MOTT HAVEN ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2014)

MOTT HAVEN ACADEMY CHARTER SCHOOL

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MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mott Haven Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Mott Haven Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Mott Haven Academy Charter School's 2014 financial statements and we expressed an unmodified opinion on those audited financial statements and our report dated October 20, 2014, included an emphasis of matter paragraph that described the School's dependency on a related party. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015, 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 21, 2015

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2014)

ASSETS	**2015**	**2014**
Cash	$ 519,967	$ 200,900
Cash - restricted	70,151	70,116
Grants and other receivables	155,325	202,936
Due from NYC Department of Education	1,188	8,735
Prepaid expenses and other assets	64,981	53,743
Property and equipment, net	208,942	228,993
Website, net	8,334	9,358
	$ 1,028,888	**$ 774,781**
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Accounts payable and accrued expenses	$ 183,368	$ 1,166,591
Accrued salary and other payroll related expenses	497,430	422,156
	680,798	1,588,747
NET ASSETS (DEFICIT)		
Unrestricted	281,865	(913,588)
Temporarily restricted	66,225	99,622
	348,090	(813,966)
	$ 1,028,888	**$ 774,781**

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	Unrestricted	Temporarily Restricted	2015	2014
OPERATING REVENUE				
State and local per pupil operating revenue	$ 4,738,724	$ -	$ 4,738,724	$ 4,201,918
Government grants and contracts	933,621	-	933,621	535,477
	5,672,345	-	5,672,345	4,737,395
EXPENSES				
Program services				
General education	4,619,599	-	4,619,599	4,644,131
Special education	1,195,642	-	1,195,642	1,062,167
Pre-K education	351,391		351,391	-
Management and general	552,482	-	552,482	465,513
Fundraising	44,487	-	44,487	36,804
	6,763,601	-	6,763,601	6,208,615
DEFICIT FROM SCHOOL OPERATIONS	(1,091,256)	-	(1,091,256)	(1,471,220)
SUPPORT AND OTHER INCOME				
Contributions and other grants	656,225	526,000	1,182,225	912,483
Interest and other income	87	-	87	87
Extinguishment of liabilities	1,071,000	-	1,071,000	-
Net assets released from restrictions	559,397	(559,397)	-	-
	2,286,709	(33,397)	2,253,312	912,570
CHANGE IN NET ASSETS	1,195,453	(33,397)	1,162,056	(558,650)
NET ASSETS - BEGINNING OF YEAR	(913,588)	99,622	(813,966)	(255,316)
NET ASSETS (DEFICIT) - END OF YEAR	**$ 281,865**	**$ 66,225**	**$ 348,090**	**$ (813,966)**

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, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

		Program Services				Supporting Services			
	No. of Positions	General Education	Special Education	Pre-K Education	Total	Management and General	Fundraising	2015	2014
Personnel service costs									
Administrative staff personnel	7	$ 384,928	$ 98,908	$ -	$ 483,836	$ 119,307	$ 12,617	$ 615,760	$ 560,159
Instructional personnel	44	2,079,477	534,324	213,625	2,827,426	22,942	18,942	2,869,310	2,623,953
Non-instructional personnel	5	102,499	26,337	-	128,836	-	-	128,836	204,271
Total salaries and staff	56	2,566,904	659,569	213,625	3,440,098	142,249	31,559	3,613,906	3,388,383
Payroll taxes and employee benefits		527,764	135,610	45,484	708,858	29,247	6,489	744,594	671,874
Retirement benefits		70,223	18,044	7,077	95,344	3,891	863	100,098	97,723
Legal service		-	-	-	-	1,916	-	1,916	165
Accounting and audit services		-	-	-	-	132,819	3,500	136,319	132,232
Other purchased, professional, and consulting services		17,712	13,182	5,463	36,357	10,120	-	46,477	219,335
Building lease and rent		864,722	222,191	37,000	1,123,913	58,551	-	1,182,464	950,527
Repairs and maintenance		17,616	4,527	-	22,143	58,670	-	80,813	68,940
Insurance		25,955	6,669	2,000	34,624	1,438	319	36,381	34,744
Utilities		39,421	10,129	-	49,550	2,184	485	52,219	44,465
Supplies and materials		135,394	34,790	8,969	179,153	-	-	179,153	121,290
Equipment and furnishings		9,394	2,414	15,373	27,181	2,806	-	29,987	10,345
Staff development		83,168	21,370	10,505	115,043	4,468	42	119,553	114,827
Marketing and recruitment		10,193	2,619	416	13,228	-	-	13,228	11,616
Technology		7,538	1,937	-	9,475	418	92	9,985	13,670
Food service		133,999	34,431	-	168,430	-	-	168,430	139,367
Student services		34,082	8,757	3,599	46,438	-	-	46,438	41,273
Office expense		5,161	1,325	1,880	8,366	55,551	273	64,190	60,643
Depreciation and amortization		69,963	17,978	-	87,941	3,876	860	92,677	86,628
Bad debt		-	-	-	-	44,255	-	44,255	-
Other		390	100	-	490	23	5	518	568
		$ 4,619,599	**$ 1,195,642**	**$ 351,391**	**$ 6,166,632**	**$ 552,482**	**$ 44,487**	**$ 6,763,601**	**$ 6,208,615**

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

MOTT HAVEN ACADEMY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	$ 5,717,200	$ 4,728,134
Other cash received	1,192,580	1,138,802
Cash paid to employees and suppliers	(6,519,111)	(5,797,684)
NET CASH PROVIDED BY OPERATING ACTIVITIES	390,669	69,252
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(70,102)	(55,850)
Additions to website	(1,500)	(10,000)
NET CASH USED IN INVESTING ACTIVITIES	(71,602)	(65,850)
NET INCREASE IN CASH	319,067	3,402
CASH - BEGINNING OF YEAR	200,900	197,498
CASH - END OF YEAR	**$ 519,967**	**$ 200,900**

Reconciliation of change in net assets to net cash provided by operating activities:

	2015	2014
Change in net assets	$ 1,162,056	$ (558,650)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	92,677	86,628
Bad debt expense	44,255	-
Extinguishment of liabilities	(1,071,000)	-
Changes in operating assets and liabilities:		
Cash - restricted	(35)	(35)
Grants and other receivables	3,356	223,547
Due from NYC Department of Education	7,547	(3,649)
Prepaid expenses and other assets	(11,238)	(2,987)
Accounts payable and accrued expenses	87,777	325,820
Accrued salary and other payroll related expenses	75,274	1,505
Deferred revenue	-	(2,927)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 390,669**	**$ 69,252**

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

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 and, upon expiration, was renewed through June 30, 2016 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 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 2015, the School operated classes for students in kindergarten to fifth grade. The School also started a Pre-K program named Little Haven which was funded by the New York City Department of Education (“NYCDOE”) through The New York Foundling (“NY Foundling”).

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The School’s financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

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

These classes are defined as follows:

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Cash – restricted

An escrow account of $70,151 is held aside for contingency purposes at June 30, 2015 as required by the NYCDOE.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give by donors. Grants and other receivables are expected to be collected within one year, are recorded at net realizable value, and amount to $155,325 and $202,936 at June 30, 2015 and 2014, respectively. The School had bad debt expense amounting to $44,255 for the year ended June 30, 2015. The School determined that no allowance for uncollectible accounts was necessary at June 30, 2014. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

Revenue is recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

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

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

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.

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, 2015 and 2014.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 21, 2015, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2015 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2014 are presented. As a result, the June 30, 2014 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2014 information should be read in conjunction with the School's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, disclosure, and transition.

The School files informational returns in the Federal and New York State jurisdictions. With few exceptions, the School is no longer subject to Federal, state, or local income tax examinations for fiscal years before 2012.

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 tax as "Other Expense."

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standard 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.

Reclassifications

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

3. RELATED PARTY

Since August 2010, 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 expiring on August 31, 2020, with a renewal option after 10 years. However, the structure of the lease accounts for state “renewal and re-authorization of its charter.” In the event that the School is closed by its authorizer, the School would be released from the sublease. The annual rent is calculated based on the number of students enrolled multiplied by 100 square feet. For the year ending June 30, 2015, the total rent and facility cost was $686,240, which is reflected in the accompanying statement of functional expenses. In addition, the NY Foundling subsidizes rent and facility costs. Such support is recorded as contributions in-kind, at their fair value, provided it meets the criteria for recognition. Support for rent and facility costs are estimated at $459,225 and $255,007 for the years ending June 30, 2015 and 2014, respectively, and are reflected as both income and expense in the accompanying financial statements.

During the fiscal year ended June 30, 3015, the NY Foundling forgave previous years rent and facility costs outstanding totaling $1,071,000.

4. PROPERTY AND EQUIPMENT

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

	2015	2014	Estimated Useful Lives
Furniture and fixtures	$ 260,818	$ 231,022	7 years
Computer hardware and software	242,706	227,431	3 years
Musical instruments	12,470	12,470	3 years
Leasehold improvements	145,688	145,688	10 years
Equipment	50,303	25,272	3 years
	711,985	641,883	
Less: accumulated depreciation	(503,043)	(412,890)	
	$ 208,942	$ 228,993	

Depreciation expense for the years ended June 30, 2015 and 2014 was $90,153 and $84,702, respectively.

5. WEBSITE

Development costs related to the School's website amounting to $19,255 and $17,755 have been capitalized as of June 30, 2015 and 2014, respectively. These costs are amortized over the estimated life of five years using the straight-line method. Amortization expense for the years ended June 30, 2015 and 2014 was $2,524 and $1,926, respectively. Accumulated amortization totaled $10,921 and $8,397 as of June 30, 2015 and 2014, respectively.

6. EMPLOYEE BENEFITS

The School adopted a 401(k) retirement plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan either the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 4% of participating employee salary. The School contribution becomes fully vested after the first year. For the years ended June 30, 2015 and 2014, employer contribution expense for the School was $93,021 and $97,723, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

7. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to 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.

8. CONCENTRATIONS

Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation ("FDIC") insured limit of $250,000.

The School received approximately 65% and 89% of its total revenue from per pupil funding from the NYCDOE during the years ending June 30, 2015 and 2014. The School received approximately 21% of its total revenue from the NY Foundling during the year ending June 30, 2015.

Five vendors accounted for approximately 66% of the School's accounts payable at June 30, 2015.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are purpose restricted and consist of the following at June 30, 2015:

Curriculum materials, training and development	**$ 66,225**

Net assets were released from restrictions during the year ended June 30, 2015 by incurring expenses, thus satisfying the restricted purposes as follows:

School food implementation and medical program	$ 150,000
Data tech specialist	35,000
Support services/Social worker and behavior specialist	166,000
Curriculum materials, training and development	158,397
Morning and afternoon academy	50,000
	$ 559,397

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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, 2015, 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 21, 2015.

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 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*.

An Independent Member of Baker Tilly International

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We noted certain matters that we reported to management of the School in a separate letter dated October 21, 2015.

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 21, 2015

Mott Haven Academy Charter School

Communication With Those Charged With Governance

October 21, 2015

MBAF

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

October 21, 2015

To the Audit Committee
Mott Haven Academy Charter School

We have audited the financial statements of Mott Haven Academy Charter School (the "School") for the year ended June 30, 2015 and are prepared to issue our report thereon dated October 21, 2015. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

A. <u>Our Responsibility under U.S. Generally Accepted Auditing Standards:</u>

As stated in our engagement letter May 18, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Mott Haven Academy Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. <u>Planned Scope and Timing of the Audit:</u>

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on in July 2015.

C. <u>Auditor Independence:</u>

We affirm that MBAF CPAs, LLC is independent with respect to Mott Haven Academy Charter School.

D. <u>Qualitative Aspects of Accounting Practices:</u>

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mott Haven Academy Charter School are described in Note 2 to the financial statements. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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E. Accounting Estimates Used in the Financial Statements:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Allowance for Doubtful Accounts:
As of June 30, 2015, Mott Haven Academy Charter School recorded grants and other receivables of $155,325. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the school leadership and a review of subsequent collections we concur with management's conclusion.

Functional Statement Allocation:
Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Depreciation:
Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful lives of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Risk Management in Note 7 to the financial statements describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

There were 3 audit adjustments that decreased net assets by approximately $31,000. The most significant adjustment was to write off an E-Rate receivable from 2013 for approximately $36,000.

Last year there was 1 audit adjustment that increased net assets by approximately $25,000.

Proposed and Uncorrected:

There were no audit adjustments proposed and uncorrected during the fiscal year.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 21, 2015.

J. Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

K. Other Audit Findings or Issues:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of Mott Haven Academy Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MBAF CPAs, LLC

MBAF CPAs, LLC