Metropolitan Lighthouse Charter School, Inc.

Financial Statements

(Together with Independent Auditors' Report)

Years Ended June 30, 2017 and 2016

MARKS PANETH

ACCOUNTANTS & ADVISORS

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC.

FINANCIAL STATEMENTS

(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Metropolitan Lighthouse Charter School, Inc.
Bronx, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Lighthouse Charter School, Inc. ("the School") which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

Morison KSi
Independent member

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October xx, 2017, 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 this 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 internal control over financial reporting 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 over financial reporting and compliance.

Marks Paneth LLP

Purchase, New York
October 31, 2017

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash	$ 4,272,996	$ 3,534,651
Receivables (Note 4)	111,224	232,385
Prepaid expenses	200,350	37,563
Security deposits (Note 6)	1,024,049	1,023,749
Fixed assets - net (Note 5)	17,891,595	18,655,439
Other asset - escrow account (Note 3)	70,260	70,155
TOTAL ASSETS	$ 23,570,474	$ 23,553,942
LIABILITIES		
Accounts payable and accrued expenses	$ 248,355	$ 140,528
Accrued payroll and payroll taxes	418,219	301,580
Accrued compensated absences	53,987	42,072
Capital leases (Note 6)	22,245,858	21,496,750
TOTAL LIABILITIES	22,966,419	21,980,930
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS (Note 2B)		
Unrestricted	604,055	1,573,012
TOTAL NET ASSETS	604,055	1,573,012
TOTAL LIABILITIES AND NET ASSETS	$ 23,570,474	$ 23,553,942

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

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
REVENUE AND SUPPORT:		
Student enrollment fees (Note 2E)	$ 6,984,449	$ 6,304,979
Federal grants	273,867	341,270
NYC rent support and other income	593,459	315,074
In-kind contributions (Note 9)	39,357	33,542
Total revenue and support	7,891,132	6,994,865
EXPENSES:		
Program services:		
Educational services	8,146,239	7,478,893
Total program services	8,146,239	7,478,893
Supporting services:		
Management and general	713,850	603,116
Total supporting services	713,850	603,116
Total expenses	8,860,089	8,082,009
CHANGE IN UNRESTRICTED NET ASSETS	(968,957)	(1,087,144)
NET ASSETS - Beginning of Year	1,573,012	2,660,156
NET ASSETS - End of Year	$ 604,055	$ 1,573,012

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

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	EDUCATIONAL SERVICES	MANAGEMENT AND GENERAL	TOTAL
Salaries	$ 3,583,378	$ 101,211	$ 3,684,589
Payroll taxes and fringe benefits	612,586	19,726	632,312
Total Salaries and Related Costs	4,195,964	120,937	4,316,901
Professional fees and consultants	61,754	6,862	68,616
Management fees (Note 7)	-	337,158	337,158
Contracted services - other	117,566	36,080	153,646
Supplies and equipment purchases	242,952	4,958	247,910
Depreciation and amortization (Note 2D)	789,525	-	789,525
Food	12,719	-	12,719
Insurance	-	67,610	67,610
Interest	2,023,921	-	2,023,921
Occupancy and utilities	316,316	-	316,316
Cleaning services	233,496	-	233,496
Printing	16,828	23,238	40,066
Staff development and recruitment	54,441	-	54,441
Telephone	25,840	2,871	28,711
In-kind contribution - textbooks (Note 9)	39,357	-	39,357
Other	15,560	114,136	129,696
Total Other Expenses	3,950,275	592,913	4,543,188
Total Expenses	$ 8,146,239	$ 713,850	$ 8,860,089

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

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	EDUCATIONAL SERVICES	MANAGEMENT AND GENERAL	TOTAL
Salaries	$ 2,937,638	$ 120,058	$ 3,057,696
Payroll taxes and fringe benefits	664,676	29,078	693,754
Total Salaries and Related Costs	3,602,314	149,136	3,751,450
Professional fees and consultants	32,856	3,651	36,507
Management fees (Note 7)	-	309,827	309,827
Contracted services - other	171,911	3,078	174,989
Supplies and equipment purchases	310,968	6,700	317,668
Depreciation and amortization (Note 2D)	783,065	-	783,065
Food	10,169	-	10,169
Insurance	-	36,853	36,853
Interest	1,950,586	-	1,950,586
Occupancy and utilities	290,879	-	290,879
Cleaning services	224,137	-	224,137
Printing	12,269	16,945	29,214
Staff development and recruitment	13,428	2,558	15,986
Telephone	33,764	3,751	37,515
In-kind contribution - textbooks (Note 9)	33,542	-	33,542
Other	9,005	70,617	79,622
Total Other Expenses	3,876,579	453,980	4,330,559
Total Expenses	$ 7,478,893	$ 603,116	$ 8,082,009

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

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (968,957)	$ (1,087,144)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	789,525	783,065
Changes in operating assets and liabilities:		
Receivables	121,161	136,059
Prepaid expenses	(162,787)	(37,563)
Security deposits	(300)	-
Other escrows account	(105)	-
Accounts payable and accrued expenses	107,827	(12,465)
Accrued payroll and payroll taxes	116,639	56,529
Accrued compensated absences	11,915	6,225
Deferred revenues	-	(6,089)
Net Cash Provided by (Used in) Operating Activities	14,918	(161,383)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(25,681)	(52,282)
Net Cash Used In Investing Activities	(25,681)	(52,282)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in present value of capital lease	749,108	898,481
Net Cash Provided by Financing Activities	749,108	898,481
NET INCREASE IN CASH	738,345	684,816
CASH, Beginning of Year	3,534,651	2,849,835
CASH, End of Year	4,272,996	3,534,651
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,167,960	$ 945,252

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

NOTE 1 – ORGANIZATION

Metropolitan Lighthouse Charter School, Inc. (the "School"), a New York not-for-profit Education Corporation, is a charter school incorporated on June 24, 2009, pursuant to the New York Charter School Act of 1998. The School is located in the Bronx, New York, and offers classes from kindergarten through ninth grade. The School's major source of revenue is provided by the New York City Department of Education (NYC DOE).

The School qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and accordingly, is not subject to federal and state income taxes. In June 2017, the school established a Limited Liability Company, 180 W. 165th Street, LLC. The LLC had no financial activity during the year ended June 30, 2017, and therefore, is not consolidated in the accompanying financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) ***Basis of Accounting*** – The accompanying financial statements are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

B) ***Financial Statement Presentation*** – The School reports its financial position and operating activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The classification of net assets and related support, revenue and expenses is based on the presence or absence of donor-imposed restrictions.

These classifications are defined as follows:

> Permanently Restricted – net assets, generally of an endowment nature, resulting from contributions and other inflows of assets whose use by the recipient is limited by donor-imposed stipulation that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the recipient. The School has no permanently restricted net assets.
>
> Temporarily Restricted - net assets resulting from contributions and other inflows of assets whose use by the recipient is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions taken pursuant to those stipulations. When stipulations terminate or are fulfilled, the amounts involved are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The School has no temporarily restricted net assets.
>
> Unrestricted – unexpended net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.

C) ***Use of Estimates*** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) ***Fixed Assets*** – Fixed assets such as furniture and equipment are carried at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the respective assets (3 – 7 years). Building and building improvements are depreciated over 29 years. Leasehold improvements are capitalized at cost and amortized over the lesser of the term of the lease or the estimated useful life of the improvement. It is the School's policy to capitalize property, plant and equipment and leasehold improvements in excess of $1,000. Expenditures for repairs and maintenance are expensed as incurred.

E) ***Revenue*** – The School is funded by the NYC DOE based on the approved per pupil operating expenses of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved per pupil operating expenses and the full time equivalent student enrollment of the School. The School is also the recipient of awards from other various government entities. The awards are subject to compliance requirements and financial audits by the funding source. The accompanying financial statements make no provision for possible disallowances.

Student enrollment fees received for future years are deferred to the applicable year and are shown as deferred revenue on the Statement of Financial Position.

In-kind contributions are reflected as contributions at their fair value at the date of the donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used.

F) ***Functional Allocation of Expenses*** – The direct costs of providing educational programs and other activities have been summarized on a functional basis in the Statement of Financial Position. In addition, certain indirect costs have been allocated among the programs.

G) ***Reclassifications*** – Certain line items in the June 30, 2016 financial statements have been reclassified to conform to the June 30, 2017 presentation.

NOTE 3 – OTHER ASSET – ESCROW ACCOUNT

At the request of the NYC DOE, the School is required to establish a dissolution escrow fund in the amount of $70,000 as a contingency fund for dissolution expenses. As of June 30, 2017 and 2016, the balance of the account was $70,260 and $70,155, respectively.

NOTE 4 – RECEIVABLES

Receivables consist of the following:

	2017	2016
New York State Education Department	$ 93,989	$ 221,958
Other	17,235	10,427
	$ 111,224	$ 232,385

NOTE 5 – FIXED ASSETS

Fixed assets consist of the following:

	2017	2016
Furniture and equipment	$ 182,024	$ 132,343
Construction in progress	-	24,000
Capital lease – equipment	262,976	262,976
Capital lease - building	19,600,000	19,600,000
	20,045,000	20,019,319
Less: accumulated depreciation and amortization	(2,153,405)	(1,363,880)
Net book value	$ 17,891,595	$ 18,655,439

Depreciation and amortization expense for the years ending June 30, 2017 and 2016 was $789,525 and $783,065, respectively.

NOTE 6 – CAPITAL LEASES

During 2014, the School acquired various equipment totaling $262,976 under multiple capital lease agreements. Accumulated depreciation in the statements of financial position includes $177,491 and $112,949 related to the equipment as of June 30, 2017 and 2016, respectively. Amortization of the asset included in depreciation and amortization expenses amounted to $64,542 for both years. The leases call for thirty-six to forty-eight monthly payments with an interest rate varying from 7.5% to 8.4%. As of June 30, 2017, and 2016, the outstanding balance was $51,407 and $144,532, respectively.

On September 1, 2014, the School entered into a lease arrangement to occupy a new school facility. The lease expires on August 31, 2043. The School has an option to buy the building in any of the 37th through 48th calendar months of the term of the lease for $23.9 million. The price increases to $24.4 million if the option is exercised in any of the 49th to 60th calendar months of the lease. The School is responsible for all expenses, such as real estate taxes, utilities, water, etc. to maintain the building. The lease also requires the School to make a $1,000,000 security deposit. This lease met the requirements to be treated as a capital lease. The $19,600,000 present value of the fixed payments under the lease at a 9.25% imputed interest rate was recorded as the initial carrying value of the asset. The appraised value of the building is $19,800,000 (see note 5). The 9.25% was an estimate of the overall rate at which the School could borrow the funds to have purchased the building outright with 100% debt financing. The initial carrying value is lower than the appraised value as the building will revert to the owner at the lease expiration date.

NOTE 6 – CAPITAL LEASES (Continued)

Accumulated depreciation in the statements of financial position includes $1,858,622 and $1,182,759 related to the space as of June 30, 2017 and 2016, respectively. Amortization of the building included in depreciation and amortization expenses amounted to $675,862 for both years. As of June 30, 2017, and 2016 the outstanding balance was $22,194,451 and $21,352,218, respectively. The lease obligation is as follows:

For the Years Ending June 30,	Amount
2018	$ 1,191,000
2019	1,860,000
2020	2,040,000
2021	2,086,000
2022	2,132,000
Thereafter	57,726,000
Total obligation	67,035,000
Less: amount representing interest	44,840,549
Present value of minimum payments	$22,194,451

The lease obligation includes much lower payments in the first 48 months than in the later periods in order to reduce the School's cash obligations while it establishes itself. As a result, the interest expense recorded on the lease obligation during this period will exceed the cash paid causing the lease obligation amount to increase in the early years.

Interest expense for the years ended June 30, 2017 and 2016 was $2,023,921 and $1,950,586, respectively.

NOTE 7 – MANAGEMENT FEES

The School contracted the management of certain academic and business operations to Lighthouse Academies, Inc. The contract calls for an annual fee, a bonus provision for meeting certain milestones, and reimbursed expenses. For the years ended June 30, 2017 and 2016, total expenses was $337,158 and $309,827, respectively.

NOTE 8 – RETIREMENT PLAN

The School has a 401(k) Plan for employees who are at least 21 years old and have completed one month of service. The plan includes a safe harbor employer matching provision. The employer must match employee contributions dollar for dollar, not to exceed 4% of compensation. Safe harbor contributions are immediately vested with the participants. At June 30, 2017 and 2016, the school had a safe harbor matching employer contribution liability of $4,547 and $4,903, respectively. For the years ended June 30, 2017 and 2016, employer contributions totaled $36,944 and $42,933, respectively.

NOTE 9 – IN-KIND CONTRIBUTIONS

The School received donated textbooks and other technology related donations throughout the year. The fair market value of these donations was $39,357 and $33,542 for the years ended June 30, 2017 and 2016, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Financial instruments that potentially subjects the School to a concentration of credit risk includes cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. The FDIC insures deposits up to $250,000 per depositor per insured bank. As of June 30, 2017 and 2016, the School had cash accounts that from time to time could have exceeded the FDIC insurance limits. Management believes that these financial institutions have strong credit ratings and that credit risk to these accounts is minimal.

Concentration of risk also exists between the School and the New York City Department of Education. For the years ended June 30, 2017 and 2016, the School received 89% and 90%, respectively, of its funding from the New York City Department of Education in the form of student enrollment fees.

The School believes it has no uncertain tax positions as of June 30, 2017 and 2016 in accordance with Accounting Standards Codification ("ASC") Topic 740, "Income Taxes," which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 11 – SUBSEQUENT EVENTS

Management has reviewed subsequent events and transactions that occurred after the date of the Statement of Financial Position through October 31, 2017, the date the financial statements are available to be issued.

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INDEPENDENT AUDITORS' 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*

The Board of Trustees
Metropolitan Lighthouse Charter School, Inc.
Bronx, New York

We have audited, in accordance with the 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 the Metropolitan Lighthouse Charter School, Inc. (the "School"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 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.

Morison KSi
Independent member

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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marks Paneth LLP

Purchase, New York
October 31, 2017

MARKS PANETH
ACCOUNTANTS & ADVISORS