METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE

Consolidated Financial Statements

(Together with Independent Auditors' Report)

Years Ended June 30, 2018 and 2017

Desire & Company CPAs, PLLC

Certified Public Accountants & Consultants

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS

(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2018 AND 2017

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Desire & Company CPAs, PLLC

Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Metropolitan Lighthouse Charter School, Inc. and affiliate (collectively, the "School") which comprise the consolidated statements of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2018, and the changes in their net assets and their cash flows for the year 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 29, 2018, on our consideration of the School's internal control over financial reporting and on our tests of their 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 effectiveness of the School's 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.

Other Matters

The financial statements of Metropolitan Lighthouse Charter Schools, Inc. for the year ended June 30, 2017, were audited by another firm, whose report dated October 31, 2017, expressed an unmodified opinion on those financial statements.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 17-19 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Desire & Company CPAs

New York, New York
October 29, 2018

Desire & Company CPAs

Certified Public Accountants & Consultants

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash (including restricted cash of $3,996,996 and $0, respectively) (Notes 3)	$ 9,197,053	$ 4,272,996
Receivables (Note 5)	482,906	111,224
Prepaid expenses	45,300	200,350
Security deposits (Note 7)	21,049	1,024,049
Fixed assets - net (Note 6)	24,813,683	17,891,595
Other asset - escrow account (Note 4)	70,260	70,260
TOTAL ASSETS	$ 34,630,251	$ 23,570,474
LIABILITIES		
Accounts payable and accrued expenses	$ 451,450	$ 248,355
Accrued payroll and payroll taxes	559,451	418,219
Accrued compensated absences	90,673	53,987
Capital leases (Note 7)	-	22,245,858
Other payable (Note 9)	1,610,000	-
Bonds payable (Note 8)	26,411,936	-
TOTAL LIABILITIES	29,123,510	22,966,419
COMMITMENTS AND CONTINGENCIES (Note 13)		
NET ASSETS (Note 2C)		
Unrestricted	5,506,741	604,055
TOTAL NET ASSETS	5,506,741	604,055
TOTAL LIABILITIES AND NET ASSETS	$ 34,630,251	$ 23,570,474

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

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
REVENUE AND SUPPORT:		
Student enrollment fees (Note 2G)	$ 7,819,033	$ 6,984,449
Federal grants	431,923	273,867
Public support	1,240,149	536,145
Interest income and other	15,133	57,314
In-kind contributions (Note 12)	40,514	39,357
Total revenue and support	9,546,752	7,891,132
EXPENSES:		
Program services:		
Educational services	8,896,559	8,146,239
Total program services	8,896,559	8,146,239
Supporting services:		
Management and general	897,347	713,850
Total supporting services	897,347	713,850
Total expenses	9,793,906	8,860,089
Change in Unrestricted Net Assets before gain on write-off of capital lease - building	(247,154)	(968,957)
Gain on write-off of capital lease - building (Note 6 and 7)	5,149,840	-
CHANGE IN NET ASSETS	4,902,686	(968,957)
NET ASSETS - Beginning of Year	604,055	1,573,012
NET ASSETS - End of Year	$ 5,506,741	$ 604,055

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

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	PROGRAM SERVICES			SUPPORTNG SERVICES	
	EDUCATIONAL SERVICES	180 W. 165TH STREET LLC	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	TOTAL
Salaries	$ 4,197,880	$ -	$ 4,197,880	$ 145,085	$ 4,342,965
Payroll taxes and fringe benefits	844,721	-	844,721	29,195	873,916
Total Salaries and Related Costs	5,042,601	-	5,042,601	174,280	5,216,881
Professional fees and consultants	46,067	-	46,067	1,374	47,441
Management fees (Note 10)	226,477	-	226,477	211,824	438,301
Contracted services - other	301,515	-	301,515	34,194	335,709
Supplies and equipment purchases	459,527	-	459,527	10,181	469,708
Depreciation and amortization (Note 2E)	120,241	286,055	406,296	-	406,296
Insurance	-	-	-	95,116	95,116
Interest (Note 7 and 8)	882,165	557,153	1,439,318	98,018	1,537,336
Occupancy and utilities	274,106	-	274,106	92,780	366,886
Cleaning services	244,599	-	244,599	27,178	271,777
Printing	26,594	-	26,594	8,865	35,459
Staff development and recruitment	112,204	-	112,204	8,690	120,894
Telephone	66,052	-	66,052	5,744	71,796
In-kind contribution - textbooks (Note 12)	40,514	-	40,514	-	40,514
Other	193,601	17,088	210,689	129,103	339,792
Total Other Expenses	2,993,662	860,296	3,853,958	723,067	4,577,025
Total Expenses	$ 8,036,263	$ 860,296	$ 8,896,559	$ 897,347	$ 9,793,906

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

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
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 10)	-	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 2E)	789,525	-	789,525
Food	12,719	-	12,719
Insurance	-	67,610	67,610
Interest (Note 7 and 8)	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 12)	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. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 4,902,686	$ (968,957)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	406,296	789,525
Amortization of bond premium/discount	(10,102)	-
Gain on write-off of capital lease - building	(5,149,840)	-
Changes in operating assets and liabilities:		
Receivables	(371,682)	121,161
Prepaid expenses	155,050	(162,787)
Security deposits	1,003,000	(300)
Other escrows account	-	(105)
Accounts payable and accrued expenses	203,095	107,827
Accrued payroll and payroll taxes	141,232	116,639
Accrued compensated absences	36,686	11,915
Net Cash Provided by Operating Activities	1,316,421	14,918
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(24,372,995)	(25,681)
Net Cash Used In Investing Activities	(24,372,995)	(25,681)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Captial lease - present value adjustments	(51,407)	749,108
Proceeds from mortgage payable	25,725,000	-
Proceeds from Bond premium	2,053,127	-
Bond issuance costs	(1,356,089)	-
Proceeds from debt service reserve fund	1,610,000	-
Net Cash Provided by Financing Activities	27,980,631	749,108
NET INCREASE IN CASH	4,924,057	738,345
CASH, Beginning of Year	4,272,996	3,534,651
CASH, End of Year	9,197,053	4,272,996
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,537,336	$ 2,023,921

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

The School wrote-off capital lease building costs totaling $19,785,574 along with the related accumulated depreciation of $2,140,232. In addition, the related liability of $22,609,607 was also written-off.

NOTE 1 – ORGANIZATION

Metropolitan Lighthouse Charter School, Inc. (the "School"), a New York not-for-profit Education Corporation, together with its wholly owned subsidiary, 180 W. 165th Street LLC (the "Company" or "Affiliate") (collectively , the "School") offers education services in classes from kindergarten through ninth grade in the Bronx, New York. The School is a public charter school incorporated on June 24, 2009, pursuant to the New York Charter School Act of 1998. 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.

The School is the sole member of 180 W. 165th Street LLC, a limited liability company organized and existing under the law of the State of New York which was formed on June 14, 2017. The purpose of the Company was to become the borrower in a bond offering which occurred on December 22, 2017. The Company used the proceeds to acquire the School's building, make improvements in the form of a roof-top gymnasium, and is leasing the space back to the School.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

B) ***Principles of Consolidation*** – The consolidated financial statements reflect the accounts and operations of the School and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

C) ***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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) ***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.

E) ***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 39 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 on a per unit basis. Expenditures for repairs and maintenance are expensed as incurred.

F) ***Debt Issuance Costs*** – Debt issuance costs are comprised of expenses incurred with respect the issuance of the bonds. These costs are amortized using the effective interest method over the terms of the related bonds. The debt issuance costs are presented in the consolidated statements of financial position as a direct deduction from bonds payable.

G) ***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.

H) ***Tax Status*** – The School believes it has no uncertain tax positions as of June 30, 2018 and 2017 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.

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

J) ***Reclassifications*** – Certain line items in the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 presentation.

NOTE 3 – RESTRICTED CASH

Restricted cash includes amounts the School is required to segregate in connection with the issuance of the Revenue Bonds Series A and B. These accounts are held by the Trustee. At June 30, 2018, restricted cash consists of the following:

A)	Gymnasium project fund	$2,351,203
B)	Expenses fund	18,750
C)	Credit enhancement fee fund	17,043
D)	Debt service reserve fund	1,610,000
	Total	$3,996,996

A) The Gymnasium project fund is set aside for the construction of a roof top gymnasium. As of June 30, 2018, the balance in the fund is $2,351,203.

B) The expense fund was created for the purpose of paying annual fees to the bond issuer and rating agency. As of June 30, 2018, the balance in the expense fund was $18,750.

C) This fund was established as a result of an enhance fee agreement which requires semimonthly payment in the form of a fee. As of June 30, 2018, the balance is $17,043.

D) The School is required to set aside a debt service reserve fund to secure payments of the bond offering . As of June 30, 2018, the balance in the debt service reserve fund was $1,610,000.

NOTE 4 – 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, 2018 and 2017, the balance of the account was $70,260 for both years.

NOTE 5 – RECEIVABLES

Receivables consist of the following at June 30:

	2018	2017
Federal – Title I and II grants	$ 291,660	$ 93,989
State Supplemental grant	186,094	-
Other	5,152	17,235
Total	$ 482,906	$ 111,224

,**NOTE 6 – FIXED ASSETS**

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Fixed assets consist of the following at June 30:

	2018	2017
Land	$ 4,900,000	$ -
Building and improvements	19,407,672	-
Construction in progress	295,057	-
Furniture and equipment	367,445	182,024
Capital lease – equipment	262,976	262,976
Capital lease - building	-	19,600,000
	25,233,150	20,045,000
Less: accumulated depreciation and amortization	(419,467)	(2,153,405)
Net book value	$ 24,813,683	$ 17,891,595

Depreciation and amortization expense for the years ending June 30, 2018 and 2017 was $406,296 and $789,525, respectively.

In December 2017, the School exercised its options to purchase the lease property. The purchase price consisted of building $19,124,835 and land costs of $4,900,000. The acquisition costs is being financed through a bond offering (See Note 8).

NOTE 7 – 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 $219,633 and $177,491 related to the equipment as of June 30, 2018 and 2017, respectively. Amortization of the asset included in depreciation and amortization expenses amounted to $42,142 in 2018 and $64,542 in 2017. 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, 2018, and 2017, the outstanding balance was $0 and $51,407.

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 ($19,600,000) is lower than the appraised value as the building will revert to the owner at the lease expiration date (see Note 5).

Accumulated depreciation in the statements of financial position includes $0 and $1,858,622 related to the space as of June 30, 2018 and 2017, respectively. Amortization of the building included in depreciation and amortization expenses amounted to $0 and $675,862 for the year ended June 30, 2018 and 2017, respectively.

In 2018, the School exercised its option to purchase the building (see Note 8), the capital lease liability as well as the related assets and accumulating depreciation was removed from the School's books and a net gain of $ 5,149,840 was recognized.

Interest expense for the years ended June 30, 2018 and 2017 was $980,183 and $2,023,921, respectively.

NOTE 8 – BONDS PAYABLE

On December 1, 2017, the School obtained financing of $25,725,000 from Build NYC Resource Corporation (the "Corporation"), a local development corporation of the City of New York, to finance the purchase of the School building and make improvements. In order to facilitate the purchase, the Corporation issued revenue Bonds, Series 2017A $24,895,000 and Revenue Bonds Series 2017B $830,000 to finance the project and pay issuance costs. The proceeds from the bond issuance were loaned to the School. The School executed a promissory note in favor of the Corporation who endorsed the note to the bond trustees. The agreement calls for the School to use the proceeds net of issuance cost to finance the project. The School started making principal and interest payments on the bonds in June 2018.

The bonds which required periodic payments bear interest ranging from 4% o 5% and are secured by the building.

Series	Principal
Revenue Bonds Series 2017A, Interest rate ranging from 4% to 5%, Due June 1, 2022 through 2027, June 1, 2032, 2037, 2047 and 2052.	$24,895,000
Revenue Bonds Series 2017B, Interest rate of 5%, due June 1, 2022	830,000
Total	$25,725,000
Add: unamortized bond premium	2,023,372
Less: debt issuance cost, net of accumulated amortization	1,336,436
Bonds payable	$26,411,936

The bonds principals maturing after June 1, 2025 are subject to mandatory redemptions by the Corporation prior to maturity.

Unamortized premium costs relating to the issuance of the Series A bond are $2,023,372 at June 30, 2018. The unamortized premium costs are amortized over the term of the indebtedness of the total amount issued and included in bonds payable in the Consolidated Statements of Financial Position. Debt issuance costs, net of accumulated amortization total $1,336,436 as of June 30, 2018, and are recorded as reduction in bonds payable on the accompanying statement of financial position.

Debt issuance costs consist of the following at year end:

Debt issuance costs	$1,356,089
Less: accumulated amortization	19,653
Total	$1,336,436

NOTE 8 – BONDS PAYABLE (Continued)

The aggregate amount of principal payments subsequent to June 30, 2018 are as follows:

Years Ending June 30,	Amount
2019	$ -
2020	325,000
2021	340,000
2022	355,000
2023	370,000
Thereafter	24,335,000
Total	$25,725,000

Interest expense on the Series A and B bonds for the year ended June 30, 2018 was $567,254.

NOTE 9 – OTHER PAYABLE

In order to induce the Corporation to issue the bonds, the School entered into an agreement with the Charter School Financing Partnership LLC (the 'Enhancer") to help fund the debt service reserve fund. In December 2017, the Enhancer deposit $1,610,000 into the debt service reserve account and pledged that amount to the bond issuer. The school record the transaction as restricted cash and other payable, respectively. At the end of the bond term, the debt service reserve fund will be returned to the Enhancer.

NOTE 10 – 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, 2018 and 2017, total expenses was $438,301 and $337,158, respectively.

NOTE 11 – 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, 2018 and 2017, the School had a safe harbor matching employer contribution liability of $5,378 and $4,547, respectively. For the years ended June 30, 2018 and 2017, employer contributions totaled $48,501 and $36,944, respectively.

NOTE 12 – IN-KIND CONTRIBUTIONS

The School received donated textbooks and other technology related donations throughout the year. The fair market value of these donations was $40,501 and $39,357 for the years ended June 30, 2018 and 2017, respectively.

NOTE 13 – 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, 2018 and 2017, 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, 2018 and 2017, the School received 82% and 89%, respectively, of its funding from the New York City Department of Education in the form of student enrollment fees.

NOTE 14 – SUBSEQUENT EVENTS

Management has reviewed subsequent events and transactions that occurred after the date of the Statement of Financial Position through October 29, 2018, the date the financial statements are available to be issued.

Desire & Company CPAs, PLLC

Certified Public Accountants & Consultants

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. and Affiliate
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 consolidated financial statements of the Metropolitan Lighthouse Charter School, Inc. and Affiliate (Collectively, the "School"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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. 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*.

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.

Desire & Company CPAs

New York, New York
October 29, 2018

SUPPLEMENTARY INFORMATION

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC.	180 W. 165TH STREET LLC	PRE-CONSOLIDATED TOTAL	CONSOLIDATING ELIMINATIONS	CONSOLIDATED TOTAL
ASSETS					
Cash (including restricted cash) (Notes 3)	$ 5,200,057	$ 3,996,996	$ 9,197,053	$ -	$ 9,197,053
Receivables (Note 5)	482,906	-	482,906	-	482,906
Prepaid expenses	45,300	-	45,300	-	45,300
Security deposits (Note 7)	21,049	-	21,049	-	21,049
Fixed assets - net (Notes 2E and 6)	779,847	24,033,836	24,813,683	-	24,813,683
Other asset - escrow account (Note 4)	70,260	-	70,260	-	70,260
TOTAL ASSETS	$ 6,599,419	$ 28,030,832	$ 34,630,251	$ -	$ 34,630,251
LIABILITIES					
Accounts payable and accrued expenses	$ 185,305	$ 266,145	451,450	$ -	$ 451,450
Accrued payroll and payroll taxes	559,451	-	559,451	-	559,451
Accrued compensated absences	90,673	-	90,673	-	90,673
Other Payable (Note 9)	-	1,610,000	1,610,000	-	1,610,000
Bonds payable (Note 8)	-	26,411,936	26,411,936	-	26,411,936
TOTAL LIABILITIES	835,429	28,288,081	29,123,510	-	29,123,510
NET ASSETS (Note 2C)					
Unrestricted	5,763,990	(257,249)	5,506,741	-	5,506,741
TOTAL NET ASSETS	5,763,990	(257,249)	5,506,741	-	5,506,741
TOTAL LIABILITIES AND NET ASSETS	$ 6,599,419	$ 28,030,832	$ 34,630,251	$ -	$ 34,630,251

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

METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

	METROPOLITAN LIGHTHOUSE CHARTER SCHOOL, INC.	180 W. 165TH STREET LLC	PRE-CONSOLIDATED TOTAL	CONSOLIDATING ELIMINATIONS	CONSOLIDATED TOTAL
REVENUE AND SUPPORT:					
Student enrollment fees (Note 2G)	$ 7,819,033	$ -	$ 7,819,033	$ -	$ 7,819,033
Federal grants	431,923	-	431,923	-	431,923
Public support	1,240,149	-	1,240,149	-	1,240,149
Interest income and other	15,133	-	15,133	-	15,133
Rental income from BLCS	-	603,047	603,047	(603,047)	-
In-kind contributions (Note 12)	40,514	-	40,514	-	40,514
Total revenue and support	9,546,752	603,047	10,149,799	(603,047)	9,546,752
EXPENSES:					
Program services:					
Educational Services	8,639,310	-	8,639,310	(603,047)	8,036,263
180 W. 165th Street LLC	-	860,296	860,296	-	860,296
Total program expenses	8,639,310	860,296	9,499,606	(603,047)	8,896,559
Supporting services:					
Management and general	897,347	-	897,347	-	897,347
Total supporting services	897,347	-	897,347	-	897,347
Total expenses	9,536,657	860,296	10,396,953	(603,047)	9,793,906
Change in Unrestricted Net Assets before gain on write-off of capital lease - building	10,095	(257,249)	(247,154)	-	(247,154)
Gain on write-off of capital lease - building (Note 6 and 7)	5,149,840	-	5,149,840	-	5,149,840
CHANGE IN NET ASSETS	5,159,935	(257,249)	4,902,686	-	4,902,686
NET ASSETS - Beginning of Year	604,055	-	604,055	-	604,055
NET ASSETS - End of Year	$ 5,763,990	$ (257,249)	$ 5,506,741	$ -	$ 5,506,741

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