

MOTT HAVEN ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2009

MOTT HAVEN ACADEMY CHARTER SCHOOL
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Mott Haven Academy Charter School

We have audited the accompanying statement of financial position of Mott Haven Academy Charter School (the "School") as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the period from January 15, 2008 (date of inception) to June 30, 2009. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mott Haven Academy Charter School as of June 30, 2009 and the changes in its net assets and its cash flows for the period ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2009 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ERE LLP

New York, NY
October 15, 2009

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30, 2009

Assets:

Cash and cash equivalents	\$	258,428
Grants and other receivables		191,316
Prepaid expenses and other assets		19,235
Property and equipment, net		59,553
Website, net		2,413

Total Assets	\$	530,945
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Liabilities and Net Assets:

Liabilities:

Accounts payable and accrued expenses	\$	80,437
Accrued salary and other payroll related expenses		53,556

Total Liabilities		133,993
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Net assets - unrestricted		396,952
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Total Liabilities and Net Assets	\$	530,945
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The accompanying notes are an integral part of these financial statements.

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Period from January 15, 2008 (date of inception) to June 30, 2009

Operating revenue:	
State and local per pupil operating revenue	\$ 1,324,629
Government grants and contracts	432,741
Total operating revenue	1,757,370
Expenses:	
Program services	1,232,238
Management and general	344,562
Fundraising	11,104
Total operating expenses	1,587,904
Surplus from school operations	169,466
Support and other income:	
Contributions and other grants	226,908
Interest income	578
Total support and other income	227,486
Change in net assets	396,952
Net assets - unrestricted – beginning of period	-
Net assets - unrestricted – end of period	\$ 396,952

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

Period from January 15, 2008 (date of inception) to June 30, 2009

	General Education	Special Education	Total Program	Management and General	Fundraising	Total
Salaries	\$ 542,845	\$ 257,270	\$ 800,115	\$ 174,743	\$ 5,867	\$ 980,725
Payroll taxes and employee benefits	108,644	51,489	160,133	34,973	1,174	196,280
Classroom supplies and instructional materials	97,730	20,016	117,746	-	-	117,746
Consultants	-	-	-	77,208	4,063	81,271
Professional fees	-	-	-	23,550	-	23,550
Staff professional development	29,012	6,086	35,098	4,701	-	39,799
Insurance	11,295	2,560	13,855	1,205	-	15,060
Student transportation	34,905	7,149	42,054	-	-	42,054
Student food services	6,207	1,272	7,479	-	-	7,479
Office expense	9,927	2,224	12,151	21,850	-	34,001
Telephone and internet	14,925	3,383	18,308	1,592	-	19,900
Conference and meetings	2,988	612	3,600	412	-	4,012
Repairs and maintenance	574	130	704	61	-	765
Furniture and fixtures - non-capitalizable	-	-	-	2,443	-	2,443
Technology infrastructure and software	5,162	1,170	6,332	550	-	6,882
Postage and delivery	1,093	248	1,341	116	-	1,457
Printing and photocopying	152	35	187	16	-	203
Depreciation and amortization	10,170	2,305	12,475	1,085	-	13,560
Loss on abandonment of fixed assets	538	122	660	57	-	717
Total expenses	\$ 876,167	\$ 356,071	\$ 1,232,238	\$ 344,562	\$ 11,104	\$ 1,587,904

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

Period from January 15, 2008 (date of inception) to June 30, 2009

Cash flows from operating activities:	
Change in net assets	\$ 396,952
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	13,560
Changes in operating assets and liabilities:	
Increase in grants and other receivables	(191,316)
Increase in prepaid expenses and other assets	(19,235)
Increase in accounts payable and accrued expenses	80,437
Increase in accrued salary and other payroll related expenses	53,556
Net cash provided by operating activities	333,954
Cash flows from investing activities:	
Purchase of property and equipment	(72,571)
Development of website	(2,955)
Net cash used in investing activities	(75,526)
Net increase in cash and cash equivalents	258,428
Cash and cash equivalents - beginning of period	-
Cash and cash equivalents - end of period	\$ 258,428

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:	
Interest	\$ -
Income taxes	\$ -
Non-cash investing and financing activities:	
Loss on abandonment of fixed asset	\$ 717

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2009

1. NATURE OF THE ORGANIZATION:

Mott Haven Academy Charter School (Haven Academy) (“the School”) is a New York State, not-for-profit educational corporation that was incorporated on January 15, 2008 to operate a charter school pursuant to Article 56 of the Educational Law of the State of New York. The School was granted a provisional charter on January 15, 2008, valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School opened its doors in the Fall of 2008 in the South Bronx with a rigorous academic program and a highly structured and supportive school culture. While the School is comprised of students from many backgrounds, it is uniquely designed to meet the needs of at-risk students who are currently in the foster care and child welfare system. The School is exempt from Federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

In fiscal year 2009, the School operated classes for students in kindergarten to first grade.

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

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

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

The classification of an organization’s net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2009

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

Cash and Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of a checking account, money market account and escrow account of \$25,000 held aside for contingency purposes as required by the NYCDOE.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give. At June 30, 2009, the School had \$191,316 of grants and other receivables that are expected to be collected within one year and recorded at net realizable value. The School has determined that no allowance for uncollectible accounts for grant receivable is necessary as of June 30, 2009. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a \$1,000 threshold above which assets are capitalized. Property and equipment acquired with certain government contract funds is recorded as expenses pursuant to the terms of the contract in which the government funding source retains ownership of the property.

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2009.

Planned Maintenance

Costs related to planned major maintenance are expensed as incurred. Planned maintenance activities are accounted for in accordance with FSP AUG AIR-1.

Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2009

Functional Allocation of Expenses

Expenses that can directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through October 15, 2009. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

Implementation of New Accounting Pronouncements

Management has elected to defer the application of FAS FIN 48, *Accounting for Uncertain Tax Positions in accordance with FSP FIN 48-3*. FSP FIN 48-3 defers the effective date for FIN 48 for certain private companies until fiscal years beginning after December 15, 2008. The Company will continue to follow FAS 5, *Accounting for Contingencies*, until it adopts FIN 48.

The current and deferred tax provisions in the financial statements include consideration of uncertain tax positions in accordance with FAS FIN 48, *Accounting for Uncertain Tax Positions*.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following as of June 30, 2009:

		Estimated Useful Lives
Furniture and fixtures	\$ 41,399	7 years
Computer hardware and software	30,856	3 years
Website	2,955	5 years
Less: accumulated depreciation and amortization	(13,244)	
	\$ 61,966	

Depreciation and amortization expense for the year ended June 30, 2009 was \$13,560.

MOTT HAVEN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2009

- 4. PENSION PLAN:** Effective July 1, 2008 the School adopted a 401(k) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the plan either the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 4% of an employee's salary. The School contribution does not become vested until its first year when it becomes fully vested. As of June 30, 2009, pension expense for the School is \$29,000, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.
- 5. RISK MANAGEMENT:** The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to protect itself from such risks.
- 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.
- 6. AGREEMENT FOR SCHOOL FACILITY:** The School has entered into a verbal agreement, ("the Agreement"), with the New York City Department of Education for dedicated and shared space at PS 43, a New York City public school located at 165 Brown Place, Bronx, New York. The New York City Department of Education is in the process of revising written facility use agreements and is expected to issue one for the School during the next fiscal year. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the fiscal years ended June 30, 2009 the School did not incur overtime permit fees.
- 7. CONCENTRATION:**
- A. Financial instruments that potentially subject the school to a concentration of credit risk include cash accounts at a major financial institution that exceeded the Federal Deposit Insurance Corporation (FDIC) limits by approximately \$8,000 as of June 30, 2009. The FDIC has temporarily increased the limit to \$250,000 through December 31, 2013.
- B. The School received approximately 67% of its total revenue from per pupil funding from New York City Department of Education.
- 8. SUBSEQUENT EVENT:** A new, LEED certified, environmentally friendly building is in development at 170 Brown Place. This new building, owned and operated by The New York Foundling, will be the future home for the School as well as The New York Foundling's Bronx Community Services.
- The School opened at a temporary location in PS 43 at 165 Brown Place, Bronx, NY 10454. The School has plans to move to its new building, directly across the street, in 2010.

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing
Standards***

To the Board of Trustees
Mott Haven Academy Charter School

We have audited the financial statements of Mott Haven Academy Charter School (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

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 15, 2009.

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

ERE LLP

New York, NY
October 15, 2009