,381	15,072	1,383,205
Retirement benefits		115,357	30,070	1,411	146,838	7,963	1,705	156,506
Legal services		-	-	-	-	3,958	-	3,958
Accounting and audit services		-	-	-	-	212,600	-	212,600
Other purchased, professional, and consulting services		95,790	25,296	315	121,401	30,518	381	152,300
Building lease and rent		824,012	214,799	10,079	1,048,890	56,884	12,182	1,117,956
In-kind building lease and rent		327,226	85,300	4,002	416,528	22,590	4,837	443,955
Repairs and maintenance		31,702	8,264	388	40,354	2,188	469	43,011
Insurance		35,309	9,204	432	44,945	2,437	522	47,904
Supplies and materials		138,244	36,584	249	175,077	1,407	301	176,785
Equipment and furnishings		12,351	3,232	119	15,702	3,533	176	19,411
Staff development		211,706	55,415	1,986	269,107	11,209	2,400	282,716
Marketing and recruitment		12,715	3,315	156	16,186	878	188	17,252
Technology		66,786	17,720	-	84,506	-	-	84,506
Food service		214,957	56,034	2,629	273,620	14,839	3,178	291,637
Student services		285,453	75,612	327	361,392	1,844	395	363,631
Office expense		-	-	-	-	62,874	673	63,547
Depreciation and amortization		65,812	17,461	-	83,273	-	-	83,273
Other		19,650	5,122	240	25,012	4,236	291	29,539
		\$ 8,403,630	\$ 2,193,545	\$ 95,065	\$ 10,692,240	\$ 850,469	\$ 115,606	\$ 11,658,315

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

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

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

MOTT HAVEN ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	\$ 9,574,070	\$ 7,291,109
Other cash received	1,667,723	1,975,474
Cash paid to employees and suppliers	<u>(10,959,858)</u>	<u>(9,266,394)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>281,935</u>	<u>189</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(71,989)</u>	<u>(79,156)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(71,989)</u>	<u>(79,156)</u>
NET INCREASE (DECREASE) IN CASH	209,946	(78,967)
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	<u>155,584</u>	<u>234,551</u>
CASH AND CASH - RESTRICTED - END OF YEAR	<u>\$ 365,530</u>	<u>\$ 155,584</u>
Reconciliation of change in net (deficit) assets to net cash provided by operating activities:		
Change in net (deficit) assets	\$ (678,498)	\$ (353,564)
Adjustments to reconcile change in net (deficit) assets to net cash provided by operating activities:		
Depreciation and amortization	83,273	94,083
Changes in operating assets and liabilities:		
Grants and other receivables	298,135	(342,410)
Due from NYC Department of Education	(26,868)	-
Prepaid expenses and other assets	(42,974)	30,543
Accounts payable and accrued expenses	(19,989)	70,102
Accrued salary and other payroll related expenses	103,251	44,661
Due to NY Foundling	574,896	449,483
Due to NYC Department of Education	<u>(9,291)</u>	<u>7,291</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 281,935</u>	<u>\$ 189</u>
Cash and cash - restricted consist of:		
Cash	\$ 295,239	\$ 85,328
Cash - restricted	<u>70,291</u>	<u>70,256</u>
Total	<u>\$ 365,530</u>	<u>\$ 155,584</u>

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 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 2019, the School operated classes for students in kindergarten through seventh grade. The seventh grade was added in fiscal year 2019. 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 two classes of net assets – with donor restrictions or without donor restrictions – be displayed in a statement of financial position and that the amount of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Net Assets with Donor Restrictions consist of contributions and other inflows of assets whose use is subject to donor-imposed restrictions that are more specific than broad limits reflecting the nature of the not-for-profit entity, the environment in which it operates and the purposes specified in its articles of incorporation or bylaws or comparable documents. Donor-imposed restrictions may be temporary in nature, such as stipulating that resources may be used only after a specified date or limited to specific programs or services. Certain donor-imposed restrictions are perpetual in nature.

Net Assets without Donor Restrictions consist of contributions and other inflows of assets whose use is not subject to donor-imposed restrictions. This net asset category includes both contributions not subject to donor restrictions and exchange transactions, such as state and local per pupil operating revenue.

Cash – restricted

An escrow account of \$70,291 and \$70,256 is held aside for contingency purposes at June 30, 2019 and 2018, respectively, as required by the NYCDOE.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$472,179 and \$770,314 at June 30, 2019 and 2018, respectively. The School determined that no allowance for uncollectible accounts was necessary at June 30, 2019 and 2018. Such estimate is based on management's assessment 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 net assets with donor restrictions 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 statements 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 (Note 5). 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.

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, 2019 and 2018.

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.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 28, 2019, which is the date the financial statements were available to be issued.

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 2016.

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.

The School is subject to tax reportable on Form 990T consisting of unrelated business income if they have provided pre-tax transportation benefits to employees.

Adoption of Accounting Pronouncement

Financial Statement Presentation

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The School has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the School reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions and amounts formerly classified as restricted net assets to net assets with donor restrictions. The adoption of this update had no other material effect on the School’s financial position and changes in net assets. In addition, the School has elected to continue to present a reconciliation in the statement of cash flows consistent with the indirect method.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the potential accounting, transition, and disclosure effects 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. Also, the FASB has issued amendments to the update with practical expedients related to land easements, lessor accounting, and disclosures related to accounting changes and error corrections. The School is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the School's financial position due to the recognition of a right-of-use asset and related lease liability. The School does not anticipate the update having a material effect on the School's results of operations or cash flows, though such an effect is possible.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the School's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The School is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021, with early application permitted.

Reclassification

Certain amounts in the June 30, 2018 financial statements have been reclassified to conform to the June 30, 2019 presentation. This reclassification had no effect on previously reported change in net assets.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

3. LIQUIDITY MANAGEMENT, AVAILABILITY OF RESOURCES, AND DEPENDENCE

The School maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The School's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	2019	2018
Cash	\$ 295,239	\$ 85,328
Cash – restricted	70,291	70,256
Grants and other receivables	472,179	770,314
Due from NYC Department of Education	<u>26,868</u>	<u>-</u>
Total financial assets	864,577	925,898
Less amounts unavailable for general expenditures within one year due to:		
Restricted by contract with time or purpose	(70,291)	(70,256)
Restricted by donors with purpose restrictions	<u>(74,087)</u>	<u>(10,000)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 720,199</u>	<u>\$ 845,642</u>

At June 30, 2019 and 2018, the School has no board designated net assets.

At June 30, 2019, the School has a working capital deficit of approximately \$1,084,000 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 \$678,000 and \$354,000 for the years ending June 30, 2019 and 2018, respectively. NY Foundling, a related party that shares board members with the School, is committed to provide financial support through November 2020 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 \$443,955 and \$404,220 for the years ending June 30, 2019 and 2018, respectively, and is reflected as both income and expense in the accompanying financial statements. In addition, NY Foundling provided contributions and grants to the School totaling \$473,750 and \$879,000 for the years ending June 30, 2019 and 2018, respectively.

Management believes that these actions will enable the School to continue operations through 2020.

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 was to expire 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.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

4. RELATED PARTY (CONTINUED)

Future minimum lease payments are as follows for the years ending June 30,:

2020	\$	1,117,956
2021		1,117,956
2022		1,117,956
2023		1,117,956
2024		1,117,956
Thereafter		<u>1,583,771</u>
	\$	<u>7,173,551</u>

For the years ending June 30, 2019 and 2018, the School incurred building lease and rent costs of \$1,561,911 and \$1,336,763, respectively, of which \$443,955 and \$404,220 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 \$1,150,000 and \$575,000 in building lease and rent costs as of June 30, 2019 and 2018, respectively.

5. PROPERTY AND EQUIPMENT

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

	2019	2018	Estimated Useful Lives
Furniture and fixtures	\$ 321,706	\$ 318,931	7 years
Computer hardware and software	407,723	370,289	3 years
Musical instruments	12,470	12,470	3 years
Leasehold improvements	152,048	149,088	10 years
Equipment	<u>162,381</u>	<u>133,561</u>	3 years
	1,056,328	984,339	
Less: accumulated depreciation	<u>(912,659)</u>	<u>(830,820)</u>	
	<u>\$ 143,669</u>	<u>\$ 153,519</u>	

Depreciation expense for the years ended June 30, 2019 and 2018 was \$81,839 and \$91,783, respectively.

6. WEBSITE

Development costs related to the School's website amounting to \$19,255 have been capitalized as of June 30, 2019 and 2018. 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, 2019 and 2018 was \$1,434 and \$2,300, respectively. The website was fully amortized as of June 30, 2019. Accumulated amortization totaled \$17,821 as of 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 one 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, 2019 and 2018, employer contribution expense for the School was \$156,506 and \$138,294, respectively, which is included in retirement benefits in the accompanying statements of functional expenses.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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.

The School's charter is up for renewal in June 2020. Although the School anticipates that this renewal will be granted by the authorizers, no assurance can be provided that this will occur.

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 insured limit of \$250,000.

The School received approximately 71% and 69% of its total revenue from per pupil funding from the NYCDOE during the years ending June 30, 2019 and 2018, respectively. The School received approximately 8% and 13% of its total revenue from the NY Foundling during the years ending June 30, 2019 and 2018, respectively.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are purpose and time restricted and consist of the following at June 30,:

	2019	2018
Family coordinator and school nurse	\$ 60,573	\$ -
Haven Kids rock music program	13,514	-
Playground equipment	-	10,000
Time restriction - 2020	80,000	-
	<u>\$ 154,087</u>	<u>\$ 10,000</u>

Net assets were released from restrictions during the years ended June 30, 2019 and 2018 by incurring expenses and the passing of time, thus satisfying the restrictions as follows:

	2019	2018
Family coordinator and school nurse	\$ 114,427	\$ 145,000
Support services/Social worker and behavior specialist	126,000	126,000
Blended literacy program	55,000	-
Haven Kids rock music program	53,186	27,000
Intervention services and remediation programs	25,000	-
Playground equipment	20,500	-
Field trips and classroom supplies	19,000	-
Middle school program implementation	10,000	-
Afterschool circus event	9,000	-
Irrigation system for garden	2,000	-
Academic programming	-	50,000
Afternoon academy	-	25,000
Time restriction - 2019	150,000	-
Time restriction - 2018	-	150,000
	<u>\$ 584,113</u>	<u>\$ 523,000</u>

SUPPLEMENTARY INFORMATION

MOTT HAVEN ACADEMY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through New York State Education Department			
Title I Grants to Local Educational Agencies (LEAs)	84.010	0021194440	\$ 284,074
Supporting Effective Instruction State Grant (Title II)	84.367	0147194440	45,144
Student Support and Academic Enrichment Grants (Title IV)	84.424	0204194440	18,465
Charter Schools Program	84.282	0089199106	85,750
Total U.S. Department of Education			<u>433,433</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through New York State Education Department			
Child Nutrition Cluster			
School Breakfast Program	10.553	310600860966	59,582
National School Lunch Program	10.555	310600860966	281,080
Total U.S. Department of Agriculture			<u>340,662</u>
Total Expenditures of Federal Awards			<u>\$ 774,095</u>

See independent auditor's report.
The accompanying notes are an integral part of this schedule.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Mott Haven Academy Charter School (a not-for-profit organization) (the "School") under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because this Schedule presents only a selected portion of the operations of the School, it is not intended and does not present the financial position, changes in net (deficit) assets or cash flows of the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available and when applicable.

3. SUB-RECIPIENTS

Of the federal expenditures presented in the Schedule, the School provided no federal awards to sub-recipients.

4. INDIRECT COST RATE

The School allocates indirect costs to various federal programs based upon the provisions of the award agreements. The School has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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, 2019, 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 28, 2019.

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 28, 2019.

An independent member of Baker Tilly International



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 28, 2019



Independent Auditor's Report on Compliance With the Major Federal Programs and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

To the Board of Trustees
Mott Haven Academy Charter School

Report on Compliance for the Major Federal Programs

We have audited Mott Haven Academy Charter School's (the "School") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on the School's major federal programs for the year ended June 30, 2019. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal award applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the major federal programs. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Major Federal Programs

In our opinion, Mott Haven Academy Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Mott Haven Academy Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

An independent member of Baker Tilly International

Report on Internal Control over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
October 28, 2019

MOTT HAVEN ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on whether the financial statements were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weakness (es) identified? Yes _____ No √

Significant deficiency (ies) identified that are not considered to be material weaknesses? Yes _____ None reported √

Noncompliance material to financial statements noted? Yes _____ No √

Federal Awards

Type of auditor’s report issued on compliance for major programs: Unmodified

Internal control over major programs:

Material weakness (es) identified? Yes _____ No √

Significant deficiency (ies) identified that are not considered to be material weaknesses? Yes _____ None reported √

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes _____ No √

Identification of Major Programs:

<u>Name of Federal Programs</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Title I Grants to Local Educational Agencies (LEAs)	84.010	\$ 284,074
Supporting Effective Instruction State Grant (Title II)	84.367	\$ 45,144

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee: Yes _____ No √

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV – SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None noted.