

# MOTT HAVEN ACADEMY CHARTER SCHOOL

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## FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

## **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, 2020 and 2019, 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, 2020 and 2019, 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 Matters**

As further discussed in Note 3 to the financial statements, the School is financially dependent on The New York Foundling Hospital.

As further discussed in Note 9 to the financial statements, a global pandemic has been declared by the World Health Organization as a result of the rapidly growing outbreak of the coronavirus, COVID-19. The extent and ultimate impact of COVID-19 on the School's operating and financial performance cannot be predicted at this time. Our opinion is not modified with respect to this matter.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020, 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 solely 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 effectiveness of 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 29, 2020

**MOTT HAVEN ACADEMY CHARTER SCHOOL**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2020 AND 2019**

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
Cash	\$ 2,362,017	\$ 295,239
Cash - restricted	70,327	70,291
Grants and other receivables	272,855	472,179
Due from NYC Department of Education	56,663	26,868
Prepaid expenses and other assets	41,115	62,469
Property and equipment, net	161,805	143,669
	<b>\$ 2,964,782</b>	<b>\$ 1,070,715</b>
<b>LIABILITIES AND NET (DEFICIT) ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 218,291	\$ 262,126
Accrued salaries and other payroll related expenses	582,822	529,028
Due to New York Foundling Hospital	1,056,376	1,149,539
Paycheck Protection Program loan payable	1,608,000	-
	3,465,489	1,940,693
<b>NET (DEFICIT) ASSETS</b>		
Net deficit - without donor restrictions	(606,359)	(1,024,065)
Net assets - with donor restrictions	105,652	154,087
	(500,707)	(869,978)
	<b>\$ 2,964,782</b>	<b>\$ 1,070,715</b>

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, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>CHANGES IN NET DEFICIT WITHOUT DONOR RESTRICTIONS</b>		
<b>OPERATING REVENUE</b>		
State and local per pupil operating revenue	\$ 9,141,066	\$ 7,816,471
Government grants and contracts	<u>1,568,095</u>	<u>1,495,623</u>
	<u>10,709,161</u>	<u>9,312,094</u>
<b>EXPENSES</b>		
Program services		
General education	8,500,222	8,403,630
Special education	2,413,894	2,193,545
Pre-K education	125,487	95,065
Management and general	828,343	850,469
Fundraising	<u>75,342</u>	<u>115,606</u>
	<u>11,943,288</u>	<u>11,658,315</u>
<b>DEFICIT FROM SCHOOL OPERATIONS</b>	<u><b>(1,234,127)</b></u>	<u><b>(2,346,221)</b></u>
<b>SUPPORT AND OTHER INCOME</b>		
Contributions and other grants	175,177	156,647
New York Foundling Hospital contributions and grants	331,749	338,750
In-kind building lease and rent	346,437	443,955
Interest and other income	35	171
Net assets released from restrictions	<u>798,435</u>	<u>584,113</u>
	<u>1,651,833</u>	<u>1,523,636</u>
<b>DECREASE (INCREASE) IN NET DEFICIT WITHOUT DONOR RESTRICTIONS</b>	<u><b>417,706</b></u>	<u><b>(822,585)</b></u>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions and other grants	446,000	593,200
New York Foundling Hospital contributions and grants	304,000	135,000
Net assets released from restrictions	<u>(798,435)</u>	<u>(584,113)</u>
<b>(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u><b>(48,435)</b></u>	<u><b>144,087</b></u>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	<b>369,271</b>	<b>(678,498)</b>
<b>NET DEFICIT - BEGINNING OF YEAR</b>	<u><b>(869,978)</b></u>	<u><b>(191,480)</b></u>
<b>NET DEFICIT - END OF YEAR</b>	<u><b>\$ (500,707)</b></u>	<u><b>\$ (869,978)</b></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, 2020**

	No. of Positions	Program Services				Supporting Services		2020
		General Education	Special Education	Pre-K Education	Total	Management and General	Fundraising	
Personnel service costs								
Administrative staff personnel	14	\$ 795,209	\$ 223,557	\$ -	\$ 1,018,766	\$ 327,584	\$ 61,448	\$ 1,407,798
Instructional personnel	87	4,335,152	1,232,942	73,244	5,641,338	-	-	5,641,338
Non-instructional personnel	7	225,321	64,274	10,462	300,057	10,462	-	310,519
Total salaries and staff	108	5,355,682	1,520,773	83,706	6,960,161	338,046	61,448	7,359,655
Payroll taxes and employee benefits		1,061,042	301,288	16,583	1,378,913	66,972	12,174	1,458,059
Retirement benefits		101,236	28,747	1,582	131,565	6,390	1,162	139,117
Accounting and audit services		-	-	-	-	207,711	-	207,711
Other purchased, professional, and consulting services		50,451	14,340	304	65,095	34,551	-	99,646
Building lease and rent		813,547	231,010	12,715	1,057,272	60,684	-	1,117,956
In-kind building lease and rent		252,106	71,586	3,940	327,632	18,805	-	346,437
Repairs and maintenance		14,379	4,083	225	18,687	1,073	-	19,760
Insurance		37,318	10,597	583	48,498	2,784	-	51,282
Supplies and materials		141,561	40,250	393	182,204	1,875	-	184,079
Equipment and furnishings		17,813	5,064	55	22,932	2,901	22	25,855
Staff development		165,243	46,940	1,959	214,142	9,352	-	223,494
Marketing and recruitment		32,071	9,106	501	41,678	2,392	-	44,070
Technology		62,761	17,850	-	80,611	-	-	80,611
Food service		154,817	43,961	2,420	201,198	11,548	-	212,746
Student services		183,235	52,101	429	235,765	2,050	-	237,815
Office expense		-	-	-	-	58,612	536	59,148
Depreciation		51,088	14,530	-	65,618	-	-	65,618
Other		5,872	1,668	92	7,632	2,597	-	10,229
		<b>\$ 8,500,222</b>	<b>\$ 2,413,894</b>	<b>\$ 125,487</b>	<b>\$ 11,039,603</b>	<b>\$ 828,343</b>	<b>\$ 75,342</b>	<b>\$ 11,943,288</b>

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
		<b>\$ 8,403,630</b>	<b>\$ 2,193,545</b>	<b>\$ 95,065</b>	<b>\$ 10,692,240</b>	<b>\$ 850,469</b>	<b>\$ 115,606</b>	<b>\$ 11,658,315</b>

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, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from operating revenue	\$ 10,878,690	\$ 9,574,070
Other cash received	1,603,398	1,667,723
Cash paid to employees and suppliers	<u>(11,939,520)</u>	<u>(10,959,858)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>542,568</u>	<u>281,935</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(83,754)</u>	<u>(71,989)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Paycheck Protection Program loan payable	<u>1,608,000</u>	<u>-</u>
NET INCREASE IN CASH	2,066,814	209,946
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	<u>365,530</u>	<u>155,584</u>
CASH AND CASH - RESTRICTED - END OF YEAR	<u><b>\$ 2,432,344</b></u>	<u><b>\$ 365,530</b></u>
Reconciliation of change in net assets (deficit) to net cash provided by operating activities:		
Change in net assets (deficit)	\$ 369,271	\$ (678,498)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation and amortization	65,618	83,273
Changes in operating assets and liabilities:		
Grants and other receivables	199,324	298,135
Due from NYC Department of Education	(29,795)	(26,868)
Prepaid expenses and other assets	21,354	(42,974)
Accounts payable and accrued expenses	(43,835)	(19,989)
Accrued salaries and other payroll related expenses	53,794	103,251
Due to New York Foundling Hospital	(93,163)	574,896
Due to NYC Department of Education	-	(9,291)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><b>\$ 542,568</b></u>	<u><b>\$ 281,935</b></u>
Cash and cash - restricted consist of:		
Cash	\$ 2,362,017	\$ 295,239
Cash - restricted	<u>70,327</u>	<u>70,291</u>
Total	<u><b>\$ 2,432,344</b></u>	<u><b>\$ 365,530</b></u>

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

# MOTT HAVEN ACADEMY CHARTER SCHOOL

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### 1. NATURE OF THE ORGANIZATION

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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 renewed through June 30, 2025.

The School opened its doors in the fall of 2008 in 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.

The School operates classes for students in kindergarten through eighth grade. The eighth grade was added in fiscal year 2020. 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

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#### 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.

#### Cash – restricted

An escrow account of \$70,327 and \$70,291 is held aside for contingency purposes at June 30, 2020 and 2019, respectively, as required by the NYCDOE.

# MOTT HAVEN ACADEMY CHARTER SCHOOL

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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#### **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 \$272,855 and \$472,179 at June 30, 2020 and 2019, respectively. The School determined that no allowance for uncollectible accounts was necessary at June 30, 2020 and 2019. 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 from state and local governments 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, if any, are reflected as refundable advances from state and local government grants in the accompanying statements of financial position.

Transfers of cash or other assets or settlement of liabilities that are both voluntary and nonreciprocal are recognized as contributions. Contributions may either be conditional or unconditional. A contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity and other stipulations related to the contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the School fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as refundable advances.

Unconditional contributions may or may not be subject to donor-imposed restrictions. Unconditional contributions without donor restrictions are recognized as revenue in changes in net assets without donor restrictions when received or promised. Contributions subject to donor restrictions are recognized in changes in net assets with donor restrictions. When a purpose restriction is satisfied or when a time restriction expires, the contribution is reported as net assets released from restrictions and is recognized in changes in net deficit without donor restrictions.

#### **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

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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#### **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, 2020 and 2019.

#### **Advertising**

The School expenses advertising costs as incurred. The School incurred \$44,070 and \$17,252 of advertising costs for the years ended June 30, 2020 and 2019, respectively, which is included in the accompanying statements of functional expenses under marketing and recruitment.

#### **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 29, 2020, 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 2017.

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

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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#### Adoption of Accounting Pronouncement

##### *Contributions*

During the year ended June 30, 2020, the School adopted Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The update provides guidance in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional or not. The adoption of this update had no effect on the School's financial position and change in net assets.

#### Recent Accounting Pronouncements

##### *Revenue from Contracts with Customers*

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. In June 2020, the FASB issued an accounting standards update which defers the required effective date of the update for one year. As a result, entities may elect to adopt the update for annual reporting periods beginning after December 15, 2019, and for interim reporting periods beginning after December 15, 2020, with early application permitted. The School has elected the deferral and is currently evaluating the effect the update will have on its financial statements.

##### *Lease Accounting*

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 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.

In June 2020, the FASB issued an accounting standards update which defers the required effective date of the update for one year. As a result, entities may elect to adopt the guidance for annual reporting periods beginning after December 15, 2021, and for interim reporting periods beginning after December 15, 2022, with early application permitted. The School has elected the deferral and 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 condition 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 its results of operations or cash flows, though such an effect is possible.

##### *Contributed Nonfinancial Assets*

In September 2020, the FASB issued an accounting standards update which amends guidance for not-for-profit entities that receive contributed nonfinancial assets. The update requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement of activities, and to disclose information regarding each type of contributed nonfinancial assets. The update is to be applied on a retrospective basis and is effective for annual reporting periods beginning after June 15, 2021, and for interim reporting periods beginning after June 15, 2022. The School is currently evaluating the effect the update will have on its financial statements.

## MOTT HAVEN ACADEMY CHARTER SCHOOL

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

#### 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 statements of financial position date for general expenditures are as follows:

June 30,	2020	2019
Cash	\$ 2,362,017	\$ 295,239
Cash – restricted	70,327	70,291
Grants and other receivables	272,855	472,179
Due from NYC Department of Education	<u>56,663</u>	<u>26,868</u>
Total financial assets	2,761,862	864,577
Less amounts unavailable for general expenditures within one year due to:		
Restricted by contract with time or purpose	(70,327)	(70,291)
Restricted by donors with purpose restrictions	<u>(55,652)</u>	<u>(74,087)</u>
Total financial assets available to management for general expenditures within one year	<b><u>\$ 2,635,883</u></b>	<b><u>\$ 720,199</u></b>

At June 30, 2020 and 2019, the School has no board designated net assets.

While the School had a decrease in net deficit of approximately \$369,000 for the year ending June 30, 2020, the School had recurring losses in previous years and continues to have a net deficit. The New York Foundling Hospital (“NY Foundling”), a related party that shares board members with the School, is committed to provide financial support through November 2021.

NY Foundling subsidizes rent and facility costs (see Note 4). In addition, NY Foundling provided contributions and grants to the School totaling \$635,749 and \$473,750 for the years ending June 30, 2020 and 2019, respectively.

Management believes that these actions will enable the School to continue operations through 2021.

#### 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.

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

2021	\$ 1,117,956
2022	1,117,956
2023	1,117,956
2024	1,117,956
2025	1,117,956
Thereafter	<u>465,815</u>
	<b><u>\$ 6,055,595</u></b>

## MOTT HAVEN ACADEMY CHARTER SCHOOL

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

#### 4. RELATED PARTY (CONTINUED)

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For the years ending June 30, 2020 and 2019, the School incurred building lease and rent costs of \$1,464,393 and \$1,561,911, respectively, of which \$346,437 and \$443,955 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 \$1,056,000 and \$1,150,000 in building lease and rent costs as of June 30, 2020 and 2019, respectively.

#### 5. PROPERTY AND EQUIPMENT

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

	2020	2019	Estimated Useful Lives
Furniture and fixtures	\$ 331,882	\$ 321,706	7 years
Computer hardware and software	447,627	407,723	3 years
Musical instruments	12,470	12,470	3 years
Leasehold improvements	158,526	152,048	10 years
Equipment	189,577	162,381	3 years
	1,140,082	1,056,328	
Less: accumulated depreciation	(978,277)	(912,659)	
	<u>\$ 161,805</u>	<u>\$ 143,669</u>	

Depreciation expense for the years ended June 30, 2020 and 2019 was \$65,618 and \$81,839, respectively.

#### 6. WEBSITE

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Development costs related to the School's website amounting to \$19,255 have been capitalized as of June 30, 2020 and 2019. These costs are amortized over the estimated life of five years using the straight-line method. The website was fully amortized as of June 30, 2019. Amortization expense for the year ended June 30, 2019 was \$1,434.

#### 7. PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

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In May 2020, the School received a loan in the amount of \$1,608,000 through the Paycheck Protection Program of the 2020 CARES Act ("PPP") administered by the Small Business Administration. The loan is due on May 13, 2022 and bears interest at 1 percent. Monthly payments of principal and interest commence on December 5, 2020. The School may prepay the loan at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for certain purposes, including payroll, benefits, rent, and utilities. Under the terms of the PPP, all or a portion of the loan may be forgiven based on certain requirements being met. The School is tracking the qualifying expenditures during the qualifying period and is currently in the process of applying for loan forgiveness under the program. Management expects that the loan will be forgiven.

**MOTT HAVEN ACADEMY CHARTER SCHOOL**

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

**8. EMPLOYEE BENEFITS**

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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, 2020 and 2019, employer contribution expense for the School was \$139,117 and \$156,506, respectively, which is included in retirement benefits in the accompanying statements of functional expenses.

**9. RISK MANAGEMENT**

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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.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The impact of the outbreak of the COVID-19 coronavirus continues to rapidly evolve. The School cannot reasonably estimate the duration and severity of this pandemic; however, economic uncertainties have arisen which could have a material adverse effect on the School's financial position, results of operations and its cash flows. The School believes they are taking appropriate actions to mitigate the negative impact.

**10. CONCENTRATIONS**

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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 74% and 71% of its total revenue from per pupil funding from the NYCDOE during the years ending June 30, 2020 and 2019, respectively. The School received approximately 8% of its total revenue from NY Foundling during both the years ending June 30, 2020 and 2019.

**11. NET ASSETS WITH DONOR RESTRICTIONS**

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

	2020	2019
Family coordinator and school nurse	\$ 32,052	\$ 60,573
Haven Kids rock music program	23,600	13,514
Time restriction - 2021	50,000	-
Time restriction - 2020	-	80,000
	<u>\$ 105,652</u>	<u>\$ 154,087</u>



**MOTT HAVEN ACADEMY CHARTER SCHOOL**

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

**11. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)**

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Net assets were released from restrictions during the years ended June 30, 2020 and 2019 by incurring expenses and the passing of time, thus satisfying the restrictions as follows:

	2020	2019
Family coordinator and school nurse	\$ 173,522	\$ 114,427
Support services/Social worker and behavior specialist	126,000	126,000
After school program	178,000	-
Blended literacy program	-	55,000
Haven Kids rock music program	50,913	53,186
Intervention services and remediation programs	-	25,000
Playground equipment	10,000	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
Dissemination project	150,000	-
Remote learning	30,000	-
Time restriction – 2020	80,000	-
Time restriction – 2019	-	150,000
	<u>\$ 798,435</u>	<u>\$ 584,113</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, 2020, 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 29, 2020.

**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 29, 2020.



### **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 29, 2020