

Marblehead Community Charter Public School

Finance Committee Presentation

October 22, 2019



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October 22, 2019

**To the Finance Committee of
Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

We have audited the combined financial statements of Marblehead Community Charter Public School and the Marblehead Charter Education Fund, Inc. (the Organization) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 24, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the combined financial statements. During fiscal year 2019, the Organization adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). No other accounting policies were adopted and the application of existing policies were not changed during 2019. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the combined financial statements in the proper period.

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

- The allocation of expenditures to grants. The allocation methodology used is based on management's estimate of the equitable share of expenditures applicable to each grant. We evaluated the key factors and assumptions used to develop the allocation of expenditures in determining that it is reasonable.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the combined financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the combined financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the combined financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the combined financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the combined financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Finance Committee and management of the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Daniel Dennis & Company LLP

Marblehead Community Charter Public School
June 30, 2019

| Description (Nature) of Audit Difference (AD) | Factual (F), Judgmental (J), or Projected (P) | Cause | Work-paper Ref. | Financial Statement Effect—Amount of Over- (Under-) statement of: | | | | | | |
|--|---|--|-----------------|---|-------------------|--------------|---------------------------|-----------|-----------|--------------------------------------|
| | | | | Total Assets | Total Liabilities | Working Cap. | Fund Balance/Net Position | Revenues | Expen. | Change in Fund Balance/ Net Position |
| Salaries are understated compared to Quarterly 941. | F | Unknown | 7304 | | | | 3,606 | | -3,606 | 3,606 |
| Cash is understated | F | A check amount was improperly imputed into the accounting software resulting in the general ledger balance for cash being understated. | 4106 | -2,923 | | | -2,923 | | | |
| Cash is understated | F | Several checks dated July 1, 2019 were included in fiscal year 2019 resulting in cash being understated at June 30, 2019. | 4105 | -1,906 | | | -1,906 | | | |
| Total | | | | -4,829 | 0 | 0 | -1,223 | 0 | -3,606 | 3,606 |
| Financial statement caption totals | | | | 4,286,796 | 4,001,533 | | 285,263 | 4,130,012 | 4,177,700 | (47,688) |
| Current year AD as % of F/S captions (iron curtain method) | | | | -0.11% | 0.00% | 0.00% | -0.43% | 0.00% | -0.09% | -7.56% |

Conclusion: Based on the results of the evaluation performed above, as well as the consideration of qualitative factors, uncorrected audit differences, individually and in the aggregate, do do not cause the financial statements of opinion unit taken as a whole to be materially misstated.

SUMMMARY OF AUDITORS' REPORTS

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Independent Auditors' Report

- Unmodified Opinion on Financial Statements
- No Opinion on Management's Discussion and Analysis (Unaudited Information)

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

- No material weaknesses over financial reporting
- No reportable instances of non-compliance

Prior Year Audit Results

Compliance Findings:

Finding: An employee was improperly enrolled in the Massachusetts Teachers Retirement System

Status: Resolved during fiscal year 2019.

Finding: Overstatement of the fiscal year 2017 surplus in the Calculation.

Status: Resolved during fiscal year 2019.

FINANCIAL RATIO PROFILE

Marblehead Community Charter Public School
June 30, 2019

| <i>Ratio</i> | <i>2019</i> | <i>2018</i> | <i>2018 Average Ratio**</i> | <i>Low Risk</i> | <i>Moderate Risk</i> | <i>High Risk</i> |
|--|-------------|-------------|-----------------------------|-----------------|------------------------|------------------|
| Current Ratio <i>(current assets divided by current liabilities)</i> | 1.58:1 | 1.73:1 | 3.2:1 | >=1.5 | Between 1.0 and 1.5 | < 1.0 |
| Unrestricted Days Cash <i>(cash divided by (total expenses-depreciation-in-kind)/365)</i> | 15 days | 49 days | 86 days | >=60 days | Between 30 and 60 days | < 30 days |
| Percentage of Program Paid by Tuition <i>(tuition divided by (total expenses-in kind))</i> | 88% | 92% | 92% | >=90% | Between 75% and 90% | < 75% |
| Percentage of Program Paid by Tuition & Federal Grants <i>((tuition + federal grants) divided by (total expenses-in-kind))</i> | 90% | 93% | 96% | >=90% | Between 75% and 90% | < 75% |
| Percentage of Total Revenue Expended on Facilities <i>(operating and maintenance plus financing expenses divided by total revenues)</i> | 11% | 11% | 14% | <= 15% | Between 15% and 30% | > 30% |
| Change in Net Position Percentage <i>(change in net position divided by total revenue)</i> | -2.0% | 2.3% | 5.3% | Positive % | Between -2% and 0% | < -2% |
| Debt to Asset <i>(total liabilities divided by total assets)</i> | 0.94 | 0.93 | 0.57 | <= .9 | Between .9 and 1 | > 1 |
| Enrollment | 230 | 229 | 566 | | | |

** Calculated by DESE based on the financial information in the 2018 end of year reports.

Marblehead Community Charter Public School
Discussion Items

FUTURE CONSIDERATIONS

- Monitor the debt covenants
- Resolution to the liability for the unpaid unemployment claims
- Replacing the Foundation as guarantor on the mortgage with the Fund
- GASB Updates
 - GASB 87 - Leases

Due Dates

- Audit Report – November 1st
- End of Year Report – December 2nd
- Form 990 and Form PC for the Fund – November 15th