

**Marblehead Community Charter Public School
and
Marblehead Charter Education Fund, Inc.**

Combined Financial Statements and
Independent Auditors' Report in Accordance with
Government Auditing Standards

June 30, 2019

Marblehead Community Charter Public School
Marblehead Charter Education Fund, Inc. **Draft For Discussion**
June 30, 2019

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Independent Auditors' Report

The Board of Trustees
**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

Report on the Combined Financial Statements

We have audited the accompanying combined statement of net position of Marblehead Community Charter Public School (a governmental entity) and Marblehead Charter Education Fund, Inc. (a nonprofit organization) (collectively, the Organization) as of and for the year ended June 30, 2019, 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 financial statements, which collectively comprise the Organization's combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 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 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 financial statements referred to above present fairly, in all material respects, the combined financial position of the Organization, as of June 30, 2019, and the respective changes in its combined financial position and combined cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's fiscal year 2018 combined financial statements, and our report dated October 30, 2018, expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein, as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined 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 combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with 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 **Open Date, 2019**, 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. 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 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.

Open Date, 2019

Marblehead Community Charter Public School
Management's Discussion and Analysis
June 30, 2019 (Unaudited)

Draft For Discussion

The following discussion and analysis of Marblehead Community Charter Public School's (the School) financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2019, with comparative totals for fiscal year 2018. Please read this in conjunction with the School's combined financial statements and the related notes, which begin on page 8.

The School as a Whole

The School received their initial charter in June 1994 to operate as a public charter school in the Commonwealth of Massachusetts. The charter is awarded in five-year increments and is subject to renewal by the Commonwealth of Massachusetts Department Elementary and Secondary Education (DESE). The School's charter was renewed during fiscal year 2015 and is effective for the five year period ending June 30, 2020. During fiscal years 2019 and 2018, the School operated grades four through eight and the enrollment was comprised of approximately 230 students for each fiscal year. The School's maximum enrollment approved by the DESE is 230 students.

The School's mission is: *to foster a community that empowers children to become capable, self-determining, fully engaged individuals who are critical and creative thinkers committed to achieving their highest intellectual, artistic, social, emotional, and physical potential. The School is dedicated to involving learning from, participating in, and serving our school community and the community at large.*

Financial Reporting Entity

As required by generally accepted accounting principles, and in conformance with the *Government Accounting Standards Board (GASB) Statements No. 14, The Financial Reporting Entity* and *GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units and subsequently amended by GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* and *GASB No. 80, Blending Requirements for Certain Component Units*, the School evaluated its potential component unit and determined that Marblehead Charter Education Fund, Inc. (Fund) was a component unit of the School and should be presented as a blended component unit in the combined financial statements. The School and its blended component unit, the Fund, are referred to collectively as the Organization.

Using this Annual Report

This annual report consists of a series of combined financial statements. In accordance with *GASB Statement No. 34 - Basic Financial Statement – Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), the Organization is considered a special purpose government entity that engages in only business type activities. All of the financial activity of the Organization is recorded in an enterprise fund within the proprietary fund group. In accordance with *GASB No. 34* and *GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Organization issues a *Combined Statement of Net Position*, a *Combined Statement of Revenues, Expenses and Changes in Net Position* and a *Combined Statement of Cash Flows*. These statements provide information about the financial activities of the Organization, as a whole. This annual report also contains notes to the combined financial statements and other information which provides additional information that is essential to a full understanding of the information provided in the combined financial statements.

Financial Statements

The *Combined Statement of Net Position* presents the assets, liabilities and net position of the Organization as a whole, as of the end of the fiscal year and is a point-in-time financial statement. The purpose of the *Combined Statement of Net Position* is to present a fiscal snapshot of the Organization to the readers of the financial statements. Assets are resources with present service capacity that the Organization presently controls. Liabilities are present obligations to sacrifice resources that the Organization has little or no discretion to avoid. Net position represents the difference between all other elements in a statement of net position and is displayed in three components - *net investment in capital assets*; *restricted* (distinguishing between major categories of restrictions); and *unrestricted*.

The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

The *restricted* component of net position consists of restricted assets reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

The *unrestricted* component of net position is the net amount of the assets and liabilities that are not included in the determination of *net investment in capital assets* or the *restricted* component of net position.

Over time, readers of the combined financial statements will be able to evaluate the Organization's fiscal health (liquidity and solvency) or financial position by analyzing the increases and decreases in net position to determine if the Organization's financial health is improving or deteriorating. The reader will also need to consider other non-financial factors such as changes in economic conditions and new or amended charter school legislation when evaluating the overall financial health of the Organization. This statement is also a good source for readers to determine how much the Organization owes to vendors and creditors and the available assets that can be used to satisfy those liabilities.

The *Combined Statement of Revenues, Expenses and Changes in Net Position* reports the financial (revenue and expenses) activities of the Organization and divides it into two categories: *Operating activities* and *Non-operating activities*. Operating activities include all financial activities associated with the operation of the Organization and its related programs. Consequently, all non-operating activities include all financial activities not related to the operation of a charter school. Changes in total net position as presented on the *Combined Statement of Revenues, Expenses and Changes in Net Position* are based on the activity presented in this statement. This statement helps to determine whether the Organization had sufficient revenues to cover expenses during the fiscal year and its net increase or net decrease in net position based on current year operations.

Financial Statements – Continued

The *Combined Statement of Cash Flows* provides information about the Organization's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from *operations, investing, and capital and noncapital financing activities* and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in the cash balance during the reporting period?" This statement also is an important tool in helping users assess the Organization's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Notes to the Combined Financial Statements provide additional information that is essential to a full understanding of the information provided in the Organization's combined financial statements.

Financial Highlights

The following financial highlights are for the fiscal year ended June 30, 2019 and will provide comparative information for fiscal year 2018.

- The School held total assets of \$4,278,379 and \$4,452,840 at June 30, 2019 and 2018, respectively, of which \$3,828,905 and \$3,923,573, respectively were capital assets and the majority of the remaining assets consisted of cash. The decrease in total assets was mainly due to the decrease in capital assets as the result of the fiscal year 2019 depreciation expense.
- The School had total liabilities of \$4,001,533 and \$4,121,837 at June 30, 2019 and 2018, respectively. At June 30, 2019, \$284,019 was current and \$3,717,514 was noncurrent. At June 30, 2018, \$305,725 was current and \$3,816,112 was noncurrent. The decrease in total liabilities was mainly due to the payment of mortgage principal.
- Total net position for the School was \$276,864 and \$331,003 at June 30, 2019 and 2018, respectively, of which \$265,855 and \$320,697, respectively was unrestricted. In addition, for the years ended June 30, 2019 and 2018, the School had \$10,991 and \$10,306, respectively, in net position which was related to net investments in capital assets. The decrease in the net position is due to the current year deficit.
- The School earned total revenues of \$4,122,134 and \$4,029,550 for the years ended June 30, 2019 and 2018, respectively of which 98%, were operating revenues and approximately 2%, were non-operating revenues (private grants, contributions, etc.) for both fiscal years ended June 30, 2019 and 2018. The increase in revenue is due to the increase in per pupil tuition.

Financial Highlights - *Continued*

- The School had total expenses of \$4,176,291 and \$3,935,670 for the years ended June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, total expenses include operating expenses of \$4,039,276 and \$3,796,868, respectively, and non-operating expenses of \$137,015 and \$138,802, respectively. The increase is mainly due to an increase in salary and related costs along with an increase in professional services.

- The School had a decrease in net position of \$54,157 and an increase in net position of \$93,880 for the years ended June 30, 2019 and 2018 respectively. In fiscal year 2019, the change in net position was comprised of operating income of \$11,883 and a non-operating loss of \$66,040. In fiscal year 2018, the change in net position was comprised of an operating income of \$163,710 and a non-operating loss of \$69,830.

Budgetary Highlights

The School's practice of conservative budgeting allows management to keep a consistent focus on controlling and monitoring expenses. Based on full enrollment of 230 students, the School received slightly more tuition than budgeted.

While expansion of the academic program and increase in the Special Education population necessitated additional salaries, benefits and professional development (training and services), the School was able to achieve savings in other areas. By retiring the line of credit with East Boston Savings Bank, the School was not paying interest charges in fiscal year 2018.

The Board is in the final stages of developing a strategic plan for the future of the Organization. It is anticipated that the School will establish a Capital Campaign during fiscal year 2019 to enable us to bring this vision to life.

The School budgeted tuition for fiscal year 2018 based on projected enrollment of 230 students, utilizing the average per pupil rate from the sending districts projected by DESE for fiscal year posted on the DESE Charter School web site. (*Tuition Rate Summary, Projected FY18 Rates by Charter School and Sending District (Q1)(c)*)

School's Financial Activities

The majority of the School's funding was received from DESE and is based on a standard per pupil rate. The School received \$3,195,223 in per pupil funding in fiscal year 2019 compared to \$3,055,916 in per pupil funding in fiscal year 2018. This represent approximately 77% and 76% of the School's revenue for the fiscal years ended June 30, 2019 and 2018 respectively. In addition, the School received various government grants, which totaled \$60,434 and \$54,242 for fiscal years 2019 and 2018, respectively.

Marblehead Community Charter Public School
Management's Discussion and Analysis - *Continued*
June 30, 2019 (Unaudited)

Draft For Discussion

Contacting the School's Financial Management

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

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.** Draft For Discussion
 Combined Statement of Net Position
 With Combining Information as of June 30, 2019
 With Summarized Comparative Totals as of June 30, 2018

	<i>Marblehead Community Charter Public School</i>	<i>Marblehead Charter Education Fund, Inc.</i>	<i>Memorandum Only Total Primary Government June 30, 2019</i>	<i>Memorandum Only Summarized Comparative June 30, 2018</i>
Assets				
Current Assets:				
Cash	\$ 148,239	\$ 8,367	\$ 156,606	\$ 514,654
Tuition and accounts receivable	281,641	50	281,691	3,773
Prepaid expenses	<u>19,594</u>	<u>-</u>	<u>19,594</u>	<u>12,788</u>
Total current assets	<u>449,474</u>	<u>8,417</u>	<u>457,891</u>	<u>531,215</u>
Noncurrent Assets:				
Capital assets, net	<u>3,828,905</u>	<u>-</u>	<u>3,828,905</u>	<u>3,923,573</u>
Total noncurrent assets	<u>3,828,905</u>	<u>-</u>	<u>3,828,905</u>	<u>3,923,573</u>
Total assets	<u>\$ 4,278,379</u>	<u>\$ 8,417</u>	<u>\$ 4,286,796</u>	<u>\$ 4,454,788</u>
Liabilities and Net Position				
Current Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 169
Accrued expenses	62,298	-	62,298	66,656
Accrued payroll	121,321	-	121,321	141,745
Note payable - current	<u>100,400</u>	<u>-</u>	<u>100,400</u>	<u>97,155</u>
Total current liabilities	<u>284,019</u>	<u>-</u>	<u>284,019</u>	<u>305,725</u>
Noncurrent Liabilities:				
Note payable	<u>3,717,514</u>	<u>-</u>	<u>3,717,514</u>	<u>3,816,112</u>
Total noncurrent liabilities	<u>3,717,514</u>	<u>-</u>	<u>3,717,514</u>	<u>3,816,112</u>
Total liabilities	<u>4,001,533</u>	<u>-</u>	<u>4,001,533</u>	<u>4,121,837</u>
Net Position:				
Net investment in capital assets	10,991	-	10,991	10,306
Unrestricted	<u>265,855</u>	<u>8,417</u>	<u>274,272</u>	<u>322,645</u>
Total net position	<u>276,846</u>	<u>8,417</u>	<u>285,263</u>	<u>332,951</u>
Total liabilities and net position	<u>\$ 4,278,379</u>	<u>\$ 8,417</u>	<u>\$ 4,286,796</u>	<u>\$ 4,454,788</u>

See accompanying notes to combined financial statements.

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

Draft For Discussion

Combined Statement of Revenues, Expenses, and Changes in Net Position
With Combining Information For the Year Ending June 30, 2019
With Summarized Comparative Totals For the Year Ending June 30, 2018

	<i>Marblehead Community Charter Public School</i>	<i>Marblehead Charter Education Fund, Inc.</i>	Memorandum Only <i>Total Primary Government June 30, 2019</i>	Memorandum Only <i>Summarized Comparative June 30, 2018</i>
Operating revenues:				
Tuition	\$ 3,195,223	\$ -	\$ 3,195,223	\$ 3,055,916
Federal grants	60,434	-	60,434	54,242
Food service	105,089	-	105,089	111,299
Other revenues	81,143	-	81,143	102,683
Student activities	63,854	-	63,854	74,038
On-behalf fringe benefits	545,416	-	545,416	562,400
Total operating revenues	4,051,159	-	4,051,159	3,960,578
Operating expenses:				
Salaries	2,272,814	-	2,272,814	2,175,453
Payroll taxes	102,137	-	102,137	99,332
Fringe benefits	379,113	-	379,113	297,361
Occupancy	55,776	-	55,776	68,725
Professional services	126,176	-	126,176	44,350
Insurance	28,060	-	28,060	27,663
Student supplies and materials	118,610	-	118,610	162,476
Student activities	60,922	-	60,922	60,504
Office	33,089	-	33,089	27,299
Food service	64,179	-	64,179	68,123
Training and development	20,011	-	20,011	17,330
Repairs and maintenance	83,582	-	83,582	89,638
On-behalf fringe benefits	545,416	-	545,416	562,400
Depreciation	94,668	-	94,668	95,557
Contracted services	52,632	-	52,632	352
Miscellaneous	2,091	77	2,168	1,460
Total operating expenses	4,039,276	77	4,039,353	3,798,023
Operating income	11,883	(77)	11,806	162,555
Nonoperating revenues/(expenses):				
Rental income	17,891	-	17,891	13,639
Contributions	12,931	7,872	20,803	29,045
Interest income	97	6	103	100
Fundraising income	40,056	-	40,056	25,941
Fundraising expense	-	(1,332)	(1,332)	(2,475)
Other expense	(7,938)	-	(7,938)	(6,601)
Interest expense	(129,077)	-	(129,077)	(132,201)
Total net nonoperating expenses	(66,040)	6,546	(59,494)	(72,552)
Change in net position	(54,157)	6,469	(47,688)	90,003
Net position, beginning of the year	331,003	1,948	332,951	242,948
Net position, end of the year	\$ 276,846	\$ 8,417	\$ 285,263	\$ 332,951

See accompanying notes to combined financial statements.

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

Draft For Discussion

Combined Statement of Cash Flows

With Combining Information For the Year Ended June 30, 2019
With Summarized Comparative Totals For the Year Ended June 30, 2018

	<i>Marblehead Community Charter Public School</i>	<i>Marblehead Charter Educational Fund, Inc.</i>	<i>Memorandum Only Total Primary Government June 30, 2019</i>	<i>Memorandum Only Summarized Comparative June 30, 2018</i>
Cash flows from operating activities:				
Receipts from tuition	\$ 2,915,821	\$ -	\$ 2,915,821	\$ 3,055,916
Receipts from governmental grants	60,434	-	60,434	54,242
Receipts from food service program	102,850	-	102,850	108,246
Receipts from other	148,050	-	148,050	201,351
Payments to employees	(2,774,488)	-	(2,774,488)	(2,558,895)
Payments to suppliers and vendors	(656,461)	(77)	(656,538)	(605,836)
Net cash (used in)/provided by operating activities	<u>(203,794)</u>	<u>(77)</u>	<u>(203,871)</u>	<u>255,024</u>
Cash flows from investing activities:				
Interest income	97	6	103	100
Net cash provided by investing activities	<u>97</u>	<u>6</u>	<u>103</u>	<u>100</u>
Cash flows from non capital financing activities:				
Non-operating receipts	70,878	8,542	79,420	84,905
Non-operating disbursements	(7,938)	(1,332)	(9,270)	(26,076)
Net cash provided by financing activities	<u>62,940</u>	<u>7,210</u>	<u>70,150</u>	<u>58,829</u>
Cash flows from capital and financing activities:				
Payments of loan principal	(95,353)	-	(95,353)	(92,229)
Interest expense	(129,077)	-	(129,077)	(132,201)
Net cash used in capital and financing activities	<u>(224,430)</u>	<u>-</u>	<u>(224,430)</u>	<u>(224,430)</u>
Net (decrease)/increase in cash	(365,187)	7,139	(358,048)	89,523
Cash, beginning of year	513,426	1,228	514,654	425,131
Cash, end of year	<u>\$ 148,239</u>	<u>\$ 8,367</u>	<u>\$ 156,606</u>	<u>\$ 514,654</u>
Reconciliation of operating income to net cash (used in)/ provided by in operating activities:				
Operating income	\$ 11,883	\$ (77)	\$ 11,806	\$ 162,555
<i>Adjustments to reconcile total net operating income to net cash (used in)/provided by operating activities:</i>				
Depreciation	94,668	-	94,668	95,557
<i>Changes in operating assets and liabilities:</i>				
Grants and accounts receivable	(278,588)	-	(278,588)	21,577
Prepaid rent and prepaid expenses	(6,806)	-	(6,806)	5,894
Advances	-	-	-	(4,289)
Accounts payable	(169)	-	(169)	(51,058)
Accrued expenses	(24,782)	-	(24,782)	24,788
Net cash (used in)/provided by operating activities	<u>\$ (203,794)</u>	<u>\$ (77)</u>	<u>\$ (203,871)</u>	<u>\$ 255,024</u>

See accompanying notes to combined financial statements.

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.** Draft For Discussion
Notes to Combined Financial Statements
June 30, 2019

1. Nature of Organization

Marblehead Community Charter Public School (the School) was formed in 1994 after receiving its charter from the Commonwealth of Massachusetts under Chapter 71, Section 89 of the General Laws of Massachusetts. The School's charter is awarded in five year increments and is subject to renewal at the discretion of the Commonwealth of Massachusetts' Department of Elementary and Secondary Education (DESE). The School's charter was most recently renewed in 2015 and expires on June 30, 2020. DESE provided approximately 79% and 78% of the funding to the School for the years ended June 30, 2019 and 2018 respectively, through a per pupil reimbursement and Federal and Commonwealth of Massachusetts grants.

The School is located in Marblehead, Massachusetts and offers children primarily residing in Marblehead and Swampscott, in grades four through eight, a public supported academic education.

The School's mission is: *to foster a community that empowers children to become capable, self determining, fully engaged individuals who are critical and creative thinkers committed to achieving their highest intellectual, artistic, social, emotional, and physical potential. The School is dedicated to involving learning from, participating in, and serving our school community and the community at large.*

The combined financial statements consist of the following:

Primary Government

- Marblehead Community Charter Public School (the School) – operates as a middle school in Marblehead, Massachusetts and serves 230 students in grades four through eight.
- Marblehead Charter Education Fund, Inc. (the Fund) – is a legally separate, tax-exempt organization that acts primarily as a fundraising organization to supplement the resources of the School. The Fund is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Because these restricted resources can only be used by or for the benefit of the School, the Fund is considered a component unit of the School and is presented as a blended component unit.

The School and its blended component unit, the Fund, are collectively referred to as the Organization.

2. Summary of Significant Accounting Policies

The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a summary of the Organization's significant accounting policies:

Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.

Draft For Discussion

Notes to Combined Financial Statements - *Continued*

June 30, 2019

2. *Summary of Significant Accounting Policies – Continued*

Financial Reporting Entity

As required by generally accepted accounting principles, and in conformance with the *Government Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity* and *GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units and subsequently amended by GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, and *GASB No. 80, Blending Requirements for Certain Component Units* the School evaluated its potential component unit to determine the reporting entity.

The reporting entity consists of the School and its blended CU, the Fund. Component units are legally separate organizations for which the board is financially accountable for or other organizations whose nature and significant relationship with the School are such that exclusion would cause the combined financial statements to be misleading or incomplete. The School is financially accountable if it appoints a majority of the Fund's board members and (1) is able to impose its will on the Fund, or (2) there is a potential to provide specific financial benefit to or impose a burden on the School.

The Fund was evaluated and is included as a blended component unit. The blended component unit, although a legally separate entity, is in substance, part of the School's operations and therefore, the financial data is combined and reported within the financial data of the primary government.

The Fund is a non-profit organization that reports under Financial Accounting Standards Board (FASB) accounting standards, including *Accounting Standards Codification 958 (ASC 958), Financial Reporting for Non-Profit Organizations*. As such, certain revenue recognition criteria and financial presentation features are different from GASB's revenue recognition and financial presentation features. No modifications have been made to the Fund's financial information for those differences.

Complete financial statements for the Fund can be obtained from the School's Business Office.

Financial Statement Presentation

The School, in accordance with *GASB Statement No. 34 - Basic Financial Statement – and Management's Discussion and Analysis - for State and Local Governments*, is considered a special purpose governmental entity that engages in only business type activities and is not a component unit of another governmental entity. Therefore, all of the financial activity is recorded in the enterprise fund.

Basis of Accounting

The accrual basis of accounting is used for all governmental entities that operate as business type entities. Accordingly revenue is recognized when earned and capital assets and expenditures are recorded when received and incurred, respectively.

Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.

Draft For Discussion

Notes to Combined Financial Statements - *Continued*

June 30, 2019

2. *Summary of Significant Accounting Policies – Continued*

Basis of Accounting - Continued

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

Tax Status

The School was established under a charter granted by DESE and operates as a part of the Commonwealth of Massachusetts and is therefore, generally exempt from income taxes under Section 115 of the Internal Revenue Code.

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Fund is also exempt from Massachusetts income taxes, except for income taxes on unrelated business income, if any. For the years ended June 30, 2019 and 2018, the Fund had no unrelated business income.

The Fund evaluates its tax positions taken or expected to be taken in its tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable federal or state authority. The Fund has evaluated the tax positions taken in its previously filed returns and those expected to be taken in its 2019 returns and believes they are more-likely-than not to be sustained if examined by federal or state tax authorities. The Fund's returns are subject to examination by federal and state tax authorities for up to a three year period after the returns have been filed (2016 - 2018).

Cash and Cash Equivalents

For the purpose of the *Combined Statement of Net Position* and the *Combined Statement of Cash Flows*, the Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents. As of June 30, 2019 and 2018, the Organization did not hold any cash equivalents.

Capital Assets

Capital assets are recorded at cost or at fair market value at the date of donation. Capital assets purchased with a cost or value greater than \$5,000 are capitalized. Depreciation is computed on the straight-line basis using estimated useful lives of 39 years for building, 3 years for computer hardware and software, 5 years for office equipment and office furniture, and 10 years for equipment.

Grants and Accounts Receivable

Grants and accounts receivables are presented net of the allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on its past experience. Receivables are written off when deemed uncollectible. At June 30, 2019 and 2018, no allowance for doubtful accounts had been recorded, as management considers all receivables to be fully collectible.

Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.

Draft For Discussion

Notes to Combined Financial Statements - *Continued*

June 30, 2019

2. *Summary of Significant Accounting Policies – Continued*

Operating Revenue and Expenses

Operating revenue and expenses generally result from providing educational and instructional services in connection with the Organization's principal ongoing operations. The principal operating revenues include tuition and Federal and Commonwealth of Massachusetts grants. Operating expenses include educational costs, administrative expenses and depreciation on capital assets. All other revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Classification of Net Position

The following are the net position classifications:

- Net Investment in Capital Assets – book value of capital assets net of any related debt
- Restricted – amounts that can be spent only for specific purposes because of externally imposed restrictions by grantors or contributors
- Unrestricted Net Position – portion of funds to support operations

The Organization applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of the combined 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 and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Employees of the School are entitled to paid vacations and paid holidays, depending on the job classification, length of service, and other factors. Any unused absences not used by fiscal year end are not paid out and therefore the School does not accrue for these.

On-Behalf Payments

The School recognizes its proportional share of pension revenue and expense, as reported by Massachusetts Teachers' Retirement System (the MTRS), as on-behalf payments in the *Combined Statement of Revenues, Expenses, and Changes in Net Position*.

Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.

Draft For Discussion

Notes to Combined Financial Statements - *Continued*
June 30, 2019

2. Summary of Significant Accounting Policies – Continued

New Accounting Pronouncement

During fiscal year 2019, the Organization implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 clarifies which liabilities the Organization should include in its note disclosures related to debt and requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. The GASB is effective for fiscal years beginning after June 15, 2018.

Summarized Comparative Information

The combined financial statements include certain prior-year summarized comparative information in total but not by individual reporting entity. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the fiscal year ended June 30, 2018, from which the summarized information was derived.

3. Deposits with Financial Institutions

The Organization maintained its cash accounts at two financial institutions. These balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit per financial institution. Management acknowledges the possibility of risk in this arrangement; however, the size and longevity of the depository institution minimizes such risk. In addition, one of the financial institutions is a Massachusetts Chartered Savings Bank that maintains additional insurance through the Depositors Insurance Fund, a private industry sponsored insurance company.

As required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. The following represents a summary of deposits as of June 30, 2019 and 2018:

	2019	2018
Fully insured deposits	\$ 236,209	\$ 590,753
Uncollateralized	<u>299</u>	<u>299</u>
Total	<u>\$ 236,508</u>	<u>\$ 591,052</u>

4. Tuition and Accounts Receivable

Tuition and accounts receivable at June 30, 2019 and 2018 are as follows:

	2019	2018
Commonwealth of Massachusetts	\$ 281,641	3,053
Other	<u>50</u>	<u>720</u>
Total	<u>\$ 281,691</u>	<u>\$ 3,773</u>

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

Draft For Discussion

Notes to Combined Financial Statements - *Continued*
June 30, 2019

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2019 and 2018 are as follows:

	<i>2019</i>	<i>2018</i>	
Payables to vendors	\$ 46,329	\$ 66,825	
Payroll and fringe	<u>137,290</u>	<u>141,745</u>	
Total	<u>\$ 183,619</u>	<u>\$ 208,570</u>	

6. Capital Assets

The following are the capital assets as of June 30, 2019 and 2018:

School

	<i>Balance July 1, 2018</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 2019</i>
<i>Capital assets not being depreciated</i>				
Land	\$ 687,400	\$ -	\$ -	\$ 687,400
Total capital assets not being depreciated	<u>687,400</u>	<u>-</u>	<u>-</u>	<u>687,400</u>
<i>Capital assets being depreciated</i>				
Building	3,562,600	-	-	\$ 3,562,600
Building improvements	33,184	-	-	33,184
Equipment and computers	<u>86,648</u>	<u>-</u>	<u>(20,000)</u>	<u>66,648</u>
Total capital assets being depreciated	<u>3,682,432</u>	<u>-</u>	<u>(20,000)</u>	<u>3,662,432</u>
<i>Less accumulated depreciation</i>				
Building	350,170	91,349	-	\$ 441,519
Building improvements	9,442	3,319	-	12,761
Equipment and computers	<u>86,647</u>	<u>-</u>	<u>(20,000)</u>	<u>66,647</u>
Total accumulated depreciation	<u>446,259</u>	<u>94,668</u>	<u>(20,000)</u>	<u>520,927</u>
Capital assets, net	<u>\$ 3,923,573</u>	<u>\$ (94,668)</u>	<u>\$ -</u>	<u>\$ 3,828,905</u>
	<i>Balance July 1, 2017</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 2018</i>
<i>Capital assets not being depreciated</i>				
Land	\$ 687,400	\$ -	\$ -	\$ 687,400
Total capital assets not being depreciated	<u>687,400</u>	<u>-</u>	<u>-</u>	<u>687,400</u>
<i>Capital assets being depreciated</i>				
Building	3,562,600	-	-	3,562,600
Building improvements	33,184	-	-	33,184
Equipment and computers	<u>86,648</u>	<u>-</u>	<u>-</u>	<u>86,648</u>
Total capital assets being depreciated	<u>3,682,432</u>	<u>-</u>	<u>-</u>	<u>3,682,432</u>
<i>Less accumulated depreciation</i>				
Building	258,822	91,348	-	350,170
Building improvements	6,124	3,318	-	9,442
Equipment and computers	<u>85,756</u>	<u>891</u>	<u>-</u>	<u>86,647</u>
Total accumulated depreciation	<u>350,702</u>	<u>95,557</u>	<u>-</u>	<u>446,259</u>
Capital assets, net	<u>\$ 4,019,130</u>	<u>\$ (95,557)</u>	<u>\$ -</u>	<u>\$ 3,923,573</u>

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

Draft For Discussion

Notes to Combined Financial Statements - *Continued*

June 30, 2019

7. Mortgage Payable

The School entered into a \$4,250,000 mortgage agreement with a financial institution during fiscal year 2015 at a fixed interest rate of 3.29% through August 2024, then adjusted annually to the Federal Home Loan Bank of Boston advance rate plus .50% through August 2044.

The mortgage is secured by the property located on 17 Lime Street, Marblehead, Massachusetts and substantially all assets of the School. The mortgage is also guaranteed by the Marblehead Community Charter Public School Foundation, Inc. (prior component unit). The mortgage agreement contains provisions that upon the occurrence and continuance of any Event of Default, the financial institution may declare the mortgage amount then outstanding to be due and payable immediately. **The Organization is required to maintain a debt service coverage ratio of 1.00 measured annually and a maximum loan to value ratio of 80% measured periodically. The School was in compliance with the maximum loan to value ratio, however the School's debt service coverage ratio was below that required by the financial institution at June 30, 2019. The bank has waived the covenant requirement for fiscal year 2019.**

The following summarizes the long term debt activity of the Organization for the year ended June 30, 2019 and 2018:

	<i>Beginning</i>			<i>Ending</i>	<i>Due Within</i>
	<i>Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance</i>	<i>One Year</i>
June 30, 2019	<u>\$3,913,267</u>	<u>\$ -</u>	<u>\$ 95,353</u>	<u>\$3,817,914</u>	<u>\$ 100,400</u>
June 30, 2018	<u>\$4,005,496</u>	<u>\$ -</u>	<u>\$ 92,229</u>	<u>\$3,913,267</u>	<u>\$ 97,155</u>

Interest expense was \$129,077 and \$132,201 for the years ended June 30, 2019 and 2018, respectively.

Aggregate maturities of the long-term debt for the term of the loan are as follows:

<i>Fiscal Year</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2020	\$ 100,400	\$ 124,030	\$ 224,430
2021	103,753	120,677	224,430
2022	107,218	117,212	224,430
2023	110,800	113,630	224,430
2024	114,500	109,930	224,430
2025-2029	632,487	489,663	1,122,150
2030-2034	745,410	376,740	1,122,150
2035-2039	878,494	243,656	1,122,150
2040-2044	<u>1,024,852</u>	<u>86,811</u>	<u>1,111,663</u>
Total	<u>\$3,817,914</u>	<u>\$1,782,349</u>	<u>\$5,600,263</u>

Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.

Draft For Discussion

Notes to Combined Financial Statements - *Continued*

June 30, 2019

8. Line of Credit

The School has a \$300,000 line of credit with a financial institution expiring on December 31, 2018. Advances on this line of credit are payable on demand and carried an interest rate of 1% over the prime rate, which was 5.50% at June 30, 2019 and 2018. The credit line is collateralized by a security interest in substantially all business assets of the School. The outstanding balance on the line of credit for both years ended June 30, 2019 and 2018 was \$0. Interest paid during fiscal years 2019 and 2018 was \$0.

9. Operating Lease Commitments

The School leased certain office equipment under non-cancelable operating leases that expire between March 2019 and March 2022.

Rent expense on the leases was \$14,925 and \$13,456 during the years ended June 30, 2019 and 2018, respectively. The following represents minimum lease payments for the remaining term of the leases:

<i>Fiscal Year</i>	<i>Amount</i>
2020	\$14,650
2021	\$13,437
2022	\$ 9,167

10. Retirement Plan

Massachusetts Teachers Retirement System

The Commonwealth of Massachusetts provides for retirement benefits to the School's eligible teachers through the Massachusetts Teachers' Retirement System (the MTRS), a contributory retirement system administered by the Massachusetts Teachers' Retirement Board. The MTRS is governed by Massachusetts General Laws (M.G.L.), Chapter 32, as well as regulations contained in the Code of Massachusetts Regulations (CMR). Oversight is provided by a seven member board. The MTRS issues a publicly available annual report that includes financial statements and required supplementary information, which may be obtained by writing to Public Employee Retirement Administration Commission (PERAC), 5 Middlesex Avenue, Suite 304, Somerville, Massachusetts, 02145.

This retirement plan requires an employee contribution of five, seven, eight, or eleven percent (depending on the plan and the employment date) of the employee's compensation. The School is not assessed under this plan. This retirement system is a contributory defined benefit plan covering all the employees deemed eligible. Members of the plan become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 55 and upon attaining 20 years of service.

The plan also provides for retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was first employed by the School after January 1, 1978, (3) voluntarily left School employment on or after that date, and (4) left an accumulated annuity deduction in the fund.

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

Draft For Discussion

Notes to Combined Financial Statements - *Continued*
June 30, 2019

10. Retirement Plan – Continued

The MTRS retirement plan, under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is required by statute to determine the net pension liability for all participants. The net pension liability for the retirement plan at the June 30, 2018 measurement date was determined by an actuarial valuation prepared as of January 1, 2018 rolled forward to June 30, 2018. At June 30, 2019 and 2018, the School's share of MTRS net pension liability was \$5,382,282 and \$5,388,374, respectively.

11. On-Behalf Payments

In accordance with *GASB Statement 68, Accounting and Financial Reporting for Pensions*, the School is required to recognize its proportional share of pension revenue and expenses, as reported by MTRS, as on-behalf payments in their combined financial statements. As of June 30, 2019 and 2018, the School recognized \$545,416 and \$562,400, respectively of on-behalf revenues and expenses.

12. Contingencies

Grant Funding

The School is subject to audit of its Federal and State grants and contracts and as such, if determined that funds are not expended in accordance with the grant and contract agreements, the grantor agency has the right to recapture these funds. As of the date of these statements, the materiality of adjustments to final costs, if any, cannot be determined and therefore no adjustment has been recorded in the accompanying combined financial statements.

Cumulative Surplus Revenue

Effective July 1, 2010, any cumulative surplus revenue generated by the School must comply with M.G.L. c. 71, §89 (as amended by Chapter 12 of the Acts of 2010 under §7 (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 Commonwealth in proportion to their share of tuition paid during the fiscal year.

Unemployment Insurance

Previously to January 1, 2010, the School was self-insured in regards to unemployment insurance with the Commonwealth of Massachusetts. As of June 30, 2019 and 2018, the combined financial statements include a liability of \$40,978 payable to the Commonwealth of Massachusetts for unpaid unemployment claims. The actual amount due to the Commonwealth inclusive of interest, if any, cannot be determined as of June 30, 2019.

13. Related Party Transactions

During fiscal year 2019 and 2018, the Fund donated \$0 and \$17,000, respectively to the School.

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

Notes to Combined Financial Statements - *Continued*

June 30, 2019

Draft For Discussion

14. Concentrations

During fiscal year 2019 and 2018, DESE provided 79% and 78% for the fiscal years of the Organization's revenue through Federal and Commonwealth funding respectively.

15. Rental Income

In fiscal years, 2019 and 2018, the School leased out approximately 700 square feet of the building and parking spaces for elderly housing and residents in the neighborhood. All leases are tenancy at will. Related rental income for the fiscal years ended June 30, 2019 and 2018 was \$17,891 and \$13,639, respectively.

16. Subsequent Events

The Organization has evaluated subsequent events through **Open Date, 2019**, which is the date the combined financial statements were available to be issued. There are no recognized subsequent events, events that provide additional evidence about conditions that existed at the *Combined Statement of Net Position* date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the *Combined Statement of Net Position* date, which are necessary to disclose to keep the combined financial statements from being misleading.

**REPORT ON INTERNAL CONTROL AND
ON COMPLIANCE IN ACCORDANCE
WITH
GOVERNMENT AUDITING STANDARDS**



Independent Auditor's 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

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, 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 statement of net position of Marblehead Community Charter Public School and the Marblehead Charter Education Fund, Inc., (collectively, the Organization), as of and for the year ended June 30, 2019, and the combined statements of revenues, expenses and changes in net position and cash flows, and the related notes to the combined financial statements, which collectively comprise the Organization's combined financial statements, and have issued our report thereon dated **Open Date, 2019**.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organization's internal control over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined 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 entity's combined 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 might 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 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 determination of the combined 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.

Open Date, 2019

**SCHEDULE OF FINDINGS AND
RESPONSES**

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**
Schedule of Findings and Responses
For the Year Ended June 30, 2019

Draft For Discussion

No Current Year Findings

SCHEDULE OF PRIOR YEAR FINDINGS

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2019

Draft For Discussion

2018-01 MTRS Eligibility

Condition

One of five individuals selected for Massachusetts Teacher's Retirement System (MTRS) eligibility testing was improperly enrolled into MTRS.

Status

During fiscal year 2019, the individual was no longer employed by the Organization and no similar issues were identified. The finding is resolved.

2018-02 20% Excess Carryover Calculation within the CSEOYR

Condition

There was an error in reporting out the amount of debt service payments in the Charter School End of Year Report (CSEOYR) resulting in an overstatement of the surplus in the 20% excess carryover calculation (the calculation).

Status

The prior year calculation was corrected by the Organization. The finding is resolved.

BOARD ACCEPTANCE LETTER

ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of Marblehead Community Charter Public School and Marblehead Charter Education Fund, Inc. or its designated committee or individual, have voted to accept the representations of management and the expression of the opinions made by Daniel Dennis & Company LLP as embodied in the combined financial statements and independent auditors' reports for the year ended June 30, 2019.

We also certify that the representations made by management and the disclosures in the combined financial statements are accurate and have been correctly and completely disclosed as required by accounting principles generally accepted in the United States of America and the Commonwealth of Massachusetts Charter School Audit Guide for the period ended June 30, 2019.

Board President or Treasurer
or Other Designated Person

Open Date, 2019