

Marblehead Community Charter Public School

Finance Committee Presentation

October 16, 2018



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**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, 2018. 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 July 31, 2018. 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. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2018. 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 amount of on-behalf fringe benefit payments recorded in accordance with GASB No. 68. in the Combined Statements of Revenues, Expenses and Change and Net Position. This is an estimate based on the report provided by the Massachusetts Teachers Retirement System.

- The estimate of useful lives of fixed assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the combined financial statements taken as a whole.

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.

Compliance Findings

Massachusetts Teacher's Retirement System Eligibility (MTRS)

While testing eligibility for the MTRS it was noted that one individual was improperly enrolled in the MTRS system. We recommend that the School review employee's eligibility within MTRS each year and re-evaluate an employee's eligibility any time there is a significant change in an individual's employment status or position.

20% Excess Carryover Calculation (the Calculation) within the Charter School End of Year Report

The 2017 Calculation contained an error in reporting the debt service payments resulting in the carryover surplus amount being overstated. We recommend that the School review the calculation and ensure it follows the content required by DESE.

Suggestions and Other Comments

Timely Deposits

While performing our auditing procedures it was noted at year end cash receipts collected were held and not deposited timely, because the cash receipts related to revenue for fiscal year 2019. We recommend the School follow their fiscal policies and procedures for depositing funds timely.

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

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	Financial Statement Effect—Amount of Over- (Under-) statement of:					
			Total Assets	Total Liabilities	Fund Balance/Net Position	Revenues	Expn.	Change in Fund Balance/ Net Position
Cash is overstated - Paypal cash per the general ledger is higher than the amount reported per Paypal	F	Unknown	1,332		-1,332	1,332		-1,332
Cash is understated - Bank reconciliation register balance higher than the general ledger balance.	F	Unknown	-6,678		6,678	-6,678		6,678
Accrued Expenses is understated - Invoices paid after year end were not accrued in the fiscal year 2018.	F	Unknown		-1,223	1,223		-1,223	1,223
School lunch revenue overstated. Fiscal year 2017 revenue was recorded within fiscal year 2018.	F	Unknown			2,185	2,185		2,185
Rental income understated	P	Unknown			-1,461	-1,461		-1,461
Contribution recorded in fiscal year 2018 but should have been recorded in fiscal year 2018.	F	Unknown			-3,202	3,202		3,202
Accounts payable understated - bills from Krokidas & Bluestein were not included as a payable in fiscal year 2018.	F	Unknown		-7,315	7,315		-7,315	7,315
Total			-5,346	-8,538	11,406	-1,420	-8,538	17,810
Financial statement caption totals			4,452,840	4,121,837	331,003	4,029,550	3,935,670	93,880
Current and prior year AD as % of F/S captions			-0.12%	-0.21%	3.43%	-0.04%	-0.22%	18.97%

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
- Instances of non-compliance
 - Employee improperly enrolled in MTRS
 - Overstatement of the fiscal year 2017 surplus in the Calculation.

Prior Year Audit Results

- No prior audit issues relating to financial reporting
- No prior audit issues relating to instances of non-compliance

FINANCIAL RATIO PROFILE

Marblehead Community Charter Public School

June 30, 2018

<i>Ratio</i>	<i>2018</i>	<i>2017</i>	<i>2017 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>	1.73:1	1.39:1	2.80:1	>=1.5	Between 1.0 and 1.5	< 1.0
Unrestricted Days Cash <i>(cash divided by (total expenses-depreciation-in-kind)/365)</i>	49 days	41 days	96 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>	91%	91%	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>	92%	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>	6%	7%	14%	<= 15%	Between 15% and 30%	> 30%
Change in Net Position Percentage <i>(change in net position divided by total revenue)</i>	2.7%	2.3%	2.7%	Positive %	Between -2% and 0%	< -2%
Debt to Asset <i>(total liabilities divided by total assets)</i>	0.93	0.95	0.57	<= .9	Between .9 and 1	> 1

*** Calculated by DESE based on the financial information in the 2017 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 – November 21st
- Form 990 and Form PC for the Fund – November 15th