

**Paulo Freire Social Justice Charter School**  
**And**  
**Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Combined Financial Statements  
and  
Independent Auditors' Report in Accordance with  
Government Auditing Standards  
June 30, 2018

**Paulo Freire Social Justice Charter School**  
**And**  
**Igualdad as Friends of Paulo Freire Social Justice Charter School**  
June 30, 2018

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**DANIEL DENNIS & Co**  
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 Combined Financial Statements**

We have audited the accompanying combined statement of net position of Paulo Freire Social Justice Charter School (a governmental entity) and Igualdad as Friends of Paulo Freire Social Justice Charter School (a nonprofit organization) (collectively, the Organization) as of and for the year ended June 30, 2018, and the combined related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the 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 auditor's 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 respective combined financial position of the Organization as of June 30, 2018, and the respective changes in the combined financial position and cash flows thereof and 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 2017 combined financial statements, and our report dated October 25, 2017, 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, 2017, 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 4 through 8 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 audits 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.

### ***Emphasis of Matter Regarding Going Concern***

The accompanying combined financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 13 to the combined financial statements, the School's charter renewal placed the School on probationary status and was renewed with conditions. In addition, enrollment for fiscal year 2019 was less than projected, resulting in a reduction of tuition revenue. These factors, as well as the School's decrease in net position of approximately \$189,000 during the fiscal year ended June 30, 2018, and the School's current liabilities exceeded its current assets by approximately \$80,000 create an uncertainty about the School's ability to continue as a going concern. Management's plan regarding these items are discussed in Note 13. The financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 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.

*Daniel Dennis & Company LLP*

*Dedham, Massachusetts  
February 1, 2019*

**Paulo Freire Social Justice Charter School**  
Management's Discussion and Analysis  
June 30, 2018 (Unaudited)

The following management's 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, 2018, with comparative information for fiscal year 2017. Please read it in conjunction with the School's combined financial statements and the related notes, which begin on page 9.

**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, and opened its doors to the public September 2013. The School completed its first five years and applied for renewal from the Commonwealth of Massachusetts Department of Elementary and Secondary (DESE) in the spring of 2017. On January 23, 2018, the Massachusetts Department of Education Board of Education voted to renew the charter for the School for a second five-year period beginning on July 1, 2018 through June 30, 2023. The charter renewal includes a status of probation and conditions for which the School must comply. The School has worked diligently to meet these conditions.

The School has one location, 161 Lower Westfield Road, Holyoke, Massachusetts, and offers the children of Holyoke and the surrounding communities, a publicly supported academic education. During fiscal years 2018 and 2017, the School operated grades nine through twelve and the enrollment was comprised of approximately 297 and 339 students, respectively. The School's maximum enrollment initially approved by the DESE was 500 students, however, the Board of Trustees requested an amendment subsequent to June 30, 2018 decreasing the maximum enrollment to 375 students, which is pending. The decrease in enrollment will allow the School to meet the unique need and abilities of the students and create a setting to be able to work within a small close-knit environment where all staff members are connected to each student meeting academic, social and physical needs when necessary.

**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 and GASB 80, Blending Requirements for Certain Component Units*, 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 combined financial statements.

**Paulo Freire Social Justice Charter School**  
Management Discussion and Analysis – *Continued*  
June 30, 2018 (Unaudited)

**Financial Reporting Entity – *Continued***

The combined 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 served 297 and 339 students in grades nine through twelve in fiscal years 2018 and 2017, respectively. At capacity, the School will serve 500 students, however an amendment is pending to decrease enrollment to 375.
- 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 *Combined Statement of Net Position* presents all 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 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 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.

**Paulo Freire Social Justice Charter School**  
Management Discussion and Analysis – *Continued*  
June 30, 2018 (Unaudited)

**Financial Statements – *Continued***

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 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 year and its net increase or decrease in net position based on current year operations.

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 School for fiscal year 2018 and will provide comparative information from fiscal year 2017.

- The School held total assets of \$852,737 and \$899,729 at June 30, 2018 and 2017, of which \$180,010 and \$265,546 were net capital assets, and the majority of the remaining assets consisted of cash.
- The School held total liabilities of \$652,602 and \$510,771 at June 30, 2018 and 2017, of which \$584,280 and \$451,382 were current and \$68,322 and \$59,389 were noncurrent.
- Total net position for the School was \$200,135 and \$388,958, at June 30, 2018 and 2017, respectively, of which \$103,415 and \$241,666, respectively, was unrestricted. In addition, for the year ended June 30, 2018 and 2017, the School had \$96,720 and \$147,292, respectively, in net investments in capital assets.

**Paulo Freire Social Justice Charter School**  
Management Discussion and Analysis – *Continued*  
June 30, 2018 (Unaudited)

**Financial Highlights – *Continued***

- The School earned total revenues of \$5,498,619 and \$6,281,809 for the years ended June 30, 2018 and 2017, respectively, of which 99% and 96% were operating revenues and 1% and 4% was from nonoperating revenues (private grants, contributions, etc.).
- The School had total expenses of \$5,687,442 and \$5,723,931 for the years ended June 30, 2018 and 2017, respectively, of which all were operating expenses.
- The School had a change in net position of (\$188,823) and \$557,878 for the years ending June 30, 2018 and 2017, respectively. In fiscal year 2018, the change in net position was comprised of an operating loss of \$196,719 and nonoperating income of \$7,896. In fiscal year 2017, the change in net position was comprised of an operating income of \$336,509 and nonoperating income of \$221,370.

**Budgetary Highlights**

The School received \$4,008,642 in per pupil tuition compared to the budgeted tuition of \$4,998,340. The School budgeted their tuition amount by multiplying their projected tuition rate of \$14,701 by the estimated students for fiscal year 2018 (340). In fiscal year 2018, the School also received \$695,063 in Federal grants compared to the original budgeted grant revenue of \$442,946. A portion of the difference is the result of the prior years' grant carryover recognized in fiscal year 2018.

In fiscal year 2018, the School incurred \$4,900,424 in actual expenditures, excluding on-behalf fringe benefits and in-kind food services, compared to budgeted expenditures of \$5,770,634 resulting in the budget exceeding actual expenditures by the budget by \$870,210. The difference is mainly due to the School cutting expenses throughout the year to address the decrease in tuition.

In fiscal year 2018, the Executive Director worked closely with representatives of staff members and the Board of Trustees' Finance Committee to arrive to completed contractual agreements for all eligible employees, letters of agreements for all others, job descriptions and an employee handbook outlining all pertinent previously approved Board employee policies, procedures and responsibilities. The result enabled the Board of Trustees and the Executive Director to prepare a more concise budget as staff members were placed on steps and/or levels with preset pay scales.

**Paulo Freire Social Justice Charter School**  
Management Discussion and Analysis – *Continued*  
June 30, 2018 (Unaudited)

**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 \$4,008,642 and \$4,548,855 in per pupil funding in fiscal years 2018 and 2017, respectively, which represents 73% and 83%, respectively of the School's revenue. In addition, the School received various governmental grants which totaled \$695,063 and \$621,168 for fiscal years 2018 and 2017, respectively.

During fiscal year 2019, the School solicited bids to lease a new school. The School is currently in the process of negotiating a lease which would provide them with a new high school building in Chicopee, Massachusetts effective August 1, 2019.

**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 Isabelina Rodriguez at the School at (413) 536-3201.

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Combined Statement of Net Position  
With Combining Totals for June 30, 2018  
With Summarized Comparative Totals as of June 30, 2017

	<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, 2018</i>	<i>Memorandum Only Summarized Comparative June 30, 2017</i>
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ 469,020	\$ 21,613	\$ 490,633	\$ 654,385
Grants and accounts receivable	28,155	-	28,155	-
Prepaid expenses	6,323	-	6,323	-
Total current assets	<u>503,498</u>	<u>21,613</u>	<u>525,111</u>	<u>654,385</u>
<b>Noncurrent Assets:</b>				
Restricted cash	169,229	-	169,229	-
Capital assets, net	180,010	-	180,010	265,546
Total noncurrent assets	<u>349,239</u>	<u>-</u>	<u>349,239</u>	<u>265,546</u>
Total assets	<u>\$ 852,737</u>	<u>\$ 21,613</u>	<u>\$ 874,350</u>	<u>\$ 919,931</u>
<b>Liabilities and Net Position</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 74,916	\$ -	\$ 74,916	\$ 15,126
Accrued payroll	250,312	-	250,312	314,344
Accrued other expenses	23,584	-	23,584	20,047
Capital lease obligation - current portion	32,968	-	32,968	41,389
Line of credit	202,500	-	202,500	25,000
Total current liabilities	<u>584,280</u>	<u>-</u>	<u>584,280</u>	<u>415,906</u>
<b>Noncurrent Liabilities:</b>				
Deferred operating lease obligation	18,000	-	18,000	18,000
Capital lease obligation	50,322	-	50,322	76,865
Total noncurrent liabilities	<u>68,322</u>	<u>-</u>	<u>68,322</u>	<u>94,865</u>
Total liabilities	<u>652,602</u>	<u>-</u>	<u>652,602</u>	<u>510,771</u>
<b>Net Position:</b>				
Net investment in capital assets	96,720	-	96,720	147,292
Unrestricted	103,415	21,613	125,028	261,868
Total net position	<u>200,135</u>	<u>21,613</u>	<u>221,748</u>	<u>409,160</u>
Total liabilities and net position	<u>\$ 852,737</u>	<u>\$ 21,613</u>	<u>\$ 874,350</u>	<u>\$ 919,931</u>

*See accompanying notes to combined financial statements.*

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Combined Statement of Revenues, Expenses and Changes in Net Position  
With Combining Totals For the Year Ended June 30, 2018  
With Summarized Comparative Totals for the Year Ended June 30, 2017

	<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, 2018</i>	<i>Memorandum Only Summarized Comparative June 30, 2017</i>
<b>Operating revenues</b>				
Tuition	\$ 4,008,642	\$ -	\$ 4,008,642	\$ 4,548,855
Federal grants	695,063	-	695,063	621,168
In kind contributions - other	-	-	-	76,212
In kind food service	103,139	-	103,139	139,545
On-behalf fringe benefits	683,879	-	683,879	674,661
Total operating revenues	<u>5,490,723</u>	<u>-</u>	<u>5,490,723</u>	<u>6,060,441</u>
<b>Operating expenses</b>				
Salaries	2,730,214	-	2,730,214	2,705,636
Payroll taxes	83,879	-	83,879	93,126
Fringe benefits	228,874	-	228,874	166,455
On-behalf fringe benefits	683,879	-	683,879	674,661
Occupancy	798,591	-	798,591	765,996
Telephone and utilities	12,189	-	12,189	11,800
Contracted services	314,676	-	314,676	290,326
Professional services	340,557	-	340,557	336,964
Insurance	45,768	-	45,768	56,064
Student supplies and materials	94,598	-	94,598	141,220
Student activities	41,985	-	41,985	60,195
Office supplies	4,241	-	4,241	10,350
Food service	119,685	-	119,685	157,119
Repairs and maintenance	70,537	-	70,537	95,861
Travel	19,093	-	19,093	24,780
Interest	14	-	14	10,154
Depreciation	96,583	-	96,583	121,906
Miscellaneous	2,079	70	2,149	17,743
Total operating expenses	<u>5,687,442</u>	<u>70</u>	<u>5,687,512</u>	<u>5,740,356</u>
Operating (loss)/income	<u>(196,719)</u>	<u>(70)</u>	<u>(196,789)</u>	<u>320,085</u>
<b>Nonoperating revenues (expenses)</b>				
Private grants and contributions	5,000	-	5,000	186,766
Other income	2,896	1,481	4,377	40,731
Total net nonoperating revenues (expenses)	<u>7,896</u>	<u>1,481</u>	<u>9,377</u>	<u>227,497</u>
Change in net position	(188,823)	1,411	(187,412)	547,582
Net position, beginning of the year	<u>388,958</u>	<u>20,202</u>	<u>409,160</u>	<u>(138,422)</u>
Net position, end of the year	<u>\$ 200,135</u>	<u>\$ 21,613</u>	<u>\$ 221,748</u>	<u>\$ 409,160</u>

*See accompanying notes to combined financial statements.*

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Combined Statement of Cash Flows  
With Combining Totals For the Year Ended June 30, 2018  
With Summarized Comparative Totals for the Year Ended June 30, 2017

	<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, 2018</i>	<i>Memorandum Only Summarized Comparative June 30, 2017</i>
<b>Cash flows from operating activities:</b>				
Receipts from state grants	\$ 4,008,642	\$ -	\$ 4,008,642	\$ 4,548,855
Receipts from Federal grants	666,908	-	666,908	624,432
Receipts from other	787,018	-	787,018	77,645
Payments to employees	(3,103,462)	-	(3,103,462)	(3,110,875)
Payments to suppliers and vendors	(2,494,425)	(70)	(2,494,495)	(1,878,954)
Net cash (used in)/provided by operating activities	<u>(135,319)</u>	<u>(70)</u>	<u>(135,389)</u>	<u>261,103</u>
<b>Cash flows from noncapital financing activities:</b>				
Non-operating revenue	<u>7,896</u>	<u>1,481</u>	<u>9,377</u>	<u>211,345</u>
Net cash provided by noncapital financing activities	<u>7,896</u>	<u>1,481</u>	<u>9,377</u>	<u>211,345</u>
<b>Cash flows from capital and financing activities:</b>				
Payments on line of credit	(25,000)	-	(25,000)	(2,300,000)
Proceeds from line of credit	202,500	-	202,500	2,130,000
Payments of loan principal	-	-	-	(26,639)
Payments of capital lease obligation	(34,964)	-	(34,964)	(28,935)
Purchase of capital assets	(11,047)	-	(11,047)	-
Net cash provided by/(used in) capital and financing activities	<u>131,489</u>	<u>-</u>	<u>131,489</u>	<u>(225,574)</u>
Change in cash	4,066	1,411	5,477	246,874
Cash, beginning of year	634,183	20,202	654,385	407,511
Cash, end of year	<u>\$ 638,249</u>	<u>\$ 21,613</u>	<u>\$ 659,862</u>	<u>\$ 654,385</u>
<b>Reconciliation of operating income to net cash provided by/(used in) in operating activities:</b>				
Total net operating (loss)/income	\$ (196,719)	\$ (70)	\$ (196,789)	\$ 320,085
<i>Adjustments to reconcile total net operating (loss)/ revenue to net cash (used in)/provided by operating activities:</i>				
Depreciation and amortization	96,583	-	96,583	121,906
Debt forgiveness	-	-	-	16,152
<i>Changes in operating assets and liabilities:</i>				
Grants and accounts receivable	(28,155)	-	(28,155)	16,576
Prepaid rent and prepaid expenses	(6,323)	-	(6,323)	-
Accounts payable	59,790	-	59,790	(68,018)
Accrued expenses	(60,495)	-	(60,495)	(145,598)
Net cash (used in)/provided by operating activities	<u>\$ (135,319)</u>	<u>\$ (70)</u>	<u>\$ (135,389)</u>	<u>\$ 261,103</u>

*See accompanying notes to combined financial statements.*

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Notes to Combined Financial Statements  
June 30, 2018

**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 was for a five-year period and commenced on the date of the first enrolled class, which was September 2012 and expired on June 30, 2017. During fiscal year 2017, the School's charter was renewed for the period of July 1, 2017 through June 30, 2022. DESE provided 73% and 83% of the funding to the School for the years ended June 30, 2017 and 2016, respectively, 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 of Massachusetts.

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 their school district.

The combined financial statements consist of the following:

- Paulo Freire Social Justice Charter School (the School) – operates as a high school in Holyoke, Massachusetts and served 297 and 339 students in grades nine through twelve in fiscal year 2018 and 2017, respectively. At capacity the School will serve 500 students, however the School has a pending charter amendment decreasing the enrollment to 375.
- 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 Combined Financial Statements - *Continued*  
June 30, 2018

**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 and GASB No. 80, Blending Requirements for Certain Component Units*, 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 combined 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 combined 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 Combined Financial Statements - *Continued*  
June 30, 2018

**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 Organization has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

*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 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, 2018, the Foundation had no unrelated business income subject to income taxes. Accordingly, no provision for income taxes has been included in these combined 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 2018 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 (2015-2017).

*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. There were no cash equivalents at June 30, 2018 and 2017.

*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, 2018 and 2017, 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 Combined Financial Statements - *Continued*  
June 30, 2018

**2. Summary of Significant Accounting Policies – Continued**

*Operating Revenue and Expenses*

*The School* - 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.

*The Foundation* - Operating revenue and expenses generally result from fundraising on behalf of the School. The principal operating revenues include private grants and contributions. Operating expenses include contributions to the School, fundraising expenses and administrative expenses. All other revenue and expenses not meeting this definition are reported as non-operating 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, whichever is shorter.

*Classification of Net Position*

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

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.

*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.

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Notes to Combined Financial Statements - *Continued*  
June 30, 2018

**2. *Summary of Significant Accounting Policies – Continued***

*In-Kind Contributions*

The Organization receives donated services in support of the School, which are recorded at fair value. Donated 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 *Combined Statement of Revenues, Expenses and Changes in Net Position*. Donated services such as fund-raising, clerical assistance or other volunteer efforts not requiring specialized skills are not recorded in the combined financial statements.

*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*.

*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 with the exception of the administrators who are allowed to carry forward ten days of unused vacation time in the following year. Accordingly, accrued vacation has been recorded within accrued payroll in on the *Combined Statement of Net Position*.

*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 Organization estimates that the fair value of all financial instruments at June 30, 2018 and 2017 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying combined financial statements.

*Summarized Comparative Totals*

The combined 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 combined financial statements for the year ended June 30, 2017, from which the summarized information was derived.

*Reclassification*

Certain accounts in prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Notes to Combined Financial Statements - *Continued*  
June 30, 2018

**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.

As required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. The following represents a summary of deposits held by the Organization as of June 30, 2018 and 2017:

	<i>2018</i>	<i>2017</i>
Fully insured deposits	<u>\$ 748,224</u>	<u>\$ 705,106</u>

**4. Grants and Accounts Receivables**

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

<i>Description</i>	<i>Amount</i>
Commonwealth of Massachusetts	<u>\$ 28,155</u>

There were no grants and accounts receivable at June 30, 2017.

**5. Capital Assets**

Changes in capital assets during fiscal year 2018 and 2017 are as follows:

	<i>Balance July 1, 2017</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 2018</i>
<i>Capital assets being depreciated</i>				
Computer equipment	\$ 210,572	\$ 11,047	\$ -	\$ 221,619
Automobiles	194,725	-	-	194,725
Furniture and equipment	<u>278,072</u>	<u>-</u>	<u>-</u>	<u>278,072</u>
Total capital assets being depreciated	<u>683,369</u>	<u>11,047</u>	<u>-</u>	<u>694,416</u>
<i>Less accumulated depreciation</i>				
Computer equipment	194,675	17,737	-	212,412
Automobiles	84,314	38,945	-	123,259
Furniture and equipment	<u>138,834</u>	<u>39,901</u>	<u>-</u>	<u>178,735</u>
Total accumulated depreciation	<u>417,823</u>	<u>96,583</u>	<u>-</u>	<u>514,406</u>
Capital assets, net	<u>\$ 265,546</u>	<u>\$ (85,536)</u>	<u>\$ -</u>	<u>\$ 180,010</u>

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Notes to Combined Financial Statements - *Continued*  
June 30, 2018

**5. Capital Assets – Continued**

	<i>Balance</i>			<i>Balance</i>
	<i>July 1, 2016</i>	<i>Additions</i>	<i>Deletions</i>	<i>June 30, 2017</i>
<i>Capital assets being depreciated</i>				
Computer equipment	\$ 210,572	\$ -	\$ -	\$ 210,572
Automobiles	94,725	100,000	-	194,725
Furniture and equipment	<u>278,072</u>	<u>-</u>	<u>-</u>	<u>278,072</u>
Total capital assets being depreciated	<u>583,369</u>	<u>100,000</u>	<u>-</u>	<u>683,369</u>
<i>Less accumulated depreciation</i>				
Computer equipment	149,772	44,903	-	194,675
Automobiles	47,035	37,279	-	84,314
Furniture and equipment	<u>99,110</u>	<u>39,724</u>	<u>-</u>	<u>138,834</u>
Total accumulated depreciation	<u>295,917</u>	<u>121,906</u>	<u>-</u>	<u>417,823</u>
Capital assets, net	<u>\$ 287,452</u>	<u>\$ (21,906)</u>	<u>\$ -</u>	<u>\$ 265,546</u>

The Foundation held no capital assets at June 30, 2018 or 2017.

**6. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses at June 30, 2018 and 2017 are as follows:

	<i>2018</i>	<i>2017</i>
Payables to vendors	\$ 74,916	\$ 15,126
Accrued payroll	250,312	314,344
Accrued other	<u>23,584</u>	<u>20,047</u>
Total	<u>\$ 348,812</u>	<u>\$ 349,517</u>

**7. Lease Commitments**

*Operating Leases*

During 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 stipulated 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. In October 2016, the lease agreement was amended to extend the term until July 31, 2019. The amount of rent deferred as of June 30, 2018 and 2017 was \$18,000. Rent expense for the years ended June 30, 2018 and 2017 was \$798,591 and \$765,996, respectively.

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Notes to Combined Financial Statements - *Continued*  
June 30, 2018

**7. Lease Commitments – Continued**

The School also has an operating lease for busses which expires in October and requires monthly payments of \$9,333.

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

<i>Fiscal Year</i>	<i>Amount</i>
2019	\$ 759,451
2020	<u>69,041</u>
Total	<u>\$ 828,492</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:

	<i>2018</i>	<i>2017</i>
Vans	\$ 194,725	\$ 194,725
Less accumulated amortization	<u>(123,258)</u>	<u>(84,313)</u>
Total	<u>\$ 71,467</u>	<u>\$ 110,412</u>

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

The minimum future lease payments under the capital leases as of June 30, 2018 through the end of the leases are as follows:

<i>Fiscal Year</i>	<i>Amount</i>
2019	\$ 32,968
2020	22,594
2021	20,856
2022	<u>11,738</u>
Total minimum lease payments	88,156
Less amount representing interest	<u>(6,616)</u>
Present value of minimum lease payments	<u>\$ 81,540</u>

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Notes to Combined Financial Statements - *Continued*  
June 30, 2018

**8. *Line-of-Credit***

During fiscal year 2017 and through February 2018, the School had a \$300,000 demand line-of-credit agreement with a financial institution, with an interest rate of .75% percentage point above the New York prime rate, as published in the Wall Street Journal. The line of credit was secured by the School's assets. The line of credit was used to sustain working capital and cash flow for periods between the receipts of tuition payments from the Commonwealth of Massachusetts. During fiscal year 2018, the School paid off the outstanding balance and closed the line of credit. At June 30, 2018 and 2017, the outstanding balance on the line of credit was \$0 and \$25,000, respectively.

During fiscal year 2018, the School opened a \$250,000 demand line-of-credit agreement with a financial institution, which will expire on May 1, 2019, subject to annual renewal. The line of credit has an interest rate .50% above the Wall Street Journal, Eastern Edition, which was 5.50% at June 30, 2018. At June 30, 2018 and 2017, the outstanding principal balance on the line of credit was \$202,500 and \$0, respectively.

**9. *Related Party***

In fiscal year 2018, the Foundation did not receive any contributions. In fiscal year 2017, the Foundation received contributions of \$182,216, of which \$164,751 was provided to the School. At June 30, 2018 and 2017, there were no amounts due from or payable to the Foundation from the School.

The Treasurer of the Board of Trustees in fiscal year 2018 is employed at a company who administers the School's life insurance plan. The amount paid by the School in fiscal year 2018 was \$1,787.

All transactions between the School and the Foundation are approved by the respective Board of Trustees and the parties recuse themselves from any necessary votes.

**10. *In-kind Revenue/Expense***

The City of Holyoke operates the school lunch program on behalf on the School. As of June 30, 2018 and 2017, the fair value of these services for the School was approximately \$103,139 and \$139,545, respectively. The Organization has reported both the revenue and expenses in the *Combined Statements of Revenues, Expenses and Changes in Net Position*.

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Notes to Combined Financial Statements - *Continued*  
June 30, 2018

**11. Retirement Plans**

*Massachusetts Teachers Retirement System*

The Commonwealth of Massachusetts provides for retirement benefits to the School's eligible employees 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.

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, 2017 measurement date was determined by an actuarial valuation prepared as of January 1, 2017 and rolled forward to June 30, 2017. The School's share of the MTRS net pension liability at June 30, 2018 was \$6,552,261.

The net pension liability for the retirement plan at the June 30, 2016 measurement date was determined by an actuarial valuation prepared as of January 1, 2016 and rolled forward to June 30, 2016. The School's share of the MTRS net pension liability at June 30, 2017 was \$6,613,900.

The School also has a Section 403(b) plan in which eligible employees make tax deferred contributions to the plan. The School has not made any contributions to the plan.

**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 combined 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, 2018 and 2017, the MTRS had made retirement payments in the amount of \$683,879 and \$674,661, respectively. The School has reported both revenue and expenses in the *Combined Statement of Revenues, Expenses, and Changes in Net Position*.

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Notes to Combined Financial Statements - *Continued*  
June 30, 2018

**13. Contingency**

*Conditional Charter Renewal*

During fiscal year 2018, the School received a renewal of their charter with probation status and conditions. Failure to meet these conditions could result in revocation of the School's charter. The conditions are as follows:

- Submission of board meeting agendas, materials and minutes prior to each board meeting along with submission of monthly financial statements.
- Weekly enrollment report updates.
- Maintain an adequate escrow account to pay for any potential closing, legal and audit expenses associated with the closure, should that occur.
- Financial planning documents for fiscal years 2019 and 2020 considering enrollment projections based on historical enrollment trends.
- Participation of the Board of Trustees in training regarding the open meeting law.
- Approval of its by-laws.
- Comprehensive evaluation of its mathematics, English language arts and science programs
- Demonstration of actual enrollment sufficient to meet its budget, maximum enrollment and any approved growth plan
- Demonstration of significant and sustained academic improvement in mathematics, English language arts and science by December 31, 2019.

*Going Concern*

As indicated, the School's charter renewal placed the School on probationary status and was issued with conditions. As of the issuance date of the report some, but not all of the conditions have been met. In addition, the enrollment for fiscal year 2019 was less than projected resulting in a decrease in monthly tuition of approximately \$90,000 beginning in December 2018. These factors, as well as the School's decrease in net position of approximately \$189,000 during the fiscal year ended June 30, 2018, and the School's current liabilities exceeded its current assets by approximately \$80,000, create an uncertainty about the School's ability to continue as a going concern. Management of the School has developed a plan to reduce its expenditures in fiscal year 2019. The ability of the School to continue as a going concern is dependent on the removal of its probationary status and conditions set forth as part of their charter renewal and improving their financial position in fiscal year 2019. The financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Notes to Combined Financial Statements - *Continued*  
June 30, 2018

**13. Contingency - Continued**

*Escrow Account*

As stated above, one of the conditions of the School's charter is to maintain an escrow account to pay for any potential closing, legal and audit expenses. At June 30, 2018, this account has not been setup, however, the total amount required to be escrowed, \$169,229, as determined by the School, has been classified as restricted cash on the *Combined Statement of Net Position*.

*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.

**14. 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 2018.

**15. Subsequent Events**

The Organization has evaluated subsequent events through February 1, 2019, which is the date the combined financial statements were available to be issued. Subsequent to year end, in January 2019, the School settled a legal dispute with a former employee and expects to make payments on the settlement in fiscal years 2019 and 2020.

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



**DANIEL DENNIS & Co**  
Certified Public Accountants

*Independent Auditors' 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 combined financial statements of Paulo Freire Social Justice Charter School (a governmental entity) and Igualdad as Friends of Paulo Freire Social Justice Charter School (a nonprofit organization) (collectively, the Organization), as of and for the year ended June 30, 2018, 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 February 1, 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 control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2018-001 and 2018-002 that we consider to be material weaknesses.

## **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*.

## **The Organization's Response to the Findings**

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Organization's response was not subject to the auditing procedures applied in the audit of the combined 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.

*Daniel Dennis & Company LLP*

*Dedham, MA*

*February 1, 2019*

**SCHEDULE OF FINDINGS  
AND RESPONSES**

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018

**2018-001 Internal Control Over Financial Reporting**

*Condition*

The lack of adherence to the internal controls over financial accounting and reporting did not allow the School to produce accurate, timely financial information during the fiscal year. The following items were noted during testing:

- Cash reconciliation were not performed in a timely manner.
- Operating cash reconciliation contained items on the outstanding check listing that were not reconciling items.
- 4 out of 12 checks that were required to have dual signatures were not signed by two authorized signers.
- Various general ledger accounts not reconciled in a timely manner.

*Criteria*

Adequate system of internal controls is imperative to producing complete and accurate financial statements in order to safeguard assets and allow management to properly assess the School's financial position in a timely manner.

*Effect*

Complete and accurate financial information was not available for management to make informed decisions.

*Cause*

Lack of adherence to internal control procedures over financial accounting and reporting.

*Recommendation*

We recommend that the School review its current internal control procedures to ensure that accurate and timely financial information can be produced.

*Management Response*

Due to turnover of the consultant who performed the business manager functions of the School in fiscal year 2018, there was a gap in the transition to the new business management team. This transition did not allow for typical financial controls to be performed regularly.

The internal controls are under review by the Executive Director, business management team and the finance committee and revisions will be made, communicated to the appropriate staff members for implementation, and closely monitored by management. In addition, the School is currently performing timely reconciliations and adhering to the check signing policy.

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018

**2018-001 Internal Control Over Financial Reporting - *Continued***

*Responsibility*

The business manager or designee currently performs the reconciliation. The check signature procedure continues to be monitored by the accounts payable supervisor, Director of MIS and the Executive Director and regularly communicated to finance committee. The business management team, Executive Director, Director of MIS and accounts payable supervisor will review the internal control procedures regarding cash receipts and disbursements. The finance committee will review the revision and recommendations of the internal control policies and procedures.

*Timing*

The internal controls regarding cash receipts procedures and cash disbursements procedures are currently under review by the board and management and will be provided to the finance committee for final approval at the March 2019 meeting. Procedures involving account reconciliations and check review is currently being performed and will continue to be monitored.

**Paulo Freire Social Justice Charter School and  
Igualdad as Friends of Paulo Freire Social Justice Charter School**  
Schedule of Findings and Responses - *Continued*  
For the Year Ended June 30, 2018

**2018-002 Allocation of Grant Expenses**

*Condition*

Per review of 25 grant expenditures, the following were noted: (1) the allocation methodology for charging grants could not be supported and appeared to be based on budget; (2) the expenses charged to the grant for 2 transactions selected exceeded the support provided by \$5,030.

*Criteria*

A proper system of internal control includes processes to ensure that grants and contracts are allocated their adequate share of costs incurred.

*Effect*

Lack of internal controls relating to the allocation of charges to the grants.

*Cause*

Lack of written policies or procedures relating to the allocation of grant expenses.

*Recommendation*

We recommend that the School develop a cost allocation plan to ensure that the allocation of costs are properly supported.

*Management Response*

Management will create policies and procedures relating to the allocation of expenditures to grants; to include a cost allocation plan to ensure that the allocation of costs are properly supported.

*Responsibility*

The business manager, Executive Director, grant administrators, and accounts payable supervisor will ensure policies and procedures are reviewed and will make the necessary recommendation of revisions to the finance committee for approval.

*Timing*

The revised internal control policies and procedures, inclusive of the cost allocation plan are expected to be reviewed and approved by the finance committee at the March 2019 meeting.

**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, 2018

**2017-001 Dual Signature Policy**

*Condition*

The School was not adhering to their internal control procedures regarding dual signature policy. The School's policy requires that all checks over \$5,000 with the exception of mortgage, rent and employee benefits payments to be signed by two authorized signers prior to check issuance. The following items were noted as a result of our procedures performed:

- 8 out of 12 checks that were required to have dual signatures were not signed by two authorized signers.

*Status*

The finding is yet to be resolved. See management's response at 2018-001.

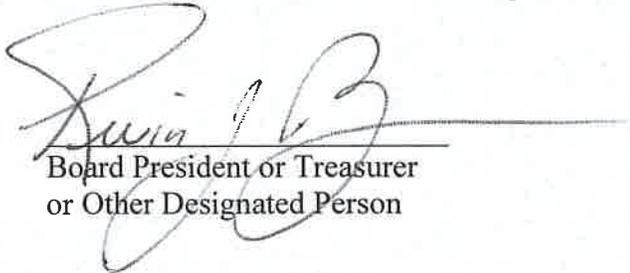
**BOARD ACCEPTANCE LETTER**



### ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of Paulo Freire Social Justice Charter School and Igualdad as 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 LLP as embodied in the financial statements and independent auditor's reports for the year ended June 30, 2018.

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, 2018.



Board President or Treasurer  
or Other Designated Person

February 1, 2019  
Date