

CONSERVATORY LAB CHARTER SCHOOL
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2013 AND 2012

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October 4, 2013

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Conservatory Lab Charter School

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of Conservatory Lab Charter School as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Conservatory Lab Charter School's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the School's 2012 financial statements and, in our report dated October 11, 2012, we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Conservatory Lab Charter School, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 5 be presented to supplement the basic financial statements. Such information, although not part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Conservatory Lab Charter School's basic financial statements. The accompanying schedule of 20% excess carryover calculation is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of 20% excess carryover calculation has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



CONSERVATORY LAB CHARTER SCHOOL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2013

The following discussion and analysis of the Conservatory Lab Charter School's (the School) financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2013 and summarized comparative information for 2012. Please read it in conjunction with the School's financial statements and the related notes to the financial statements, which begin on page 6.

THE SCHOOL AS A WHOLE

The School received its charter on July 1, 1999, to operate as a public charter school in the Commonwealth of Massachusetts. The charter is awarded in five-year increments and is subject to renewal at the discretion of the Commonwealth of Massachusetts Board of Elementary and Secondary Education. The School's charter was most recently renewed for an additional five years effective July 1, 2009. During fiscal year 2013 and 2012, the School operated pre-kindergarten through grade six and the enrollment was 169 students. The School is currently operating at capacity. During the year ending June 30, 2014, the School will begin a phased in expansion plan which will enable the School to have two separate classrooms for pre-kindergarten through grade eight by the year ended June 30, 2015. At capacity, the School's enrollment is expected to be 444 students.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. In accordance with *Governmental Accounting Standards Board Statement 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. 34, as amended by GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the School issues a *Statement of Net Position, 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 financial statements which provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

FINANCIAL STATEMENTS

The *Statement of Net Position* presents the assets, liabilities and net position of the School as a whole, as of the end of the fiscal year. The *Statement of Net Position* is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of the School to the readers of the financial statements. The *Statement of Net Position* includes year-end information concerning current and non-current assets, current and non-current liabilities, and net position. Net position represents the difference between assets and liabilities. Net position is displayed in three components, *invested in capital assets, net of related debt, restricted net position and unrestricted net position*. *Net position invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, contributors, or government laws or regulations of other governments. Unrestricted net assets represent all other net assets that do not meet the definition of *restricted or invested in capital assets, net of related debt*. 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

CONSERVATORY LAB CHARTER SCHOOL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2013

FINANCIAL STATEMENTS (continued)

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 *Statement of Revenues, Expenses and Changes in Net Position* report 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 *Statement of Net Position* is 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 in net assets based on current year operations.

The *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 non-capital 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.

SUPPLEMENTAL INFORMATION

The *Schedule of 20% Excess Carryover Limitation* (the Schedule) is presented for the purpose of additional analysis as required by the Commonwealth of Massachusetts Department of Elementary and Secondary Education and is not required part of the financial statements. The Schedule can be found on page 20 of this report.

FINANCIAL HIGHLIGHTS

The following financial highlights are for the year ended June 30, 2013 with comparative information from the year ended June 30, 2012:

- The School held total assets of \$777,962 and \$833,539 at June 30, 2013 and 2012, respectively, of which \$3,903 and \$10,609 were net capital assets, respectively and the majority of the remaining assets consisted of cash, accounts receivable and prepaid expenses.
- The School held total liabilities of \$186,699 and \$269,269 at June 30, 2013 and 2012, respectively. All the liabilities were current liabilities as of June 30, 2013 and 2012
- Net position for the School was \$591,263 and \$564,270 at June 30, 2013 and 2012, respectively, of which \$587,360 and \$553,661 were unrestricted and \$3,903 and \$10,609 were for investments in capital assets, respectively.
- The School earned total revenues of \$2,973,203 and \$2,875,488 for the years ended June 30, 2013 and 2012, respectively, of which approximately 92% in 2013 and 97% in 2012 were operating revenues and approximately 8% in 2013 and 3% in 2012 were from non-operating revenues (private grants, contributions, etc.).

CONSERVATORY LAB CHARTER SCHOOL
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2013

FINANCIAL HIGHLIGHTS (continued)

- The School had total expenses of \$2,946,210 and \$2,820,027 for the years ended June 30, 2013 and 2012, respectively.
- The School earned net income of \$26,993 and \$55,461 for the years ended June 30, 2013 and 2012, respectively. In fiscal year 2013 the net income was comprised of operating loss of \$(213,101) and non-operating income of \$240,094. In fiscal year 2012 net income was comprised of operating loss of \$(53,324) and non-operating income of \$108,785.

BUDGETARY HIGHLIGHTS

The School's annual budget was amended as the year progressed. For the fiscal year ended June 30, 2013, the School incurred \$2,778,794 in actual expenditures compared to budgeted expenditures of \$2,755,706. Actual expenditures when compared to budgeted expenditures were very similar. The budget was well managed during the year ended June 30, 2013.

SCHOOL'S FINANCIAL ACTIVITIES

The majority of the School's funding is received from the Commonwealth of Massachusetts Department of Elementary and Secondary Education and is based on a standard rate per pupil. The School received \$13,485 in per pupil funding in fiscal year 2013, versus \$13,199 in per pupil funding in fiscal year 2012. Tuition revenue accounted for approximately 77% and 78% of the School's revenue for the years ended June 30, 2013 and 2012, respectively. In addition, the School received various federal, Commonwealth of Massachusetts and private grants which totaled \$268,183 and \$340,349 for fiscal years 2013 and 2012, respectively.

OTHER FINANCIAL FACTORS

The School subleases its office and classroom facilities from the Conservatory Lab Charter School Foundation, Inc. under a lease that expires, as extended, in June 2014. Monthly lease payments under the lease range from \$18,783 to \$20,125.

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, contact the Business Office of the School.

CONSERVATORY LAB CHARTER SCHOOL
 STATEMENTS OF NET POSITION
 JUNE 30, 2013
 WITH SUMMARIZED COMPARATIVE
 TOTALS FOR JUNE 30, 2012

	<u>Conservatory Lab Charter School</u>	<u>Component Unit - Conservatory Lab Charter School Foundation, Inc.</u>	<u>(Memorandum Only - Financial Reporting Entity) Totals 6/30/2013</u>	<u>(Memorandum Only - Financial Reporting Entity) Totals 6/30/2012</u>
<u>ASSETS</u>				
Cash	\$ 724,847	\$ 722,376	\$ 1,447,223	\$ 1,209,853
Accounts and other receivables	16,074	0	16,074	101,474
Due from Conservatory Lab Charter School	0	0	0	121,699
Due from Conservatory Lab Charter School Foundation, Inc.	23,953	0	23,953	0
Unconditional promises to give	0	32,942	32,942	27,140
Musical instrument held for sale	0	0	0	15,000
Marketable securities	0	409,231	409,231	358,351
Prepaid expenses	9,185	0	9,185	0
Security deposit	0	11,040	11,040	11,029
Capital assets, net	<u>3,903</u>	<u>6,240</u>	<u>10,143</u>	<u>36,115</u>
TOTAL ASSETS	<u>777,962</u>	<u>1,181,829</u>	<u>1,959,791</u>	<u>1,880,661</u>
<u>LIABILITIES</u>				
Accounts payable	29,102	0	29,102	32,820
Accrued expenses	63,861	0	63,861	13,986
Accrued payroll and payroll taxes	93,736	0	93,736	100,764
Due to Conservatory Lab Charter School	0	23,953	23,953	0
Due to Conservatory Lab Charter School Foundation, Inc.	<u>0</u>	<u>0</u>	<u>0</u>	<u>121,699</u>
TOTAL LIABILITIES	<u>186,699</u>	<u>23,953</u>	<u>210,652</u>	<u>269,269</u>
<u>NET POSITION</u>				
Invested in capital assets, net of related debt	3,903	0	3,903	10,609
Temporarily restricted	0	323,177	323,177	302,375
Permanently restricted	0	5,477	5,477	5,470
Unrestricted	<u>587,360</u>	<u>829,222</u>	<u>1,416,582</u>	<u>1,292,938</u>
TOTAL NET POSITION	<u>\$ 591,263</u>	<u>\$ 1,157,876</u>	<u>\$ 1,749,139</u>	<u>\$ 1,611,392</u>

See accompanying notes to financial statements.

CONSERVATORY LAB CHARTER SCHOOL
 STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 YEAR ENDED JUNE 30, 2013
 WITH SUMMARIZED COMPARATIVE TOTALS
 FOR THE YEAR ENDED JUNE 30, 2012

	Conservatory Lab Charter School	Component Unit - Conservatory Lab Charter School Foundation, Inc.	(Memorandum Only - Financial Reporting Entity) Totals 6/30/2013	(Memorandum Only - Financial Reporting Entity) Totals 6/30/2012
OPERATING REVENUES:				
Tuition	\$ 2,291,960	\$ 0	\$ 2,291,960	\$ 2,230,666
State grants	13,139	0	13,139	0
Federal grants	173,921	0	173,921	191,003
Private grants	250	0	250	55,952
Food service	87,384	0	87,384	99,988
In-kind transportation and other services	160,710	0	160,710	179,727
Parent paid fees/other income	5,745	0	5,745	9,367
Contributions	0	378,947	378,947	285,186
Rental income	<u>0</u>	<u>241,500</u>	<u>241,500</u>	<u>225,400</u>
TOTAL OPERATING REVENUES	2,733,109	620,447	3,353,556	3,277,289
OPERATING EXPENSES:				
Contributions	0	240,000	240,000	108,500
Salaries - instructors	1,457,442	0	1,457,442	1,421,045
Salaries - administrative	221,668	0	221,668	177,789
Payroll taxes	144,491	0	144,491	73,172
Fringe benefits	126,159	0	126,159	120,620
Other non-salary compensation	113,515	0	113,515	124,921
Transportation	160,710	0	160,710	181,013
Rent	241,500	241,500	483,000	450,800
Facilities maintenance	56,920	0	56,920	49,662
Utilities	10,773	0	10,773	10,985
Textbooks and materials	33,238	0	33,238	45,396
Educational supplies and activities	54,793	0	54,793	59,877
Music equipment and supplies	23,097	0	23,097	18,586
Classroom computers and equipment	9,061	0	9,061	15,675
Professional fees	61,389	56,150	117,539	62,770
Advertising and fundraising	41,929	0	41,929	52,524
Staff recruiting	1,623	0	1,623	2,344
Office computers and equipment	120	0	120	410
Office supplies and expense	11,599	3,312	14,911	25,817
Telephone	8,022	0	8,022	7,840
Insurance	9,228	456	9,684	8,722
Food service program	83,779	0	83,779	66,952
Conferences and training	68,448	0	68,448	62,300
Depreciation and amortization	<u>6,706</u>	<u>19,266</u>	<u>25,972</u>	<u>113,647</u>
TOTAL OPERATING EXPENSES	<u>2,946,210</u>	<u>560,684</u>	<u>3,506,894</u>	<u>3,261,367</u>
OPERATING INCOME (LOSS)	(213,101)	59,763	(153,338)	15,922

See accompanying notes to financial statements.

CONSERVATORY LAB CHARTER SCHOOL
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013
WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2012 (continued)

	<u>Conservatory Lab Charter School</u>	<u>Component Unit - Conservatory Lab Charter School Foundation, Inc.</u>	<u>(Memorandum Only - Financial Reporting Entity) Totals 6/30/2013</u>	<u>(Memorandum Only - Financial Reporting Entity) Totals 6/30/2012</u>
NON-OPERATING REVENUES (EXPENSES):				
Contributions	\$ 240,000	\$ 0	\$ 240,000	\$ 108,659
Interest and dividend income	94	7,701	7,795	6,862
Gain on marketable securities	0	46,290	46,290	7,561
Loss on sale of musical instrument	<u>0</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>0</u>
TOTAL NON-OPERATING REVENUES, net	<u>240,094</u>	<u>50,991</u>	<u>291,085</u>	<u>123,082</u>
CHANGE IN NET POSITION	26,993	110,754	137,747	139,004
NET POSITION, beginning of year	<u>564,270</u>	<u>1,047,122</u>	<u>1,611,392</u>	<u>1,472,388</u>
NET POSITION, end of year	<u>\$ 591,263</u>	<u>\$ 1,157,876</u>	<u>\$ 1,749,139</u>	<u>\$ 1,611,392</u>

See accompanying notes to financial statements.

CONSERVATORY LAB CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from tuition	\$ 2,291,960	\$ 2,230,666
Receipts from grants	286,986	172,068
Receipts from food service programs	75,360	112,127
Receipts from parent paid fees	5,745	9,367
Payments to employees	(1,684,349)	(1,579,920)
Payments to vendors and suppliers	<u>(1,066,753)</u>	<u>(973,763)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(91,051)</u>	<u>(29,455)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES -		
Non-operating receipts	<u>240,000</u>	<u>108,659</u>
CASH FLOWS FROM CAPITAL AND FINANCING		
ACTIVITIES:		
Increase (decrease) in due to Conservatory Lab Charter School Foundation, Inc.	<u>(121,699)</u>	<u>91,699</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	94	126
Increase in due from Conservatory Lab Charter School Foundation, Inc.	<u>(23,953)</u>	<u>0</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(23,859)</u>	<u>126</u>
NET INCREASE IN CASH	3,391	171,029
CASH, beginning of year	<u>721,456</u>	<u>550,427</u>
CASH, end of year	<u>\$ 724,847</u>	<u>\$ 721,456</u>

See accompanying notes to financial statements.

CONSERVATORY LAB CHARTER SCHOOL
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2013 AND 2012 (continued)

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (213,101)	\$ (53,324)
Adjustments to reconcile operating loss to net cash used in operating activities -		
Depreciation	6,706	16,216
(Increase) decrease in:		
Accounts and other receivables	(12,024)	12,916
Grants receivable	97,424	(73,578)
Prepaid expenses	(9,185)	43,809
Increase (decrease) in:		
Accounts payable	(3,718)	6,358
Accrued expenses	49,875	(3,107)
Accrued payroll and payroll taxes	<u>(7,028)</u>	<u>21,255</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (91,051)</u>	<u>\$ (29,455)</u>

See accompanying notes to financial statements.

CONSERVATORY LAB CHARTER SCHOOL
 CONSERVATORY LAB CHARTER SCHOOL FOUNDATION, INC.
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 110,754	\$ 83,543
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	19,266	97,431
Gain on marketable securities	(46,290)	(7,561)
Non-cash contributions	(5,417)	0
Loss on sale of musical instrument	3,000	0
Interest income earned and retained in security deposit	(11)	(9)
(Increase) decrease in:		
Unconditional promises to give	<u>(5,802)</u>	<u>(2,699)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>75,500</u>	<u>170,705</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	45,880	120,313
Proceeds from sale of musical instrument	12,000	0
Purchase of marketable securities	(45,053)	(152,651)
(Increase) decrease in due from Conservatory Lab Charter School	<u>121,699</u>	<u>(91,699)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>134,526</u>	<u>(124,037)</u>
CASH FLOWS FROM FINANCING ACTIVITIES -		
Increase in due to Conservatory Lab Charter School	<u>23,953</u>	<u>0</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	233,979	46,668
CASH AND CASH EQUIVALENTS, beginning of year	<u>488,397</u>	<u>441,729</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 722,376</u>	<u>\$ 488,397</u>

See accompanying notes to financial statements.

CONSERVATORY LAB CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Conservatory Lab Charter School (the School) was formed in February 1998 after receiving its charter from the Commonwealth of Massachusetts under Chapter 71, Section 89 of the General Laws of Massachusetts. The School's charter is awarded in five year increments and is subject to renewal at the discretion of the Commonwealth of Massachusetts' Department of Elementary and Secondary Education (DESE). The School's charter was most recently renewed in 2009 and expires on June 30, 2014. DESE provided 86% and 88% of the funding to the School for the years ended June 30, 2013 and 2012, respectively, through a per pupil reimbursement and Federal and Commonwealth of Massachusetts grants.

The School is located in Brighton, Massachusetts and offers children in Boston, in pre-kindergarten through grade six (grade five in 2012), a public supported academic education. During the years ended June 30, 2013 and 2012, the School served 169 children. During the year ending June 30, 2014, the School will begin a phased in expansion plan which will enable the School to have two separate classrooms for pre-kindergarten through grade 8 by the year ended June 30, 2015. At capacity, the School's enrollment is expected to be 444 students

The School's mission is to use the Learning through Music educational model to reach children from all backgrounds to help them achieve academic, creative and social success.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present the School and its component unit, Conservatory Lab Charter School Foundation, Inc. (the Foundation), 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*. Under these statements component units are organizations that are included in the School's reporting entity because of the significance of their operational or financial relationships with the School.

The component unit column in the accompanying financial statements contains financial data of the Foundation. The Foundation is a legally separate, tax-exempt organization that acts primarily as a fund-raising organization to supplement the resources of the School. Although the School does not control the timing or amounts of receipts from the Foundation, the majority of the resources or income thereon that the Foundation holds is restricted to the activities of the School. 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 discretely presented in the School's financial statements.

The School has entered into a lease with the Foundation to provide the facilities that the School operates in. For the years ended June 30, 2013 and 2012, the Foundation charged the School \$241,500 and \$225,400, respectively, for such facilities. At June 30, 2013, the Foundation owed the School \$23,953, at June 30 2012, the School owed the Foundation \$121,699.

CONSERVATORY LAB CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity (continued)

The Foundation is a non-profit organization that reports under Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), including *FASB ASC 958 - 205, Presentation of Financial Statements*. 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 located at 25 Arlington Street, Brighton, MA 02135.

B. Financial Statement Presentation

The School, in accordance with *Government Accounting Standards Board (GASB) Statement No. 34 - Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments*, is considered a special purpose governmental entity that engages in only business type activities and is not a component unit of another governmental entity. Therefore, the financial statements are prepared using the accrual basis of accounting and all of the activity is recorded in the enterprise fund. Also in accordance with *GASB Statement No. 39 - Determining Whether Certain Organizations are Component Units*, the Foundation is considered a component unit of the School and is discretely presented in the School's financial statements in a separate column in the financial statements to emphasize that it is legally separate from the School. The discretely presented component unit has a June 30 fiscal year end.

C. Basis of Accounting

The accrual method 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. The Commonwealth of Massachusetts Executive Office of Administration and Finance calculates the per pupil tuition that is paid to the School by DESE. Grants and contributions are recognized when all eligible requirements are met.

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

D. Tax Status

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

CONSERVATORY LAB CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

For the purpose of the statement of net position and the statement of cash flows, the School considers all money market funds and highly liquid debt instruments with maturities of three months or less when acquired to be cash equivalents. The School did not have any cash equivalents at June 30, 2013 and 2012.

F. Accounts Receivable

Accounts receivables are presented net of the allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on its past experience. Accounts receivable are written off when deemed uncollectible. At June 30, 2013 and 2012, no allowance for doubtful accounts has been recorded, as management considers all accounts receivable to be fully collectible.

G. 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 state grants. Operating expenses include educational costs, administrative expenses and depreciation on capital assets. All other revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

H. Capital Assets

Property and equipment are recorded at cost or at fair market value at the date of donation. Capital assets purchased with a cost or value greater than \$5,000 are capitalized. Depreciation is computed on the straight-line basis using estimated useful lives ranging from 3 to 10 years for equipment and furniture and fixtures. Leasehold improvements are amortized over the life of the lease.

I. 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 expenditures during the reporting period. Actual results could differ from those estimates.

J. Fair Value of Financial Instruments

The School's financial instruments, none of which are held for trading purposes, include cash and accounts receivable. The School estimates that the fair value of all financial instruments at June 30, 2013 and 2012 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying financial statements.

CONSERVATORY LAB CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Comparative Totals

The basic 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

L. Memorandum Only - Financial Reporting Entity

The financial statements include Memorandum Only totals for the years ended June 30, 2013 and 2012. These totals include all the activity of the financial reporting entity as described above and do not take into consideration any eliminating entries that would be prepared if the entities were consolidated.

M. Subsequent Events

Management has evaluated subsequent events through October 4, 2013, the date which the financial statements were available for issue.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS

The School maintains its cash accounts at a financial institution located in Eastern Massachusetts. These balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit. Management acknowledges the possibility of risk in this arrangement; however, the size and longevity of the depository institution minimizes such risk.

As required by Government Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures*, the following represents a summary of deposits as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Fully insured deposits	\$ 250,000	\$ 250,000
Uncollateralized	<u>512,368</u>	<u>514,513</u>
	<u>\$ 762,368</u>	<u>\$ 764,513</u>

CONSERVATORY LAB CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

Changes in capital assets during fiscal years 2013 and 2012 are as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2013</u>
Cost:				
Computers and software	\$ 76,650	\$ 0	\$ 0	\$ 76,650
Classroom equipment	24,109	0	0	24,109
Musical equipment	95,941	0	0	95,941
Furniture and fixtures	<u>23,874</u>	<u>0</u>	<u>0</u>	<u>23,874</u>
Total capital assets	<u>220,574</u>	<u>0</u>	<u>0</u>	<u>220,574</u>
Less Accumulated Depreciation:				
Computers and software	69,874	4,806	0	74,680
Classroom equipment	22,384	1,126	0	23,510
Musical equipment	94,836	531	0	95,367
Furniture and fixtures	<u>22,871</u>	<u>243</u>	<u>0</u>	<u>23,114</u>
Total accumulated depreciation	<u>209,965</u>	<u>6,706</u>	<u>0</u>	<u>216,671</u>
Capital assets, net	<u>\$ 10,609</u>	<u>\$ 6,706</u>	<u>\$ 0</u>	<u>\$ 3,903</u>
	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2012</u>
Cost:				
Computers and software	\$ 76,650	\$ 0	\$ 0	\$ 76,650
Classroom equipment	24,109	0	0	24,109
Musical equipment	95,941	0	0	95,941
Furniture and fixtures	<u>23,874</u>	<u>0</u>	<u>0</u>	<u>23,874</u>
Total capital assets	<u>220,574</u>	<u>0</u>	<u>0</u>	<u>220,574</u>
Less Accumulated Depreciation:				
Computers and software	59,217	10,657	0	69,874
Classroom equipment	21,080	1,304	0	22,384
Musical equipment	90,880	3,956	0	94,836
Furniture and fixtures	<u>22,572</u>	<u>299</u>	<u>0</u>	<u>22,871</u>
Total accumulated depreciation	<u>193,749</u>	<u>16,216</u>	<u>0</u>	<u>209,965</u>
Capital assets, net	<u>\$ 26,825</u>	<u>\$ 16,216</u>	<u>\$ 0</u>	<u>\$ 10,609</u>

CONSERVATORY LAB CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. GRANTS AND OTHER RECEIVABLES

Grants and other receivables at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Commonwealth of Massachusetts	\$ <u>16,074</u>	\$ <u>101,474</u>

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Payable to vendors	\$ 31,353	\$ 36,901
Accrued payroll and benefits	107,448	110,669
Tuition income over payment	<u>47,898</u>	<u>0</u>
	<u>\$ 186,699</u>	<u>\$ 147,570</u>

6. RETIREMENT PLANS

The School's teaching staff and certain administrators participate individually in the Massachusetts Teachers Retirement System (MTRS). All qualified teachers and administrators are covered by and must participate. All qualified teachers and administrators who qualify for the plan, along with the School, are exempt from federal social security taxes for these employees. Benefits vest fully after 10 years of qualified employment and an employee may receive retirement benefits after 20 years of service or having reached the age of 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. This retirement plan requires an employee contribution of eight to eleven percent (depending on the plan and the employment date) of their compensation.

In addition, the School has adopted a 403(b) Retirement Plan for the benefit of all employees who meet certain requirements. Under the terms of the Plan, the School is required to make contribution based upon 3.0% of eligible salary. In connection therewith, the School has provided for a contribution of \$21,655 and \$22,332, for the years ended June 30, 2013 and 2012, respectively.

7. LEASE AGREEMENTS

The Foundation leases office and classroom facilities in Brighton, Massachusetts under a lease that expires, as extended, in June 2014. The Foundation subleases these facilities to the School. In addition, the School signed a five year lease for office equipment that expires in December 2017.

CONSERVATORY LAB CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

7. LEASE AGREEMENTS (continued)

Future minimum lease payments are as follows:

Year ending <u>June 30,</u>	<u>Facilities</u>	<u>Office Equipment</u>	<u>Total</u>
2014	\$ 241,500	\$ 9,166	\$ 250,666
2015	0	9,166	9,166
2016	0	9,166	9,166
2017	0	9,166	9,166
2018	<u>0</u>	<u>3,819</u>	<u>3,819</u>
	<u>\$ 241,500</u>	<u>\$ 40,483</u>	<u>\$ 281,983</u>

Rent expense on the above leases, along with a copier lease that expired during the year, was \$249,397 and \$231,520 during the years ended June 30, 2013 and 2012, respectively.

Subsequent to June 30, 2013, the School signed a new, 29 month, non-cancelable operating lease for additional classroom space that expires in December 2015. The lease provides for a base rent plus an applicable portion of real estate tax and other operating costs.

Future minimum lease payments under this new lease are as follows:

Year ending <u>June 30,</u>	<u>Amount</u>
2014	\$ 261,433
2015	291,400
2016	<u>148,800</u>
	<u>\$ 701,633</u>

8. IN-KIND TRANSPORTATION

During the years ended June 30, 2013 and 2012, the School received donated transportation services from the City of Boston for busing Boston students who attended the School. The fair value of these services was \$160,710 and \$179,010 for the years ended June 30, 2013 and 2012, respectively.

9. RELATED PARTY TRANSACTIONS

In addition to the School subleasing its office and classroom facilities from the Foundation as described in Note 8, the Foundation donated \$240,000 and \$108,500 to the School during the years ended June 30, 2013 and 2012, respectively.

CONSERVATORY LAB CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

10. CONCENTRATION - REVENUE

During the years ended June 30, 2013 and 2012, revenue from the DESE, as a percentage of the School's total revenue, was as follows:

	<u>2013</u>	<u>2012</u>
Tuition and state grants	77 %	78 %
Federal grants	6	7
Food service	<u>3</u>	<u>3</u>
	<u>86 %</u>	<u>88 %</u>

11. CONTINGENT LIABILITY

The School has guaranteed a \$300,000 line of credit of the Foundation. There were no drawings on this line of credit at June 30, 2013 and 2012.

12. CUMULATIVE SURPLUS REVENUE

Effective July 1, 2010, any cumulative surplus revenue generated by the School must comply with M.G.L. c. 71, § 89 (as amended by Chapter 12 of the Acts of 2012 under § 7 (hh)). In accordance with this legislation and subsequent DESE regulations, if the School's cumulative surplus revenue, as defined, exceeds 20% of its operating budget and its budgeted capital costs for the succeeding fiscal year, the amount in excess of said 20% shall be returned by the School to the sending district or districts and the state in proportion to their share of tuition paid during the fiscal year.

As of June 30, 2013, the School's cumulative surplus revenue was less than 20%, however, the calculation is subject to DESE review and approval. Management does not anticipate any material change in this calculation.

UNAUDITED SUPPLEMENTAL SCHEDULE
20% Excess Carryover Calculation

CONSERVATORY LAB CHARTER SCHOOL
 SCHEDULE OF 20% EXCESS CARRYOVER CALCULATION
 JUNE 30, 2013

Cumulative surplus/(deficit), beginning of year	\$	0
Changes in net assets		26,993
Less:		
Contributions		(240,000)
Interest income		(94)
Principal payments on debt		0
Capital expenses, less related debt/reserve funds		0
Current deposits to reserve funds for capital project		0
Current deposits to reserve funds held as security for debt		0
Other:		
Private grants		<u>(250)</u>
Subtotal		\$ (213,351)
Plus:		
Fundraising expenses		0
Depreciation		<u>6,706</u>
Subtotal		<u>6,706</u>
Total surplus (deficit)		(206,645)
25% of actual tuition payment for current year		(569,745)
20% of projected tuition for following year		(869,034)
20% budgeted expenditures from capital projects reserve fund for the following year		<u>0</u>
Allowable carryover		<u>(1,438,779)</u>
Excess surplus (deficit)		<u>\$ (1,645,424)</u>

REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL

Ziner & Murphy, PC

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Certified Public Accountants

Phone (781) 279-2950

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October 4, 2013

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

Board of Trustees
Conservatory Lab 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 financial statements of the business-type activities and the discretely presented component unit of Conservatory Lab Charter School, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Conservatory Lab Charter School's basic financial statements, and have issued our report thereon dated October 4, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Conservatory Lab Charter School'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 Conservatory Lab Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Conservatory Lab Charter School'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 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 a material weakness, or, significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Conservatory Lab Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements 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 non-compliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



SCHEDULE OF FINDINGS AND RESPONSES

CONSERVATORY LAB CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

There were no findings for the year ended June 30, 2013.

SCHEDULE OF PRIOR AUDIT FINDINGS

CONSERVATORY LAB CHARTER SCHOOL
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

There were no findings for the year ended June 30, 2012.

ACCEPTANCE LETTER



C O N S E R V A T O R Y L A B C H A R T E R S C H O O L

a public school for learning through music

ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of Conservatory Lab Charter School, have voted to accept the representations of management and the expression of the opinions made by Ziner & Murphy, PC as embodied in the financial statements and independent auditors' reports for the year ended June 30, 2013.

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, 2013.

Robert Grinberg
Treasurer

Date