



LIBERTAS ACADEMY
CHARTER SCHOOL

AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.

COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

DRAFT

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

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June 30, 2021 and 2020

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**Unmodified Opinion on Combined General Purpose Financial Statements
Accompanied by Other Information – Governmental Entity**

Independent Auditor's Report

To the Boards of Trustees of
Libertas Academy Charter School and
Friends of Libertas Academy Charter School, Inc.:

Report on the Combined General Purpose Financial Statements

We have audited the accompanying combined general purpose financial statements of Libertas Academy Charter School and Friends of Libertas Academy Charter School, Inc. (collectively, the Organization), which comprise the combined statements of net position as of June 30, 2021 and 2020, and the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the combined general purpose financial statements.

Management's Responsibility for the Combined General Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these combined general purpose 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 combined general purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined general purpose 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 audits to obtain reasonable assurance about whether the combined general purpose financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined general purpose financial statements referred to on page one present fairly, in all material respects, the combined net position of Libertas Academy Charter School and Friends of Libertas Academy Charter School, Inc. as of June 30, 2021 and 2020, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America requires that the *Management's Discussion and Analysis* on pages 2 through 4 be presented to supplement the basic combined general purpose financial statements. Such information, although not a part of the basic combined general purpose financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined general purpose financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined general purpose financial statements, and other knowledge we obtained during our audit of the basic combined general purpose financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with the sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2021, on our consideration of the Organization'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 for the year ended June 30, 2021. The purpose of that report is solely 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 Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Westborough, Massachusetts
October 21, 2021

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Management's Discussion and Analysis
June 30, 2021 and 2020

Our discussion and analysis of Libertas Academy Charter School's (the School) financial performance provides an overview of the School's financial activities for the fiscal years ended June 30, 2021 and 2020. Please read it in conjunction with the School's combined general purpose financial statements, which begin on page 5.

The School as a Whole

The School was established on June 2, 2016, after receiving its charter from the Commonwealth of Massachusetts under Chapter 71, Section 89 of the General Laws of Massachusetts. The charter is awarded in five-year increments and is subject to renewal at the discretion of the Commonwealth of Massachusetts Board of Elementary and Secondary Education (ESE). The School opened in August 2017, with a target enrollment of 90 sixth graders. Beginning again in fiscal year 2021, the School will continue to add one grade per year until the School reaches 630 students in grades six through twelve. During fiscal years 2021 and 2020, the School served 255 and 260 students, respectively.

Friends of Libertas Academy Charter School, Inc. (Friends) was formed in July 2016 to promote the financial well-being of the School by soliciting, receiving and administering funds for the operations of the School. Friends' activities consist of raising funds on behalf of the School. Friends is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. During fiscal years 2021 and 2020, Friends provided grants totaling \$250,000 and \$140,000, respectively, to the School.

Using This Annual Report

This annual report consists of combined general purpose financial statements. In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB No. 34), the School is considered a special-purpose government entity that engages in only business-type activities. All of the financial activity of the School is recorded in an Enterprise Fund within the Proprietary Fund group. In accordance with GASB No. 34, the School issues a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. These statements provide information about the financial activities of the School, as a whole. This annual report also contains notes to the combined general purpose financial statements which provide additional information that is essential to a full understanding of the information provided in the basic combined general purpose financial statements.

Combined General Purpose Financial Statements

The combined statements of net position and the combined statements of revenues, expenses and changes in net position include all assets, liabilities, revenues and expenses of the School. The activity is recorded using the accrual basis of accounting; accordingly, all revenues and expenses are recognized when earned or incurred regardless of when the cash is received or disbursed. Additionally, these statements report the School's net position and the related changes in the balance. In the combined statements of revenues, expenses and changes in net position, we report all of the financial activity in the Enterprise Fund as business-type activity. Operating activities include all financial activities associated with the operation of the School and its related programs.

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Management's Discussion and Analysis
June 30, 2021 and 2020

Financial Highlights

The following financial highlights are for the fiscal years ended June 30, 2021 and 2020:

- The School had total assets of \$971,063 and \$802,299 at June 30, 2021 and 2020, respectively. An increase in grants receivable of approximately \$41,042 and an intercompany grant for \$175,000 make up a large portion of the increase between years.
- The School had total liabilities of \$510,868 and \$349,319 at June 30, 2021 and 2020, respectively. All liabilities were current and were primarily accrued payroll expenses.
- The School had a net position of \$460,195 and \$452,980 at June 30, 2021 and 2020, respectively. As of June 30, 2021, the School had unrestricted net position of \$412,257 and invested in capital assets net position of \$47,938. As of June 30, 2020, the School had unrestricted net position of \$400,216 and invested in capital assets net position of \$52,764.
- The School earned total operating revenues of \$6,022,967 for the year ended June 30, 2021, of which 65% was from per-pupil tuition, 12% was from government grant funding, and 23% was from private sources, in-kind and component unit contributions. For the year ended June 30, 2021, the School had total general revenue of \$5,915. Contributions and grants - private represented approximately 1% of general revenue, while interest and other revenue represented approximately 99% of general revenue.
- The School earned total operating revenues of \$5,325,725 for the year ended June 30, 2020, of which 70% was from per-pupil tuition, 9% was from government grant funding, and 21% was from private sources, in-kind and component unit contributions. For the year ended June 30, 2020, the School had total general revenue of \$6,870. Contributions and grants - private represented approximately 88% of general revenue, while interest and other revenue represented approximately 12% of general revenue.
- The School had total operating expenses of \$6,021,667 for the year ended June 30, 2021, of which 74% was for personnel costs, 13% was for instructional/student services, 9% for facilities, and 4% for administration.
- The School had total operating expenses of \$5,282,562 for the year ended June 30, 2021, of which 67% was for personnel costs, 23% was for instructional/student services, 7% for facilities, and 3% for administration.
- The School had a change in unrestricted net position of \$7,215 and \$50,033 for the years ended June 30, 2021 and 2020, respectively.

Budgetary Highlights

For the fiscal year ended June 30, 2021, the School incurred \$4,920,257 in actual expenditures (excluding in-kind) compared to budgeted expenditures of \$4,263,629. Actual revenue for the School (excluding in-kind) was \$4,927,472 compared to the budgeted revenue of \$4,264,416. The increase in actual revenue compared to budget is due primarily to increased government grants. Actual expenditures for the School were greater than budgeted due to additional contracted expenses that were not budgeted for.

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Management's Discussion and Analysis
June 30, 2021 and 2020

Budgetary Highlights (Continued)

For the fiscal year ended June 30, 2020, the School incurred \$4,306,713 in actual expenditures (excluding in-kind) compared to budgeted expenditures of \$4,272,536. Actual revenue for the School (excluding in-kind) was \$4,356,746 compared to the budgeted revenue of \$4,304,280. The increase in actual revenue compared to budget is due primarily to increased government grants. Actual expenditures for the School were greater than budgeted due to additional contracted expenses that were not budgeted for.

School's Financial Activities

Most of the School's funding was received from the Commonwealth of Massachusetts Department of Elementary and Secondary Education (DESE) and Federal grant funding. The School received \$250,010 and \$146,024 from private donors in fiscal years 2021 and 2020, respectively.

Other Financial Factors

In April 2017, the School entered into an operating lease agreement with Chestnut Springfield, Inc. for a term of five years. The lease requires payments ranging from \$6,729 per month to \$51,332 per month. In accordance with the lease terms, the School is also liable for property taxes and common area maintenance, which are factored at 1.3 times and 1.85 times the square footage of the leased space per year, respectively. The property taxes and common area maintenance are both included in the monthly rent. The School renewed this lease effective July 1, 2021.

Contacting the School's Financial Management

This financial report is designed to provide the reader with a general overview of the School's finances and to show the accountability for the funds received. If you have questions about this report or need additional financial information, please contact the Business Office of the School.

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Combined Statements of Net Position
June 30, 2021 and 2020

	2021			2020		
	Enterprise Fund - School	Component Unit - Friends	(Memorandum Only) Total	Enterprise Fund - School	Component Unit - Friends	(Memorandum Only) Total
Assets						
Current Assets:						
Cash	\$ 552,799	\$ 458,045	\$ 1,010,844	\$ 606,605	\$ 165,994	\$ 772,599
Grants receivable	116,768	-	116,768	75,726	-	75,726
Prepaid expenses	58,455	-	58,455	67,204	-	67,204
Due (to) from	175,000	(175,000)	-	-	-	-
Total current assets	903,022	283,045	1,186,067	749,535	165,994	915,529
Capital Assets, net	68,041	-	68,041	52,764	-	52,764
Total assets	<u>\$ 971,063</u>	<u>\$ 283,045</u>	<u>\$ 1,254,108</u>	<u>\$ 802,299</u>	<u>\$ 165,994</u>	<u>\$ 968,293</u>
Liabilities and Net Position						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 509,105	\$ -	\$ 509,105	\$ 349,319	\$ -	\$ 349,319
Deferred revenue	1,763	-	1,763	-	-	-
Total liabilities	510,868	-	510,868	349,319	-	349,319
Net Position:						
Unrestricted	412,257	21,445	433,702	400,216	164,394	564,610
Invested in capital assets, net	47,938	-	47,938	52,764	-	52,764
Program restricted funds - expendable	-	261,600	261,600	-	1,600	1,600
Total net position	460,195	283,045	743,240	452,980	165,994	618,974
Total liabilities and net position	<u>\$ 971,063</u>	<u>\$ 283,045</u>	<u>\$ 1,254,108</u>	<u>\$ 802,299</u>	<u>\$ 165,994</u>	<u>\$ 968,293</u>

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Combined Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2021

	Enterprise	Component Unit - Friends			(Memorandum Only) Total
	Fund - School	Operating	Restricted Program Funds	Total	
	Operating and Invested in Capital Funds				
Operating Revenue:					
Per-pupil tuition	\$ 3,919,368	\$ -	\$ -	\$ -	\$ 3,919,368
In-kind	1,101,410	-	-	-	1,101,410
Grants - government	732,157	-	-	-	732,157
Program specific grants - private	250,000	-	-	-	250,000
Program fees	20,032	-	-	-	20,032
Transfer between funds	-	17,573	(17,573)	-	-
Total operating revenue	<u>6,022,967</u>	<u>17,573</u>	<u>(17,573)</u>	<u>-</u>	<u>6,022,967</u>
Operating Expenses:					
Personnel and related:					
Salaries and wages	2,978,775	-	-	-	2,978,775
In-kind pension	994,962	-	-	-	994,962
Payroll tax and fringe benefits	417,132	-	-	-	417,132
Professional development	72,782	-	-	-	72,782
Total personnel and related	<u>4,463,651</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,463,651</u>
Direct student costs:					
Contracted services	358,472	-	-	-	358,472
Instructional equipment	172,627	-	-	-	172,627
Student transportation	87,136	-	-	-	87,136
Supplies	86,097	-	-	-	86,097
Other student costs	40,960	-	-	-	40,960
Food services	19,512	-	-	-	19,512
Total direct student costs	<u>764,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>764,804</u>
Occupancy:					
Rent	376,755	-	-	-	376,755
Repairs and maintenance	90,826	-	-	-	90,826
Utilities	23,094	-	-	-	23,094
Insurance	15,020	-	-	-	15,020
Other	5,190	-	-	-	5,190
Total occupancy	<u>510,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>510,885</u>
Other operating costs:					
Grants	-	250,000	-	250,000	250,000
Advertising	128,126	-	-	-	128,126
Travel and other	124,347	29	-	29	124,376
Rental equipment	11,818	-	-	-	11,818
Total other operating costs	<u>264,291</u>	<u>250,029</u>	<u>-</u>	<u>250,029</u>	<u>514,320</u>
Depreciation	<u>18,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,036</u>
Total operating expenses	<u>6,021,667</u>	<u>250,029</u>	<u>-</u>	<u>250,029</u>	<u>6,271,696</u>
Changes in net position from operations	<u>1,300</u>	<u>(232,456)</u>	<u>(17,573)</u>	<u>(250,029)</u>	<u>(248,729)</u>
General Revenue:					
Capital grant	-	-	300,000	300,000	300,000
Contributions and grants - private	10	67,080	-	67,080	67,090
Interest and other	5,905	-	-	-	5,905
Transfer between funds - capital	-	22,427	(22,427)	-	-
Total general revenue	<u>5,915</u>	<u>89,507</u>	<u>277,573</u>	<u>367,080</u>	<u>372,995</u>
Changes in net position	<u>7,215</u>	<u>(142,949)</u>	<u>260,000</u>	<u>117,051</u>	<u>124,266</u>
Net Position:					
Beginning of year	<u>452,980</u>	<u>164,394</u>	<u>1,600</u>	<u>165,994</u>	<u>618,974</u>
End of year	<u>\$ 460,195</u>	<u>\$ 21,445</u>	<u>\$ 261,600</u>	<u>\$ 283,045</u>	<u>\$ 743,240</u>

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Combined Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2020

	Enterprise	Component Unit - Friends			(Memorandum Only) Total
	Fund - School Operating and Invested in Capital Funds	Operating	Restricted Program Funds	Total	
Operating Revenue:					
Per-pupil tuition	\$ 3,722,729	\$ -	\$ -	\$ -	\$ 3,722,729
In-kind	975,849	-	-	-	975,849
Grants - government	467,053	-	-	-	467,053
Program specific grants - private	140,000	-	1,600	1,600	141,600
Program fees	20,094	-	-	-	20,094
Total operating revenue	5,325,725	-	1,600	1,600	5,327,325
Operating Expenses:					
Personnel and related:					
Salaries and wages	2,492,326	-	-	-	2,492,326
In-kind pension	581,530	-	-	-	581,530
Payroll tax and fringe benefits	356,953	-	-	-	356,953
Professional development	104,900	-	-	-	104,900
Total personnel and related	3,535,709	-	-	-	3,535,709
Direct student costs:					
Contracted services	352,702	-	-	-	352,702
Instructional equipment	333,367	-	-	-	333,367
Student transportation	327,391	-	-	-	327,391
Supplies	66,302	-	-	-	66,302
Other student costs	45,138	-	-	-	45,138
Food services	74,269	-	-	-	74,269
Total direct student costs	1,199,169	-	-	-	1,199,169
Occupancy:					
Rent	287,083	-	-	-	287,083
Repairs and maintenance	43,444	-	-	-	43,444
Utilities	26,627	-	-	-	26,627
Insurance	13,957	-	-	-	13,957
Other	2,820	-	-	-	2,820
Total occupancy	373,931	-	-	-	373,931
Other operating costs:					
Grants	-	140,000	-	140,000	140,000
Advertising	67,948	-	-	-	67,948
Travel and other	64,187	-	-	-	64,187
Rental equipment	19,822	-	-	-	19,822
Other	251	-	-	-	251
Total other operating costs	152,208	140,000	-	140,000	292,208
Depreciation	21,545	-	-	-	21,545
Total operating expenses	5,282,562	140,000	-	140,000	5,422,562
Changes in net position from operations	43,163	(140,000)	1,600	(138,400)	(95,237)
General Revenue:					
Contributions and grants - private	6,024	149,496	-	149,496	155,520
Interest and other	846	21	-	21	867
Total general revenue	6,870	149,517	-	149,517	156,387
Changes in net position	50,033	9,517	1,600	11,117	61,150
Net Position:					
Beginning of year	402,947	154,877	-	154,877	557,824
End of year	\$ 452,980	\$ 164,394	\$ 1,600	\$ 165,994	\$ 618,974

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Combined Statement of Cash Flows
For the Year Ended June 30, 2021

	<u>Enterprise Fund - School</u>	<u>Component Unit - Friends</u>	<u>(Memorandum Only) Total</u>
Cash Flows from Operating Activities:			
Receipts from per-pupil tuition	\$ 3,919,368	\$ -	\$ 3,919,368
Receipts from grants - government	692,878	-	692,878
Receipts from other sources	100,947	67,080	168,027
Payments for personnel and related	(3,415,540)	-	(3,415,540)
Payments for supplies and services	<u>(1,338,249)</u>	<u>(75,029)</u>	<u>(1,413,278)</u>
Net cash used in operating activities	(40,596)	(7,949)	(48,545)
Cash Flows from Investing Activities:			
Acquisition of capital assets	(13,210)	-	(13,210)
Cash Flows from Financing Activities:			
Capital grant	<u>-</u>	<u>300,000</u>	<u>300,000</u>
Net Change in Cash	(53,806)	292,051	238,245
Cash:			
Beginning of year	<u>606,605</u>	<u>165,994</u>	<u>772,599</u>
End of year	<u>\$ 552,799</u>	<u>\$ 458,045</u>	<u>\$ 1,010,844</u>
Reconciliation of Changes in Net Position to Net			
Cash Flows from Operating Activities:			
Changes in net position	\$ 7,215	\$ 117,051	\$ 124,266
Adjustments to reconcile changes in net position to net cash used in operating activities:			
Capital grant	-	(300,000)	(300,000)
Depreciation	18,036	-	18,036
Changes in operating assets and liabilities:			
Tuition and grants receivable	(41,042)	-	(41,042)
Prepaid expenses	8,749	-	8,749
Due to (from)	(175,000)	175,000	-
Accounts payable and accrued expenses	139,683	-	139,683
Deferred revenue	<u>1,763</u>	<u>-</u>	<u>1,763</u>
Net cash used in operating activities	<u>\$ (40,596)</u>	<u>\$ (7,949)</u>	<u>\$ (48,545)</u>
Supplemental Disclosure of Cash Flow Information:			
Capital asset purchases financed through accounts payable and accrued expenses	<u>\$ 20,103</u>	<u>\$ -</u>	<u>\$ -</u>

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Combined Statement of Cash Flows
For the Year Ended June 30, 2020

	<u>Enterprise Fund - School</u>	<u>Component Unit - Friends</u>	<u>(Memorandum Only) Total</u>
Cash Flows from Operating Activities:			
Receipts from per-pupil tuition	\$ 3,799,796	\$ -	\$ 3,799,796
Receipts from grants - government	465,709	-	465,709
Receipts from other sources	166,964	151,117	318,081
Payments for personnel and related	(2,850,711)	-	(2,850,711)
Payments for supplies and services	<u>(1,347,783)</u>	<u>(140,000)</u>	<u>(1,487,783)</u>
Net cash provided by operating activities	233,975	11,117	245,092
Cash Flows from Investing Activities:			
Acquisition of capital assets	<u>(48,432)</u>	-	<u>(48,432)</u>
Net Change in Cash	185,543	11,117	196,660
Cash:			
Beginning of year	<u>421,062</u>	<u>154,877</u>	<u>575,939</u>
End of year	<u><u>\$ 606,605</u></u>	<u><u>\$ 165,994</u></u>	<u><u>\$ 772,599</u></u>
Reconciliation of Changes in Net Position to Net			
Cash Flows from Operating Activities:			
Changes in net position	\$ 50,033	\$ 11,117	\$ 61,150
Adjustments to reconcile changes in net position to net cash provided by operating activities:			
Depreciation	21,545	-	21,545
Changes in operating assets and liabilities:			
Tuition and grants receivable	75,723	-	75,723
Prepaid expenses	(27,197)	-	(27,197)
Accounts payable and accrued expenses	<u>113,871</u>	<u>-</u>	<u>113,871</u>
Net cash provided by operating activities	<u><u>\$ 233,975</u></u>	<u><u>\$ 11,117</u></u>	<u><u>\$ 245,092</u></u>

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2021 and 2020

1. OPERATIONS AND TAX STATUS

Libertas Academy Charter School (the School) operates under a charter granted by the Commonwealth of Massachusetts (the Commonwealth) under Chapter 71, Section 89 of the General Laws of Massachusetts. The School's charter is subject to renewal every five years. The School's initial charter was granted on June 2, 2016. The School is authorized to operate a public charter school through June 30, 2022. In fiscal year 2021, the School operated with approximately 255 students in sixth, seventh, and eighth grade. In fiscal year 2020, the School operated with approximately 260 students in sixth and seventh grade. Beginning again in fiscal year 2022, the School will continue to add one grade per year until school year 2023-2024, when the School will serve approximately 630 students in grades six through twelve.

As a state chartered organization, the School is not subject to Federal or state income taxes. Donors may deduct contributions made to the School within Internal Revenue Code (IRC) regulations.

Friends of Libertas Academy Charter School, Inc. (Friends) was formed in July 2016 to promote the financial well-being of the School by soliciting, receiving and administering funds for the operations of the School. Friends is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the IRC. Donors may deduct contributions made to Friends within the requirements of the IRC. Friends is also exempt from state income taxes.

Friends' activities consist of raising funds on behalf of the School. The School and Friends have common management and common Board members. Because of these factors, the combined general purpose financial statements of the School and Friends are presented on a combined basis.

The School and Friends are collectively referred to as the Organization throughout these combined general purpose financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – GASB Standards

The accompanying combined general purpose financial statements were prepared on the accrual basis. Since the School is a quasi-public organization, its accounting policies and financial statement presentation are governed by standards issued by the Governmental Accounting Standards Board (GASB). The School follows GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 34 outlines financial reporting requirements for state and local governments. The School is considered a special-purpose government organization that conducts only business-type activities within the meaning of GASB Statement No. 34 and, therefore, only has enterprise funds within its proprietary fund.

Consistent with the provisions of GASB Statement Nos. 14 and 39, as clarified by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, Friends is presented in these combined general purpose financial statements as a component unit of the School. The "memorandum only total" is presented in accordance with GASB Statement No. 14. This represents the combined totals of the School and Friends without the eliminations of inter-company balances and transactions.

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Organization has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

Classification of Net Position

Unrestricted - Represents the portion of expendable funds that are used to support operations, including funds for which donor-imposed restrictions have been met in accordance with funding agreements.

Invested in Capital Assets, net - Represent the net book value of capital assets, net of related debt.

Program Restricted Funds - Expendable includes all funds contributed by donors to fund specific programs which have yet to be expended. Restricted net position at June 30, 2021 and 2020, is restricted for the following:

Capital expansion	\$ 260,000
Education supplies	<u>1,600</u>
	<u>\$ 261,600</u>

Revenue Recognition

Per-pupil tuition and grant revenue are recorded as services are provided and costs are incurred. The Commonwealth of Massachusetts, Executive Office of Administration and Finance, calculates the per-pupil tuition reimbursement, which is paid to the School by the Commonwealth of Massachusetts Department of Elementary and Secondary Education (DESE). Program fees are recognized as services are provided. Government grant revenue is recorded as services are provided and costs are incurred. The Organization has recorded \$1,763 of deferred revenue related to government grants collected but not earned as of June 30, 2021. There was no deferred revenue as of June 30, 2020.

The Organization records unrestricted grants and contributions when they are received or unconditionally committed. Gifts of cash and other assets are recorded as restricted program funds if they are received with donor stipulations that limit the use of the donated assets. When a stipulated purpose restriction is accomplished, donor restricted funds are reported in the combined statements of revenues, expenses and changes in net position as a transfer between funds. Program restricted support received and satisfied in the same period is included in unrestricted net position. All other income is recorded when earned.

Grants Receivable and Allowance for Doubtful Accounts

Grants receivable are recorded at the pledged amount and do not bear interest. At June 30, 2021 and 2020, 100% of the School's grants receivable is due from DESE. The allowance for doubtful accounts is based on management's best estimate of the amount of uncollectible accounts, if any. There was no allowance deemed necessary as of June 30, 2021 and 2020.

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred.

Fair Value of Financial Instruments

The Organization follows the accounting and disclosure standards pertaining to GASB Statement No. 72, *Fair Value Measurement and Application*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants at the measurement date.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and which reflect the assumptions that market participants would use when pricing an asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

Capital Assets and Depreciation

The School has a capitalization policy of \$5,000. Capital assets are recorded at cost, if purchased, or at fair value at the time of donation (see Note 5). Renewals and betterments are capitalized as additions to the related asset account, while repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and equipment	5 years
Computer equipment	3 - 5 years
Leasehold improvements	Lesser of useful life or lease term

The School purchases classroom supplies, which include textbooks, literature and other materials to carry on educational activities. These purchases are expensed in the year of acquisition.

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind

The School receives donated transportation from the City of Springfield for certain students, as required by DESE. The School also receives in-kind nutrition which was valued based upon the estimated value assigned to them by the donor.

The Commonwealth provides pension payments on behalf of the School (see Note 6).

In-kind consist of the following for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Pension (see Note 6)	\$ 994,962	\$ 581,530
Transportation	87,136	320,250
Nutrition	<u>19,312</u>	<u>74,069</u>
	<u>\$ 1,101,410</u>	<u>\$ 975,849</u>

Estimates

The preparation of the combined general purpose financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the combined general purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent Events

Subsequent events have been evaluated through October 21, 2021, which is the date the combined general purpose financial statements were available to be issued. See Note 4 for an event that met the criteria for recognition or disclosure.

3. FUNDING AND CONCENTRATION OF CREDIT RISK

Funding

The School receives significant funding from the Commonwealth for its tuition and grant revenue. This funding is subject to audit by the appropriate governmental agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the net position of the School as of June 30, 2021 and 2020, or on the changes in net position for the years then ended. The School received approximately 95% and 96% of its operating revenue (net of in-kind) through tuition and grants from the Commonwealth for the years ended June 30, 2021 and 2020, respectively.

Friends also receives funding from various private donors. During fiscal years 2021 and 2020, Friends received 82% of its revenue from one donor and 90% of its revenue from three donors, respectively.

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2021 and 2020

3. FUNDING AND CONCENTRATION OF CREDIT RISK (Continued)

Concentration of Credit Risk

The Organization maintains its cash balance in one Massachusetts bank, which is insured within the limits of the Federal Deposit Insurance Corporation (FDIC) as well as additional insurance through the Depositors Insurance Fund. The Organization has not experienced any losses in the account. The Organization's management believes it is not exposed to any significant credit risk on cash.

GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, requires disclosure of the potential risks of the Organization's deposits. As of June 30, 2021 and 2020, all of the Organization's cash deposits are fully insured.

4. LEASE OBLIGATIONS

The School has a lease agreement for a building through June 2022. Monthly lease payments were \$25,686 and \$25,131 during fiscal years 2021 and 2020, respectively. The School must also pay its proportionate share of real estate taxes and common area costs. Rent expense under this agreement was \$376,755 and \$287,083 for fiscal years 2021 and 2020, respectively.

During fiscal year 2021, the School amended the above lease to include an expansion plan effective July 1, 2021, through July 31, 2029. The agreement requires monthly rent payments of \$43,604, which increase each year throughout the term of the lease.

The School leases office equipment under two operating lease agreements expiring in September 2022 and September 2023, with monthly payments of \$325 and \$341, respectively, plus additional quarterly costs. Office equipment lease expense for fiscal years 2021 and 2020 was \$11,818 and \$19,822, respectively, and is reflected as rental equipment in the accompanying combined statements of revenues, expenses and changes in net position.

Expected future minimum lease payments are as follows for the years ending June 30:

<u>Fiscal Year</u>	<u>Building</u>	<u>Equipment</u>
2022	\$ 523,253	\$ 7,988
2023	531,102	5,066
2024	539,068	682
2025	547,154	-
2026	555,362	-
2027 - 2030	<u>1,765,690</u>	<u>-</u>
	<u>\$ 4,461,629</u>	<u>\$ 13,736</u>

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2021 and 2020

5. CAPITAL ASSETS

Capital assets of the School consisted of the following:

	<u>Balance June 30, 2019</u>	<u>2020 Additions</u>	<u>Balance June 30, 2020</u>	<u>2021 Additions</u>	<u>Balance June 30, 2021</u>
Cost:					
Furniture and equipment	\$ -	\$ 48,432	\$ 48,432	\$ -	\$ 48,432
Computer equipment	39,749	-	39,749	33,313	73,062
Leasehold improvements	-	7,125	7,125	-	7,125
Construction in process	<u>7,125</u>	<u>(7,125)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	46,874	48,432	95,306	33,313	128,619
Less - accumulated depreciation	<u>20,997</u>	<u>21,545</u>	<u>42,542</u>	<u>18,036</u>	<u>60,578</u>
Total capital assets, net	<u>\$ 25,877</u>	<u>\$ 26,887</u>	<u>\$ 52,764</u>	<u>\$ 15,277</u>	<u>\$ 68,041</u>

6. RETIREMENT PLAN

The School's teaching staff and certain administrators participate individually in the Massachusetts Teachers' Retirement System (MTRS). MTRS is managed by the Commonwealth. The School is not legally required to contribute to MTRS. All qualified teaching staff and administrators are covered by and must participate in MTRS. These qualified employees and the School are exempt from Federal social security taxes. Benefits vest fully after ten years of full-time employment. An employee may receive retirement benefits after twenty years of service or ten years of service having attained the age of 55. Covered employees are required by state statute to contribute 11% of their salaries to the plan. The School is not legally obligated to contribute to the plan.

The School follows GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27* (GASB 27), which requires the School to recognize its proportionate share of pension expense and in-kind revenue, "on behalf of payments", related to MTRS, as reported by the Commonwealth. In accordance with GASB 68, the School's arrangement meets the definition of a special funding situation, whereby the School does not contribute to MTRS and the Commonwealth is required to make actuarially determined contributions to maintain the financial integrity of the retirement system. The School's proportionate share of MTRS's pension expense, as calculated under GASB 68, was \$994,962 and \$581,530 for the years ended June 30, 2021 and 2020, respectively, which is included in in-kind revenue and in-kind pension expense in the accompanying combined statements of revenues, expenses and changes in net position. The School's proportionate share of MTRS's net pension liability was \$8,055,439 and \$4,795,436 at the measurement date selected by the Commonwealth of June 30, 2020 and 2019, respectively. In accordance with the special funding situation under GASB 68, this amount has not been recorded in the accompanying combined general purpose financial statements.

In accordance with certain contract requirements, the School was required to make payments of \$22,915 and \$15,885 to MTRS for the years ended June 30, 2021 and 2020, respectively, which are included in payroll tax and fringe benefits in the accompanying combined statements of revenues, expenses and changes in net position.

**LIBERTAS ACADEMY CHARTER SCHOOL AND
FRIENDS OF LIBERTAS ACADEMY CHARTER SCHOOL, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2021 and 2020

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are comprised of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Accrued salaries and benefits	66%	80%
Payable to vendors	<u>34</u>	<u>20</u>
	<u>100%</u>	<u>100%</u>

8. LINE OF CREDIT

The School maintains a line of credit agreement with a bank for borrowings up to \$150,000. Interest on the line of credit is calculated at the *Wall Street Journal's* prime rate (3.25% at June 30, 2021 and 2020), plus 1%, with a minimum rate of 5.25% per annum. The line of credit is guaranteed by Friends. There were no amounts outstanding under this agreement as of June 30, 2021 and 2020.

9. CUMULATIVE SURPLUS REVENUE

Effective July 1, 2010, any cumulative surplus revenue generated by the School must comply with M.G.L.c.71. Section 89 (as amended by Chapter 12 of the Acts of 2010 under Section 8 (hh)). In accordance with this legislation and subsequent DESE regulations, if the School's cumulative surplus revenue, as defined, exceeds 20% of its operating budget and its budgeted capital costs for the succeeding fiscal year, the amount in excess of said 20% shall be returned by the School to the sending district or districts and the state in proportion to their share of tuition paid during the fiscal year.

As of June 30, 2021 and 2020, the School's cumulative surplus revenue was less than 20%; however, the calculation is subject to DESE review and approval. Management does not anticipate any material change in the calculation.

10. PROFESSIONAL DEVELOPMENT

The School incurred expenditures for the purpose of providing professional development to staff and teachers. The School expended \$72,782 and \$104,900 for the years ended June 30, 2021 and 2020, respectively, which are reflected as professional development in the accompanying combined statements of revenues, expenses and changes in net position.

11. RELATED PARTY

During fiscal years 2021 and 2020, Friends provided grants totaling \$250,000 and \$140,000, respectively, to the School.

12. CONTINGENCY

Starting during fiscal year 2020 and continuing into fiscal year 2021, COVID-19 has been recognized as a global pandemic. Federal, state and local governments in the United States have imposed restrictions on travel and business operations. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration and the impact it will have on the Organization's operations and financial position. As a result, the adverse impact COVID-19 will have on the Organization's businesses, operating results, cash flows, and financial condition is uncertain. The financial impact to the Organization, if any, cannot be reasonably estimated at this time.

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

Independent Auditor's Report

To the Boards of Trustees of
Libertas Academy Charter School and
Friends of Libertas Academy Charter School, Inc.:

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 combined general purpose financial statements of Libertas Academy Charter School and Friends of Libertas Academy Charter School, Inc. (collectively, the Organization), which comprise the combined statement of net position as of June 30, 2021, and the related combined statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the combined general purpose financial statements, and have issued our report thereon dated October 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined general purpose financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined general purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's combined general purpose 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 Organization's combined general purpose financial statements are free from 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 combined general purpose financial statements. 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Westborough, Massachusetts
October 21, 2021

DRAFT