

Paulo Freire Social Justice Charter School
And
Igualdad as Friends of Paulo Freire Social Justice Charter School
Combining Financial Statements
and
Independent Auditors' Report
in Accordance with Government Auditing Standards
June 30, 2015

Paulo Freire Social Justice Charter School
And
Igualdad as Friends of Paulo Freire Social Justice Charter School
June 30, 2015

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Daniel Dennis & Company LLP

Certified Public Accountants

Independent Auditors' Report

The Board of Trustees

Paulo Freire Social Justice Charter School and

Igualdad as Friends of Paulo Freire Social Justice Charter School

Report on the Combining Financial Statements

We have audited the accompanying combining financial statements of Paulo Freire Social Justice Charter School (a governmental entity) (the School) and Igualdad as Friends of Paulo Freire Social Justice Charter School (a nonprofit organization) (the Foundation) (collectively, the Organization) as of and for the year ended June 30, 2015, and the related notes to the combining financial statements, which collectively comprise the Organization's basic combining financial statements as listed in the table of contents.

Management's Responsibility for the Combining Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combining 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 Organization'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 combining 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 combining financial statements referred to above present fairly, in all material respects, the respective combining financial position of the Organization as of June 30, 2015, and the respective changes in combining financial position and 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 2014 combining financial statements, and our report dated October 16, 2014, expressed an unqualified opinion on those audited combining financial statements. In our opinion, the summarized comparative information presented herein, as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited combining 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 6 be presented to supplement the basic combining financial statements. Such information, although not a part of the basic combining 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 combining 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 combining financial statements, and other knowledge we obtained during our audits of the basic combining 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 December 9, 2015, 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 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 Organization's internal control over financial reporting and compliance.

Daniel Dennis & Company LLP

*Dedham, Massachusetts
December 9, 2015*

Paulo Freire Social Justice Charter School
Management Discussion and Analysis
June 30, 2015 (Unaudited)

The following discussion and analysis of Paulo Freire Social Justice Charter School's (the School) financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the School's financial statements and the related notes, which begin on page 7.

The School as a Whole

The School was established on February 28, 2012 after receiving their charter from the Commonwealth of Massachusetts under Chapter 71, Section 89 of the General Laws of Massachusetts. The School is operating under its first charter for a five year period that is subject to renewal at the discretion of the Commonwealth of Massachusetts Department of Elementary and Secondary Education (DESE). The School has one location at 161 Lower Westfield Road, Holyoke, Massachusetts and offers the children of Holyoke and the surrounding communities in grades nine through twelve, a publicly supported academic education. During fiscal year 2015 and 2014, the School operated grades nine and ten and the enrollment was comprised of approximately 312 and 145 students, respectively. The School's maximum enrollment approved by the DESE is 500 students.

Using This Annual Report

This annual report consists of a series of combining financial statements. In accordance with *Government Accounting Standards Board (GASB) No. 34 - Basic Financial Statement – 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. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, 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 combining financial statements and other information which provides additional information that is essential to a full understanding of the information provided in the basic combining financial statements.

Financial Reporting Entity

As required by generally accepted accounting principles, and in conformance with the *GASB No. 14, The Financial Reporting Entity* and *GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units and subsequently amended by GASB No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The School evaluated its potential component unit and determined that Igualdad as Friends of Paulo Freire Social Justice Charter School (the Foundation) is a component unit of the School and should be presented as a blended component unit in the basic combining financial statements.

Paulo Freire Social Justice Charter School
Management Discussion and Analysis – *continued*
June 30, 2015 (Unaudited)

Financial Reporting Entity – *continued*

The combining financial statements of the primary government consist of the following:

- Paulo Freire Social Justice Charter School (the School) – operates as a high school in Holyoke, Massachusetts and serves 312 students in grades nine through twelve. At capacity the School will serve 500 students.
- Igualdad as Friends of Paulo Freire Social Justice Charter School (the Foundation) – is a legally separate, tax-exempt organization that acts primarily as a fundraising organization to supplement the resources of the School. The Foundation 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 Foundation is considered a component unit of the School and is presented as a blended component unit.

Financial Statements

The *Combining Statement of Net Position* presents all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the School as a whole, as of the end of the fiscal year and is a point-in-time financial statement. The purpose of the *Combining Statement of Net Position* is to present a fiscal snapshot of the School to the readers of the financial statements. Assets are resources with present service capacity that the Schools presently controls. Liabilities are present obligations to sacrifice resources that the School has little or no discretion to avoid. A deferred outflow of resources is a consumption of net position by the School that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the Schools that is applicable to a future reporting period. Net position represents the difference between all other elements in a statement of financial 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 and deferred inflows of resources 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, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Paulo Freire Social Justice Charter School
Management Discussion and Analysis – *continued*
June 30, 2015 (Unaudited)

Financial Statements – *continued*

Over time, readers of the financial statements will be able to evaluate the School’s fiscal health (liquidity and solvency) or financial position by analyzing the increases and decreases in net position to determine if the School’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 School. This statement is also a good source for readers to determine how much the School owes to vendors and creditors and the available assets that can be used to satisfy those liabilities.

The *Combining Statement of Revenues, Expenses and Changes in Net Position* reports the financial (revenue and expenses) activities of the School and divides it into two categories: *Operating activities* and *Non-operating activities*. Operating activities include all financial activities associated with the operation of the School 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 *Combining Statement of Net Position* are based on the activity presented in this statement. This statement helps to determine whether the School had sufficient revenues to cover expenses during the year and its net increase or decrease in net position based on current year operations.

The *Combining Statement of Cash Flows* provides information about the School’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 School’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 Combining Financial Statements provide additional information that is essential to a full understanding of the information provided in the School’s combining financial statements.

Financial Highlights

The following financial highlights are for the School for fiscal year 2015 and will provide comparative information from fiscal year 2014.

- The School held total assets of \$853,784 and \$800,799 at June 30, 2015 and 2014, of which \$332,078 and \$242,360 were net capital assets, and the majority of the remaining assets consisted of cash and grants and accounts receivable.
- The School held total liabilities of \$718,721 and \$699,161 at June 30, 2015 and 2014 of which \$650,611 and \$646,998 were current and \$68,110 and \$52,163 were noncurrent. During the fiscal year 2015 and 2014, the School received loan proceeds of \$85,000 and \$150,000 passed through from the Foundation.

Paulo Freire Social Justice Charter School
Management Discussion and Analysis – *continued*
June 30, 2015 (Unaudited)

Financial Highlights - *continued*

- Total net position for the School was \$135,063 and \$101,638, at June 30, 2015 and, of which (\$26,106) and \$71,509 were unrestricted. In addition, for the year ended June 30, 2015 and 2014, the School had \$161,169 and \$5,029 in net investments in capital assets, net of related debt.
- The School earned total revenues of \$4,017,179 and \$2,494,074 for the years ended June 30, 2015 and 2014 of which 99% and 95% were operating revenues and 1% and 5% were from nonoperating revenues (private grants, contributions, etc.).
- The School had total expenses of 3,983,754 and \$2,389,563 for the years ended June 30, 2015 and 2014, of which all were operating expenses.
- The School had a change in net position of \$33,425 and \$104,511 for the years ending June 30, 2015 and 2014, respectively. In fiscal year 2015, the change in net position was comprised of an operating loss of \$9,491 and nonoperating income of \$42,916. In fiscal year 2014, the change in net position was comprised of an operating loss of \$15,799 and nonoperating income of \$120,310.

Budgetary Highlights

The School received \$3,365,851 in per pupil tuition compared to the budgeted tuition of \$3,326,220. The School budgeted their tuition amount by increasing prior years tuition rate by 3% and multiplying it by the estimated amount of students for fiscal year 2015. In fiscal year 2015, the School also received \$349,909 in Federal grants compared to the original budgeted grant revenue of \$275,000. This \$74,909 increase was a result of the final grant allocations for SPED not being received until the last day of February 2015 and the final Title I allocations not received until the third week in April 2015.

In fiscal year 2015, the School incurred \$3,983,754 in actual expenditures compared to budgeted expenditures of \$3,630,435 resulting in the actual expenditures exceeding the budget by \$353,319. The difference is mainly due to the increase in staffing required to support student academic achievement. The finance committee reviews the financial results on a monthly basis to determine budgetary overruns and in fiscal year 2015 raised additional funds to cover such differences.

School's Financial Activities

The majority of the School's funding is received from DESE and is based on a standard rate per pupil. The School received \$3,365,851 and \$1,972,897 in per pupil funding in fiscal year 2015 and 2014, which represents 85% and 75% of the School's revenue for fiscal year. In addition, the School received various governmental grants and private contributions which totaled \$392,043 and \$502,206 for fiscal year 2015 and 2014.

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 information, please contact Bob Brick at the School at (413) 536-3201.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Combining Statement of Net Position
June 30, 2015
With Summarized Comparative Totals as of June 30, 2014

	<i>Paulo Freire Social Justice Charter School</i>	<i>Igualdad as Friends of Paulo Freire Social Justice Charter School</i>	<i>Memorandum Only Total Primary Government June 30, 2015</i>	<i>Memorandum Only Summarized Comparative June 30, 2014</i>
Assets				
Current Assets:				
Cash	\$ 489,071	\$ 12,698	\$ 501,769	\$ 13,235
Grants and accounts receivable	32,635	-	32,635	545,526
Pledges receivable	-	13,269	13,269	-
Due from related party	-	75,203	75,203	150,000
Total current assets	<u>521,706</u>	<u>101,170</u>	<u>622,876</u>	<u>708,761</u>
Noncurrent Assets:				
Capital assets, net	<u>332,078</u>	<u>-</u>	<u>332,078</u>	<u>242,360</u>
Total noncurrent assets	<u>332,078</u>	<u>-</u>	<u>332,078</u>	<u>242,360</u>
Total assets	<u>\$ 853,784</u>	<u>\$ 101,170</u>	<u>\$ 954,954</u>	<u>\$ 951,121</u>
Liabilities and Net Position				
Current Liabilities:				
Accounts payable	\$ 50,456	\$ 86	\$ 50,542	\$ 86,450
Accrued expenses	229,356	-	229,356	122,380
Capital lease obligation - current portion	45,596	-	45,596	35,168
Due to related party	75,203	-	75,203	150,000
Line of credit	250,000	-	250,000	253,000
Note payable - current	-	43,139	43,139	150,000
Total current liabilities	<u>650,611</u>	<u>43,225</u>	<u>693,836</u>	<u>796,998</u>
Noncurrent Liabilities:				
Note payable	-	25,164	25,164	-
Deferred operating lease obligation	18,000	-	18,000	-
Capital lease obligation	<u>50,110</u>	<u>-</u>	<u>50,110</u>	<u>52,163</u>
Total noncurrent liabilities	<u>68,110</u>	<u>25,164</u>	<u>93,274</u>	<u>52,163</u>
Total liabilities	<u>718,721</u>	<u>68,389</u>	<u>787,110</u>	<u>849,161</u>
Net Position:				
Net investment in capital assets	161,169	-	161,169	5,029
Restricted	-	13,269	13,269	25,160
Unrestricted	<u>(26,106)</u>	<u>19,512</u>	<u>(6,594)</u>	<u>71,771</u>
Total net position	<u>135,063</u>	<u>32,781</u>	<u>167,844</u>	<u>101,960</u>
Total liabilities and net position	<u>\$ 853,784</u>	<u>\$ 101,170</u>	<u>\$ 954,954</u>	<u>\$ 951,121</u>

See accompanying notes to combining financial statements.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Combining Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015
With Summarized Comparative Totals for the Year Ended June 30, 2014

	<i>Paulo Freire Social Justice Charter School</i>	<i>Igualdad as Friends of Paulo Freire Social Justice Charter School</i>	<i>Memorandum Only Total Primary Government June 30, 2015</i>	<i>Memorandum Only Summarized Comparative June 30, 2014</i>
Operating revenues				
State grants	\$ 3,365,851	\$ -	\$ 3,365,851	\$ 2,082,813
Federal grants	349,909	-	349,909	381,896
Contributions	-	79,502	79,502	-
Food service	92,343	-	92,343	18,971
On-behalf fringe benefits	166,160	-	166,160	-
Total operating revenues	<u>3,974,263</u>	<u>79,502</u>	<u>4,053,765</u>	<u>2,483,680</u>
Operating expenses				
Salaries	2,078,201	-	2,078,201	1,184,662
Payroll taxes	57,751	-	57,751	29,459
Fringe benefits	269,907	-	269,907	61,696
Occupancy	644,470	-	644,470	402,500
Telephone and utilities	5,567	-	5,567	2,016
Contracted services	103,800	154	103,954	172,355
Professional services	191,081	-	191,081	122,789
Insurance	31,648	-	31,648	23,655
Student supplies and materials	193,651	-	193,651	143,019
Student activities	74,389	-	74,389	51,397
Office expense	20,346	1,484	21,830	25,784
Food service	108,028	-	108,028	28,504
Repairs and maintenance	75,004	-	75,004	43,935
Travel	9,935	-	9,935	24,720
Fees	-	109	109	-
Interest	12,070	1,853	13,923	10,400
Depreciation	107,906	-	107,906	60,300
Contributions	-	42,644	42,644	114,141
Miscellaneous	-	799	799	1,556
Total operating expenses	<u>3,983,754</u>	<u>47,043</u>	<u>4,030,797</u>	<u>2,504,200</u>
Operating (loss)/income	<u>(9,491)</u>	<u>32,459</u>	<u>22,968</u>	<u>(20,520)</u>
Nonoperating revenues				
Private contributions	42,134	-	42,134	114,166
Other income	782	-	782	6,144
Total net nonoperating revenues	<u>42,916</u>	<u>-</u>	<u>42,916</u>	<u>120,310</u>
Change in net position	33,425	32,459	65,884	99,790
Net position, beginning of the year	<u>101,638</u>	<u>322</u>	<u>101,960</u>	<u>2,170</u>
Net position, end of the year	<u>\$ 135,063</u>	<u>\$ 32,781</u>	<u>\$ 167,844</u>	<u>\$ 101,960</u>

See accompanying notes to combining financial statements.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Combining Statement of Cash Flows
For the Year Ended June 30, 2015
With Summarized Comparative Totals for the Year Ended June 30, 2014

	<i>Paulo Freire Social Justice Charter School</i>	<i>Igualdad as Friends of Paulo Freire Social Justice Charter School</i>	<i>Memorandum Only Total Primary Government June 30, 2015</i>	<i>Memorandum Only Summarized Comparative June 30, 2014</i>
Cash flows from operating activities:				
Receipts from per state grants	\$ 3,911,377	\$ -	\$ 3,911,377	\$ 1,427,371
Receipts from Federal grants	317,274	-	317,274	381,896
Receipts from other	166,160	79,502	245,662	130,739
Payments to employees	(2,298,883)	-	(2,298,883)	(1,153,437)
Payments to suppliers and vendors	(1,413,640)	(46,957)	(1,460,597)	(1,125,826)
Net cash provided by/(used in) operating activities	<u>682,288</u>	<u>32,545</u>	<u>714,833</u>	<u>(339,257)</u>
Cash flows from investing activities: None	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from noncapital financing activities:				
Non-operating revenue	<u>42,916</u>	<u>-</u>	<u>42,916</u>	<u>120,311</u>
Net cash provided by noncapital financing activities	<u>42,916</u>	<u>-</u>	<u>42,916</u>	<u>120,311</u>
Cash flows from capital and financing activities:				
Proceeds (to)/from related party	(74,797)	74,797	-	-
Payments on line of credit	(968,000)	-	(968,000)	-
Proceeds from line of credit	965,000	-	965,000	253,000
Payments of loan principal	-	(166,697)	(166,697)	-
Proceeds from loan	-	85,000	85,000	150,000
Payments of capital lease obligation	(40,625)	-	(40,625)	-
Proceeds from capital lease obligation	67,000	-	67,000	87,331
Purchase of capital assets	(197,624)	-	(197,624)	(280,534)
Net cash (used in)/provided by capital and financing activities	<u>(249,046)</u>	<u>(6,900)</u>	<u>(255,946)</u>	<u>209,797</u>
Change in cash	476,158	25,645	501,803	(9,149)
Cash, beginning of year	12,913	322	13,235	22,384
Cash, end of year	<u>\$ 489,071</u>	<u>\$ 25,967</u>	<u>\$ 515,038</u>	<u>\$ 13,235</u>
Reconciliation of operating income to net cash provided by/(used in) in operating activities:				
Total net operating (loss)/revenue	\$ (9,491)	\$ 32,459	\$ 22,968	\$ (20,520)
<i>Adjustments to reconcile total net operating (loss)/ revenue to net cash provided by/(used in) operating activities:</i>				
Depreciation and amortization	107,906	-	107,906	60,300
<i>Changes in operating assets and liabilities:</i>				
Grants and accounts receivable	512,891	-	512,891	(544,165)
Prepaid rent and prepaid expenses	-	-	-	4,567
Accounts payable	(35,994)	86	(35,908)	43,174
Accrued expenses	106,976	-	106,976	117,387
Net cash provided by operating activities	<u>\$ 682,288</u>	<u>\$ 32,545</u>	<u>\$ 714,833</u>	<u>\$ (339,257)</u>

See accompanying notes to combining financial statements.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements
June 30, 2015

1. Nature of Organization

Paulo Freire Social Justice Charter School (the School) was established on February 28, 2012 after receiving their charter from the Commonwealth of Massachusetts under Chapter 71, Section 89 of the General Laws of Massachusetts. The School is operating under its first charter that is subject to renewal at the discretion of the Commonwealth of Massachusetts Department of Elementary and Secondary Education (DESE). The initial charter is for a five-year period and commenced on the date of the first enrolled class, which was September 2013 and expires on June 30, 2018. DESE provided 85% of the funding to the School for the year ended June 30, 2015 through a per pupil reimbursement.

The School is considered a special purpose governmental entity, and operates as a public school. The School's operations are managed by a Board of Trustees who are deemed public agents authorized by the Commonwealth.

The School has one location at 161 Lower Westfield Rd, Holyoke, Massachusetts and offers children of Holyoke and the surrounding communities in grades nine through twelve, a publicly supported academic education. The School provides students and parents with greater options in choosing schools within and outside the school district.

The basic combining financial statements consist of the following:

- Paulo Freire Social Justice Charter School (the School) – operates as a high school in Holyoke, Massachusetts and serves 252 students in grades nine through ten. At capacity the School will serve 500 students.
- The Igualdad as Friends of Paulo Freire Social Justice Charter School (the Foundation) – is a legally separate, tax-exempt organization that acts primarily as a fundraising organization to supplement the resources of the School. The Foundation 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 Foundation is considered a component unit of the School and is presented as a blended component unit.

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

The School's mission is: *The Paulo Freire Social Justice Charter School is a public high school preparing students for college success while inspiring them to be active and effective citizens. We achieve educational excellence and social responsibility for all our students through high expectations and a rigorous academic and social justice curriculum. Our students graduate with strong intellectual and ethical foundations necessary for future leaders of a global society.*

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

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:

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 No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* the School evaluated its potential component unit to determine the reporting entity.

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 financial statements to be misleading or incomplete. The School is financially accountable if it appoints a majority of the Foundation's board and (1) is able to impose its will on the Foundation, or (2) there is a potential to provide specific financial benefit or to impose a burden on the School.

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

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

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

Financial Statement Presentation

The School, in accordance with *GASB 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, the financial statements are prepared using the accrual basis of accounting and all of the activity is recorded in the enterprise fund.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

2. *Summary of Significant Accounting Policies – Continued*

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.

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 Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

Tax Status

The School was established under a charter granted by the Commonwealth of Massachusetts' 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 Foundation is exempt from income taxes as a non-profit corporation under Section 501(c)(3) of the U.S. Internal Revenue Code and is also exempt from state income taxes, except for income taxes on unrelated business income, if any. For the year ended June 30, 2015, the Foundation had no unrelated business income subject to income taxes. Accordingly, no provision for income taxes has been included in these financial statements.

The Foundation evaluates 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 Foundation has evaluated the tax positions taken in its previously filed returns and those expected to be taken in its 2014 returns and believes they are more-likely-than-not to be sustained if examined by federal or state tax authorities. The Foundation'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.

Cash and Cash Equivalents

For the purpose of the *Combining Statement of Net Position* and the *Combining Statement of Cash Flows*, the Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2015 and 2014.

Grants and Accounts Receivable

Grants and accounts receivable are presented net of allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on its past experience. These receivables are written off when deemed uncollectible. At June 30, 2015 and 2014, no allowance for doubtful accounts had been recorded, as management considers all receivables to be fully collectible.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

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 School'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 nonoperating revenues and expenses.

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 \$1,000 are capitalized. Depreciation is computed on the straight-line basis using estimated useful lives of 3 years for computers, 5 years for equipment, 10 years for furniture and fixtures, 40 years for buildings and 5 years or the remaining expected life of the lease for leasehold improvements, or capital leases whichever is shorter.

Classification of Net Position

Net position of the Organization are classified into three components – net investment in capital assets, restricted and unrestricted.

The net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings used for the acquisition, construction or improvement of those assets.

The restricted component of net position consists of restricted assets when there are limitations imposed on their use either through the enabling legislation adopted by the Organization or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Organization's policy is to first apply restricted resources when an expense is incurred for the purpose for which both restricted and unrestricted resources are available.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

2. *Summary of Significant Accounting Policies – Continued*

In-Kind Contributions

The School receives donated services in support of the School. Donated services are recorded at fair value. Donates services that (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if they were not donated are recorded as both revenue and expense in the *Combining Statement of Revenues, Expenses and Changes in Net Position*. Donates services such as fund-raising, clerical assistance or other volunteer efforts not requiring specialized skills are not recorded in the combining financial statements.

Accrued Sick and Vacation Time

Teaching and administrative personnel are granted vacation and sick leave benefits pursuant to the School's policy. All vacation and sick time must be taken within the fiscal year earned. Accordingly, there is no obligation recorded for payment of any accrued sick or vacation days in the accompanying combining financial statements.

Fair Value of Financial Instruments

The Organization's financial instruments, none of which are held for trading purposes, include cash and cash equivalents and accounts receivable. The School estimates that the fair value of all financial instruments at June 30, 2015 and 2014 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying financial statements.

Summarized Comparative Totals

The basic combining financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for 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 combining financial statements for the year ended June 30, 2014, from which the summarized information was derived.

3. *Deposits with Financial Institutions*

The Organization maintained its cash accounts at one financial institution. 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.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

3. Deposits with Financial Institutions - Continued

As required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. The following represents a summary of deposits held by the School as of June 30, 2015 and 2014:

	2015	2014
Fully insured deposits	\$ 489,071	\$ 12,913
Collateralized with securities held by the pledging financial institution in the School's name	-	-
Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School's name	-	-
Uncollateralized	-	-
Total	<u>\$ 489,071</u>	<u>\$ 12,913</u>

As required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. The following represents a summary of deposits held by the Foundation as of June 30, 2015 and 2014:

	2015	2014
Fully insured deposits	\$ 12,698	\$ 322
Collateralized with securities held by the pledging financial institution in the School's name	-	-
Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School's name	-	-
Uncollateralized	-	-
Total	<u>\$ 12,698</u>	<u>\$ 322</u>

4. Capital Assets

Changes in capital assets during fiscal year 2015 are as follows:

	<i>Balance July 1, 2014</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 2015</i>
<i>Capital assets being depreciated</i>				
Computer equipment	\$ 75,863	\$ 87,015	\$ -	\$ 162,878
Automobile	45,725	49,000	-	94,725
Furniture and equipment	<u>181,072</u>	<u>61,609</u>	-	<u>242,681</u>
Total capital assets being depreciated	<u>302,660</u>	<u>197,624</u>	-	<u>500,284</u>
<i>Less accumulated depreciation</i>				
Computer equipment	25,288	54,293	-	79,581
Automobile	9,145	18,945	-	28,090
Furniture and equipment	<u>25,867</u>	<u>34,668</u>	-	<u>60,535</u>
Total accumulated depreciation	<u>60,300</u>	<u>107,906</u>	-	<u>168,206</u>
Capital assets, net	<u>\$ 242,360</u>	<u>\$ 89,718</u>	<u>\$ -</u>	<u>\$ 332,078</u>

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

4. Capital Assets - Continued

Changes in capital assets during fiscal year 2014 are as follows:

	<i>Balance July 1, 2013</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 2014</i>
<i>Capital assets being depreciated</i>				
Computer equipment	\$ 2,080	\$ 73,783	\$ -	\$ 75,863
Automobile	-	45,725	-	45,725
Furniture and equipment	20,046	161,026	-	181,072
Total capital assets being depreciated	<u>22,126</u>	<u>280,534</u>	<u>-</u>	<u>302,660</u>
<i>Less accumulated depreciation</i>				
Computer equipment	-	25,288	-	25,288
Automobile	-	9,145	-	9,145
Furniture and equipment	-	25,867	-	25,867
Total accumulated depreciation	<u>-</u>	<u>60,300</u>	<u>-</u>	<u>60,300</u>
Capital assets, net	<u>\$ 22,126</u>	<u>\$ 220,234</u>	<u>\$ -</u>	<u>\$ 242,360</u>

5. Grants and Accounts Receivables

Grants and accounts receivable at June 30, 2015 and 2014 are as follows:

	<i>2015</i>	<i>2014</i>
Commonwealth of Massachusetts	\$ 32,549	\$ 545,451
Other	<u>86</u>	<u>75</u>
Total	<u>\$ 32,635</u>	<u>\$ 545,526</u>

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2015 and 2014 are as follows:

	<i>2015</i>	<i>2014</i>
Payables to vendors	\$ 50,456	\$ 86,450
Accrued expenses	<u>229,356</u>	<u>122,380</u>
Total	<u>\$ 279,812</u>	<u>\$ 208,830</u>

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

7. Lease Commitments

Operating Leases

In fiscal year 2013, the School entered into a lease agreement for the building. In September 2013, the lease agreement was amended to provide expansion of the initial leased space and extend the term until June 30, 2015, with an option to extend for an additional 13 months. In October 2014, the lease agreement was amended to extend the term until July 31, 2017. The amendment stipulates that up to \$2,000 of each monthly base rental payment for the period of October 1, 2014 through July 31, 2017 may be deferred and payable upon the earlier of the expiration of the term or any earlier termination. The amount of rent deferred as of June 30, 2015 is \$18,000.

The School also has various other operating lease agreements for office equipment.

The future minimum base lease payments under the executed operating leases are as follows:

<i>Fiscal Year</i>	<i>Amount</i>
2016	\$ 843,816
2017	877,996
2018	<u>175,833</u>
Total	<u>\$ 1,897,645</u>

Capital Leases

The School has three capital leases for equipment. The assets and liabilities under these capital leases are recorded at the present value of the minimum lease payments or fair value of the asset. The assets are amortized over their estimated lives.

The following is a summary of the property held under the capital leases and reported in capital assets at June 30, 2015 and 2014:

	<i>2015</i>	<i>2014</i>
Vans	\$ 94,725	\$ 45,725
Computers	73,783	73,783
Less accumulated amortization	<u>(77,279)</u>	<u>(33,739)</u>
Total	<u>\$ 91,229</u>	<u>\$ 85,769</u>

Amortization of leased equipment under capital assets is included with depreciation expense.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

7. Lease Commitments – continued

The minimum future lease payments under the capital leases as of June 30, 2015 through the end of the leases are as follows:

<i>Fiscal Year</i>	<i>Amount</i>
2016	\$ 45,596
2017	20,533
2018	20,533
2019	12,954
2020	<u>2,607</u>
Total minimum lease payments	102,223
Less amount representing interest	<u>(6,517)</u>
Present value of minimum lease payments	<u>\$ 95,706</u>

8. Note Payable

The Foundation entered into a \$150,000 loan agreement with a financial institution on November 30, 2013. The loan had a nine month term with a fixed interest rate of 4.5%. Interest only payments were due monthly for the first six months; thereafter principal payments of \$50,000 plus interest were due monthly with any unpaid principal and interest due at maturity on August 31, 2014. The proceeds of the note were loaned to the School and were used for leasehold improvements and equipment purchases related to the start up of the high school facility. The principal balance as of June 30, 2015 and 2014 was \$0 and \$150,000, respectively, and interest expense was \$2,363 and \$3,638, respectively, for the years ended June 30, 2015 and 2014.

The Foundation entered into a \$85,000 loan agreement with a financial institution on September 30, 2014 expiring on January 30, 2017. The loan has a twenty-four month term and amortization period with a fixed interest rate of 4.5%. The proceeds of the note were loaned to the School and were used for equipment purchases related to the high school facility. The principal balance as of June 30, 2015 was \$68,303 and interest expense was \$1,853 for the year then ended.

The following are the maturities of the long-term debt for each of the next two years:

<i>Fiscal Year</i>	<i>Amount</i>
2016	\$ 43,139
2017	\$ 25,164

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

9. *Line-of-Credit*

The School has a \$300,000 demand line-of-credit agreement with a financial institution, which will expire on June 30, 2017, with an interest rate of one percentage point above the New York prime rate, as published in the Wall Street Journal. The line of credit is secured by the School's assets. The line of credit is to be used to sustain working capital and cash flow for periods between the receipts of tuition payments from the Commonwealth of Massachusetts. As of June 30, 2015 and 2014, the outstanding balance on the line was \$250,000 and \$253,000.

10. *Related Party*

The School is a guarantor on the Foundation's loan as discussed in Note 8. During fiscal year 2015, the Foundation loaned the School \$85,000 from the proceeds of the note. In addition, during fiscal year 2015, the Foundation received contributions of \$66,233, of which \$42,134 was provided to the School. In addition, the School paid \$2,700 of operating costs relating to interest and financing costs on behalf of the Foundation. At June 30, 2015 and 2014, \$75,203 and \$150,000, respectively is due to the Foundation from the School.

The Executive Director of the School and the President of the Foundation are related parties. All transactions between the School and the Foundation are approved by the respective board of directors and the parties recuse themselves from any necessary votes between them.

11. *Retirement Plans*

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 (MTRB). 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.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

11. Retirement Plans - Continued

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.

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, 2014 measurement date was determined by an actuarial valuation prepared as of January 1, 2014 and rolled forward to June 30, 2014. The School's estimated share of MTRS net pension liability is \$2,391,652.

12. On-Behalf Fringe Benefits

In accordance with GASB Statement 68, *Accounting and Reporting for Pensions – An Amendment of GASB Statement No. 27*, the School is required to recognize revenue and expenditures for on-behalf payments in their combining financial statements. On-behalf payments for fringe benefits and salaries are direct payments made by a paying entity to a third-party recipient for the employees of an employer entity. As of June 30, 2015 and 2014, the MTRB had made retirement payments in the amount of \$166,160 and \$0, respectively. The School has reported both revenue and expenses in the *Combining Statement of Revenues, Expenses, and Changes in Net Position*.

13. Contingency

Grant Funding

The School's various grants and contracts are subject to audit by appropriate governmental agencies. Acceptance of final costs incurred under these grants and contracts resides with these grantors. As of the date of these statements, the materiality of adjustments to final costs, if any, cannot be determined and management does not anticipate any. Therefore, no adjustment has been made to the financial statements.

13. Risk Management

The School is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment, and employee health claims. The School carries commercial insurance for general liability, property and casualty, and workers' compensation. Losses are insured to the extent the losses exceed the deductibles. There have been no significant reductions in insurance coverage during fiscal year 2015.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Notes to Combining Financial Statements - *Continued*
June 30, 2015

14. Pledges Receivable

At June 30, 2015 and 2014, the pledges receivable balances for the Foundation are as follows:

<i>Description</i>	<i>2015</i>	<i>2014</i>
Total pledges receivable	\$ 13,525	\$ -
Less discount to net present value	<u>(256)</u>	<u>-</u>
Pledges receivable, net	<u>\$ 13,269</u>	<u>\$ -</u>

15. Subsequent Events

The Organization has evaluated subsequent events through December 9, 2015, which is the date the financial statements were available to be issued. There are no recognized subsequent events, events that provide additional evidence about conditions that existed at the *Combining Statement of Net Position* date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the *Combining Statement of Net Position* date, which are necessary to disclose to keep the financial statements from being misleading.

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



Daniel Dennis & Company LLP

Certified Public Accountants

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

Paulo Freire Social Justice Charter School and

Igualdad as Friends of Paulo Freire Social Justice Charter School

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 business-type activities of Paulo Freire Social Justice Charter School (a governmental entity) (the School) and Igualdad as Friends of Paulo Freire Social Justice Charter School (a nonprofit organization) (the Foundation) (collectively, the Organization) as of and for the year ended June 30, 2015, and the related notes to the combining financial statements, which collectively comprise the Organization's basic combining financial statements and have issued our report thereon dated December 9, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the combining financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 combining 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and results, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's combining 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 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and results as Finding 2015-02.

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and results. The Organization's response was not subjected to the auditing procedures applied in the audit of the combining financial statements and, accordingly, we express no opinion on it.

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.



Dedham, MA
December 9, 2015

**SCHEDULE OF FINDINGS
AND RESULTS**

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Schedule of Findings and Results
For the Year Ended June 30, 2015

INTERNAL CONTROLS OVER FINANCIAL REPORTING

2015-01 Allowable Costs

Condition

The School received an advance reimbursement under a Charter School Start-Up Assistance grant for an expenditure which had not been incurred during the grant period. The School charged the grant \$5,600 for a software and technological support contract which was applicable to the period of July 1, 2015 through June 30, 2016.

Effect

Noncompliance with the Charter School Start-Up Assistance Program grant requirements.

Cause

The School purchased the contract for a future period using Charter School Start-Up Assistance Program grant funds received in advance.

Criteria

The Charter School Start-Up Assistance Program grant requires that program costs must be charged to the appropriate fiscal period.

Recommendation

We recommend that the School implement control procedures to ensure that all expenditures charged to the grant are reviewed to ensure compliance with the Charter School Start-Up Assistance Program grant requirements.

Management Response

The amount was charged to the wrong period due to a misinterpretation of the dates of service on the invoice. The School will contact the grantor for guidance as to resolution. The Finance Committee will continue to monitor grants at its monthly committee meetings.

Responsibility

Management and the Finance Committee.

Timing

Grantor to be contacted in December 2015 and the Finance Committee will continue to monitor grant compliance at its monthly meetings.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Schedule of Findings and Results - *continued*
For the Year Ended June 30, 2015

COMPLIANCE AND OTHER MATTERS

2015-02 Massachusetts Teacher Retirement System (MTRS)

Condition

During fiscal year 2015, the School did not submit the employees' MTRS payroll deductions withheld to the Massachusetts Teachers Retirement Board (MTRB) in a timely manner for six of twelve months, as required by MTRB.

Effect

The School was not in compliance with the requirements of the MTRB.

Cause

During the first part of the fiscal year, the School did not have an adequate policy in place to ensure that timely filings were made resulting in late payments for the first five months of the fiscal year. In December 2014, the School implemented procedures to ensure the payments were submitted timely, which they subsequently were, with the exception of June 2015.

Criteria

The MTRB requires that payroll deductions are being withheld from eligible employees and remitted to MTRB on a monthly basis by the tenth day of the month following the reporting period.

Recommendation

We recommend that the School continue to monitor their MTRS submissions to ensure they are submitted to MTRB by the tenth day of the month following the reporting period.

Management Response

The School is currently remitting within the required time frame and will continue to do so.

Responsibility

Management and the Finance Committee

Timing

The Finance Committee will monitor the filings and the related MTRS liability at its monthly meetings.

SCHEDULE OF PRIOR YEAR FINDINGS

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Schedule of Prior Year Findings
For the Year Ended June 30, 2015

2014-01 Allowable Costs

Condition

The School charged and subsequently received reimbursement under a Charter School Start-Up Assistance grant for an expenditure which they subsequently received a credit for. The School purchased and charged the grant \$27,264 in computer equipment and received a credit as a result of a leasing arrangement for the equipment. In addition, a portion of the lease payment applicable to this equipment was charged to the grant.

Status

The finding was not resolved in fiscal year 2015. See Finding 2015-01.

**Paulo Freire Social Justice Charter School and
Igualdad as Friends of Paulo Freire Social Justice Charter School**
Schedule of Prior Year Findings
For the Year Ended June 30, 2015

2014-02 Massachusetts Teacher Retirement System (MTRS)

Condition

During fiscal year 2014, the School was not submitting the employees' MTRS payroll deductions withheld to the Massachusetts Teachers Retirement Board (MTRB) in a timely manner as required by MTRB.

Status

Similar items was noted in 2015. See 2015-02.

BOARD ACCEPTANCE LETTER



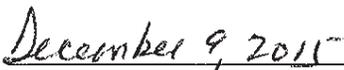
ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of Paulo Freire Social Justice Charter School and Igualdad Friends of Paulo Freire Social Justice Charter School 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 as embodied in the financial statements and independent auditor's reports for the year ended June 30, 2015.

We also certify that the representations made by management and the disclosures in the 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, 2015.



Board President or Treasurer
or Other Designated Person



Date