MOTT HAVEN ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2012

(With Comparative Totals for June 30, 2011)

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
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, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. 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. The prior year summarized comparative information has been derived from the School's June 30, 2011 financial statements and, in our report dated October 21, 2011, we expressed an unqualified opinion on those financial statements.

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, 2012 and the changes in its net assets and its cash flows for the year then ended, 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 29, 2012 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.

MBAF CPAs, LLC

New York, NY
October 29, 2012

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION
June 30, 2012
(with Comparative Totals for June 30, 2011)

		2012		2011
Assets:				
Cash and cash equivalents	$	272,747	$	244,959
Cash - restricted		70,046		70,011
Grants and other receivables		182,047		201,234
Due from NYC Department of Education		16,460		-
Prepaid expenses and other assets		52,200		53,784
Property and equipment, net		344,576		337,082
Website, net		2,835		4,386
Total Assets	**$**	**940,911**	**$**	**911,456**
Liabilities and Net Assets:				
Liabilities:				
Accounts payable and accrued expenses	$	533,759	$	232,746
Accrued salary and other payroll related expenses		372,012		159,799
Due to NYC Department of Education		-		31,526
Total Liabilities		905,771		424,071
Net Assets:				
Unrestricted		1,800		438,983
Temporarily restricted		33,340		48,402
Total Net Assets		35,140		487,385
Total Liabilities and Net Assets	**$**	**940,911**	**$**	**911,456**

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012
(with Comparative Totals for June 30, 2011)

	Unrestricted	Temporarily Restricted	2012	2011
Operating revenue:				
State and local per pupil operating revenue	$ 3,495,392	$ -	$ 3,495,392	$ 2,831,949
Government grants and contracts	331,378	-	331,378	420,136
Total operating revenue	3,826,770	-	3,826,770	3,252,085
Expenses:				
Program services				
General education	3,158,925	-	3,158,925	2,498,003
Special education	1,022,343	-	1,022,343	549,393
Management and general	761,818	-	761,818	519,753
Fundraising	16,750	-	16,750	28,119
Total operating expenses	4,959,836	-	4,959,836	3,595,268
Deficit from school operations	(1,133,066)	-	(1,133,066)	(343,183)
Support and other income:				
Contributions and other grants	42,166	603,180	645,346	367,144
Interest and other income	120	-	120	156
Other income	35,355	-	35,355	-
Net assets released from restrictions	618,242	(618,242)	-	-
Total support and other income	695,883	(15,062)	680,821	367,300
Change in net assets	(437,183)	(15,062)	(452,245)	24,117
Net assets – beginning of year	438,983	48,402	487,385	463,268
Net assets – end of year	**$ 1,800**	**$ 33,340**	**$ 35,140**	**$ 487,385**

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012
(with Comparative Totals for June 30, 2011)

	Program Services			Supporting Services			
	General Education	Special Education	Total	Management and General	Fundraising	2012	2011
Salaries	$ 1,851,630	$ 579,420	$ 2,431,050	$ 350,354	$ 11,987	$ 2,793,391	$ 1,877,812
Payroll taxes and employee benefits	374,982	117,340	492,322	70,951	2,428	565,701	436,925
Classroom supplies	31,968	8,624	40,592	-	-	40,592	33,157
Instructional materials	67,925	18,324	86,249	-	-	86,249	117,852
Consultants	80,027	85,012	165,039	99,962	-	265,001	145,712
Professional fees	-	-	-	25,653	-	25,653	20,227
Advertising and recruiting	3,610	1,039	4,649	297	-	4,946	34,399
Professional development	98,055	26,453	124,508	38,884	-	163,392	134,242
Facility expense	448,007	128,879	576,886	113,761	-	690,647	479,608
Insurance	18,634	5,360	23,994	1,276	254	25,524	23,882
Student transportation	43,144	11,639	54,783	-	-	54,783	49,569
Student food services	6,100	1,646	7,746	-	-	7,746	7,190
Office expenses	-	-	-	47,915	454	48,369	53,750
Equipment rental	-	-	-	2,944	-	2,944	-
Dues and subscription	5,351	1,539	6,890	440	-	7,330	2,583
Donated services	-	-	-	-	-	-	1,013
Travel	572	164	736	47	-	783	663
Telephone and internet	39,319	11,311	50,630	2,693	539	53,862	54,600
Conference and meetings	10,195	2,750	12,945	-	-	12,945	11,184
Furniture and fixtures - non-capitalizable	-	-	-	1,202	-	1,202	14,922
Technology infrastructure and software	2,114	608	2,722	145	29	2,896	4,652
Postage and delivery	2,474	712	3,186	169	34	3,389	2,983
Depreciation and amortization	74,818	21,523	96,341	5,125	1,025	102,491	85,502
Loss on abandonment of property and equipment	-	-	-	-	-	-	2,841
Total expenses	**$ 3,158,925**	**$ 1,022,343**	**$ 4,181,268**	**$ 761,818**	**$ 16,750**	**$ 4,959,836**	**$ 3,595,268**

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

MOTT HAVEN ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS
Year Ended June 30, 2012
(with Comparative Totals for June 30, 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (452,245)	$ 24,117
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	102,491	85,502
Loss on abandonment of property and equipment	-	2,841
Changes in operating assets and liabilities:		
Cash - restricted	(35)	(39,989)
Grants and other receivables	19,187	65,269
Due from NYC Department of Education	(16,460)	-
Prepaid expenses and other assets	1,584	(21,147)
Accounts payable and accrued expenses	301,013	31,092
Accrued salary and other payroll related expenses	212,213	10,140
Due to NYC Department of Education	(31,526)	19,687
Net cash provided by operating activities	**136,222**	**177,512**
Cash flows from investing activities:		
Purchase of property and equipment	(108,434)	(229,450)
Net cash used in investing activities	**(108,434)**	**(229,450)**
Net increase (decrease) in cash and cash equivalents	27,788	(51,938)
Cash and cash equivalents - beginning of year	244,959	296,897
Cash and cash equivalents - end of year	**$ 272,747**	**$ 244,959**

Supplemental Disclosures of Cash Flow Information:

	2012	2011
Cash paid during the year for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

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 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 ("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 2012, the School operated classes for students in kindergarten to fourth 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 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. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

- 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 money market account. In addition, an escrow account of $70,046 is held aside for contingency purposes 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 amounts to $182,047 and $201,234 at June 30, 2012 and 2011, respectively. The School has determined that no allowance for uncollectible accounts is necessary at June 30, 2012 and 2011. 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 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.

Donated Services
The School receives contributed services (or, in-kind contributions) that are an integral part of its operations. Such services are recorded as contributions in-kind, at their fair value, provided it meets the criteria for recognition. Professional services received are estimated at $0 and $1,013 for the years ending June 30, 2012 and 2011, respectively, and are reflected as both as 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.

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 required to be recognized for the years ended June 30, 2012 and 2011.

Advertising
The School expenses advertising costs as incurred. The School incurred $793 and $0 of advertising costs for the years ended June 30, 2012 and 2011, respectively. Advertising expense is included in advertising and recruiting expense on the accompanying statement of functional expenses.

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, 2012, which is the date the financials statements were available to be issued.

Comparative Financial Information
The June 30, 2012 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, 2011 are presented. As a result, the June 30, 2011 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2011 information should be read in conjunction with the School's financial statements for the year ended June 30, 2011, 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, accounting in interim periods, disclosure, and transition.

The School files informational returns in the United States federal jurisdiction. With few exceptions, the School is subject to income tax examinations by the Internal Revenue Service of New York State for fiscal years before 2009.

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."

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

3. LIQUIDITY AND DEPENDENCE:

At June 30, 2012, the School has a working capital deficit (as defined) of approximately $312,000 and has had consecutive deficits from fluctuating enrollment and facility costs. Management has taken the following actions which include thoroughly examining operational and facility costs and obtaining a letter of support from The NY Foundling through the next fiscal year end to address the School's financial issues. Management believes that these actions will enable the School to continue as a going concern through the year ending June 30, 2013.

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

June 30,	2012	2011	Estimated Useful Lives
Furniture and fixtures	$ 199,208	$ 134,546	7 years
Computer hardware and software	183,147	148,266	3 years
Musical instruments	10,676	10,676	3 years
Leasehold improvements	145,688	141,867	10 years
Equipment	21,522	17,467	3 years
	560,241	452,822	
Less: accumulated depreciation and amortization	(215,665)	(115,740)	
	$ 344,576	$ 337,082	

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 was $100,940 and $83,951, respectively.

5. WEBSITE: Development costs related to the School's website amounting to $7,755 have been capitalized. These costs are amortized over the estimated life of five years using the straight-line method. Amortization expense for each of the years ended June 30, 2012 and 2011 was $1,551. Accumulated amortization totaled $4,920 and $3,369 as of June 30, 2012 and 2011, respectively.

6. AGREEMENT FOR SCHOOL FACILITY: In August 2010, the School relocated to a new building, 170 Brown Place, Bronx, New York, 10454. The new, LEED certified, environmentally friendly building is owned and operated by The New York Foundling. The School and The New York Foundling's Bronx Community Services co-habitat in the building.

The School has entered into a sublease agreement with the New York Foundling Hospital commencing on August 31, 2010. The School is obligated under a non-cancelable operating lease 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, 2012, the rent expense was $206,657, which is included in facility expense in the accompanying statement of functional expenses.

7. PENSION PLAN: 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 participating employee salary. The School contribution becomes fully vested after the first year. For the years ended June 30, 2012 and 2011, pension expense for the School was $83,599 and $65,960, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

8. RISK MANAGEMENT: The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.

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

The School received approximately 91% and 76% of its total revenue from per pupil funding from the NYCDOE during the years ended June 30, 2012 and 2011, respectively.

One vendor accounted for approximately 95% of the School's accounts payable at June 30, 2012.

10. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are purpose restricted and consist of the following at June 30, 2012:

Curriculum materials, training and development	$	33,340

Net assets were released from restrictions during the year ended June 30, 2012 by incurring expenses, thus satisfying the restricted purposes as follows:

Futures Program Grant	$	152,414
Student Achievement Specialist		35,000
Afternoon Academy		40,000
Nurse Position		95,552
Support Services & Transportation		126,000
Salary		77,616
Curriculum materials, training and development		91,660
	$	618,242

11. SUBSEQUENT EVENTS:

The School is currently in the process of undergoing their charter renewal.

The School is currently negotiating a contract with the New York Foundling Hospital to set up a payment plan for facilities related expenses as the School adjusts to the full use of the facility.

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, 2012, and have issued our report thereon dated October 29, 2012. 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

Management of Mott Haven Academy Charter School is responsible for establishing and maintaining effective 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 *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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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, 2012.

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.

MBAF CPAs, LLC

New York, NY
October 29, 2012

Mott Haven Academy Charter School

Communication With Those Charged With Governance

OCTOBER 29, 2012

MBAF

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

October 29, 2012

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, 2012 and are prepared to issue our report thereon dated October 29, 2012. 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. Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter dated June 19, 2012, 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. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 13, 2012.

C. Auditor Independence:

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

D. Qualitative Aspects of Accounting Practices:

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 the School are described in Note 2 to the financial statements. As described therein, the School elected to implement the application of an accounting pronouncement pertaining to accounting for uncertain tax positions. 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.

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 estimate affecting the financial statements was:

Allowance for Doubtful Accounts:
As of June 30, 2012, Mott Haven Academy Charter School recorded contributions and other receivables of $182,047. 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 Operations Director and a review of subsequent collections (which amounted to 24%) 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 which 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. Except as made known to you, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

There were 4 audit adjustments (1 reclassification adjustment) that decreased net assets by approximately $23,000. The most significant adjustment was to decrease net assets due to an invoice for fees owed to the NY Foundling for facility related expenses totaling approximately $20,000.

Last year there was 1 audit adjustment that decreased net assets by approximately $112,000.

Proposed and Uncorrected:

There were no entries that were 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 29, 2012.

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.

OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR ENHANCING OPERATING EFFICIENCY

***Federal Grants:**
We understand that the School was awarded various Federal and ARRA grants. While federal funds are a valuable source of revenue, the grants impose very specific and stringent reporting requirements and compliance. In addition, where cumulative expenditures of federal funds exceed $500,000, an additional audit is performed in accordance OMB Circular A-133 audit. We recommend that the School closely review its obligations under any programs in which federal funds are received.

Budgeting:
The School has experienced deficits from School operations of approximately $1,100,000 and $343,000 for the past two years, respectively. In addition, unrestricted net assets as of June 30, 2012 amount to $1,800. The School's current assets amount to approximately $524,000 while current liabilities exceed $900,000. Continued expenditures at this level without an increase in revenue will continue to place the School in a net deficit situation. As an added audit procedure, we asked the School to secure a support letter from the NY Foundling. The School must continue to create forecasted budgets and update them periodically based upon management's review of changing conditions that occur throughout the year. Should the School's financial trends continue in the same trajectory, management should be concerned about the financial stability of the School.

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

October 25, 2012

MBAF CPAs, LLC
Accountants & Advisors
440 Park Avenue South
New York, NY 10016

Dear MBAF CPAs, LLC

We are writing to follow-up on items listed in your Audit Summary document titled "Communication with Those Charged with Governance". Mott Haven Academy Charter School appreciates the opportunities for strengthening internal controls or enhancing operating efficiency identified by MBAF CPA's, LLC during its audit. The responses below are in reference to page 4 of your document.

Management's Responses to ERE's Opportunities for Strengthening Internal Controls or Enhancing Operating Efficiency

Federal Grants: Management appreciates the information and continues to closely monitor and fulfill all obligations required for federal grant funding received.

Budgeting: Management is aware of the concern related to fluctuating enrollment and facility costs. Management continues to rigorously monitor forecasted budgets and update them on a monthly basis. To address these items, management continues to review operational and facility costs, in addition to obtaining a letter of support from The NY Foundling through the next fiscal year end. Management is revising its long-term budget model to develop a sound fiscal plan for the school.

Please let us know if you need additional information. We appreciate the careful review your team has done of our systems and procedures.

Respectfully,

Jessica Nauiokas

Jessica Nauiokas
Principal