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Codman Academy
CHARTER PUBLIC SCHOOL
and Affiliate

**COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE

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JUNE 30, 2012 AND 2011**

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**UNQUALIFIED OPINION ON COMBINED GENERAL PURPOSE FINANCIAL
STATEMENTS AND SUPPLEMENTAL INFORMATION -
GOVERNMENTAL ENTITY**

Independent Auditor's Report

To the Boards of Trustees of
Codman Academy Charter Public School and Affiliate:

We have audited the accompanying combined general purpose financial statements of Codman Academy Charter Public School (a Massachusetts charter school) (the School) and Codman Academy Foundation, Inc. (a Massachusetts corporation, not for profit) (the Foundation) (collectively, the Agency) as of and for the years ended June 30, 2012 and 2011, as listed on the accompanying contents page. These combined general purpose financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these combined general purpose financial statements based on our audits.

We conducted our audits 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 our audit to obtain reasonable assurance about whether the combined general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined general purpose financial statements referred to above present fairly, in all material respects, the combined financial position of Codman Academy Charter Public School and Codman Academy Foundation, Inc. as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2012, on our consideration of the School'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 for the year ended June 30, 2012. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America requires that the *Management's Discussion and Analysis* on pages 2 through 4 be presented to supplement the basic combined general purpose financial statements. Such information, although not a part of the basic combined general purpose financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic combined general purpose 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, and this 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 combined general purpose financial statements, and other knowledge we obtained during our audit of the basic combined general purpose 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.

Additionally, the accompanying *Schedule of 20% Excess Carryover Calculation* for the year ended June 30, 2012, is presented for purposes of additional analysis and is not a required part of the combined general purpose financial statements. The *Schedule of 20% Excess Carryover Calculation* has not been subjected to the auditing procedures applied in the audit of the combined general purpose financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Alexander, Aronson, Finning & Co., P.C.

Wellesley, Massachusetts
October 2, 2012

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**CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

This discussion and analysis of Codman Academy Charter Public School and Affiliate's (collectively, the Agency) financial performance provides an overview of the Agency's financial activities for the years ended June 30, 2012 and 2011. Please read this in conjunction with the combined general purpose financial statements of the Agency, which begin on page 5.

The School

Codman Academy Charter Public School (the School) was granted its charter in February, 2001, to operate as a public school in the Commonwealth of Massachusetts. The initial charter was awarded for the five-year period through June, 2006, and recently the School received their second charter renewal by the Commonwealth of Massachusetts Board of Education, extending operations through June, 2016. The School has completed its eleventh year of operations, enrolling 145 students in grades 9 through 12 for the year ended June 30, 2012. The School's charter cap is 145 students and plans to enroll 145 students in fiscal year 2013.

The Foundation

Codman Academy Foundation, Inc. (the Foundation) was formed in October, 2001, for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The Foundation promotes the financial well-being of the School and is considered a Component Unit of the School. In accordance with Governmental Accounting Standards Board (GASB) 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, the School issues Combined Statements of Net Assets, Combined Statements of Revenues, Expenses and Changes in Net Assets and Combined Statements of Cash Flows. These combined statements provide information about the financial activities of the School and the Foundation as a whole. This report also contains notes to the combined general purpose financial statements which provide additional information that is essential to obtain a full understanding of the information provided in the basic combined general purpose financial statements.

Using this Annual Report

This annual report consists of a series of financial statements for both the School and the Foundation. In accordance with 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.

Financial Highlights

Income

The School had total revenues of \$2,780,248 for the year ended June 30, 2012. Tuition accounted for 72% of the total revenue, private contributions from the Foundation accounted for 18%, government grants accounted for 6%, and school lunch reimbursement, student fees and in-kind constituted the remaining 4%.

The Foundation had \$2,121,982 of total revenue in fiscal year 2012 compared to \$3,944,956 in fiscal year 2011, a decrease of \$1,822,974, which is mainly attributable to the finalization of the capital campaign.

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CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

(Continued)

Financial Highlights (Continued)

Expenses

Total personnel and related costs were \$1,765,453 in fiscal year 2012 and \$1,837,913 in fiscal year 2011, a decrease of \$72,460 or 4% in fiscal year 2012 over fiscal year 2011. This decrease was mainly driven by the elimination of one full-time technology employee who was replaced with a technology contractor for \$73,570. The staff annual increase expense of approximately \$50,000 was offset by the reduction of tutors from the payroll. These tutors are now paid through contracted services.

Student costs were \$688,928 in fiscal year 2012 and \$452,199 in fiscal year 2011, an increase of \$236,729 or 52% from fiscal year 2011.

Variances in the internal composition of student costs worth mentioning are:

Athletic programs increased by approximately \$11,000 to allow for a new softball program.

Contracted services increased in both tutoring and summer programs. Tutoring is now fully contracted as opposed to prior years when it was partially contracted and partially funded through payroll - a reclass of expenses of approximately \$57,000 to contracted services. Summer programs increased by \$15,300 with the addition of off-site summer school programs, for \$7,400 and theatre programs for \$7,800.

Special Education services increased with additional OT Services of approximately \$6,500 and ESL services of approximately \$6,500.

Classroom technology increased by \$74,000 due to the hiring of a consultant, which allowed for substantial improvements of the network infrastructure.

Other student costs included a student trip to France for approximately \$32,000, which was fully funded by a private donor.

Occupancy and administrative costs remained relatively the same as the prior year.

Assets

The School had total assets of \$667,624 as of June 30, 2012, and \$736,534 as of June 30 2011, a \$68,910 decrease. This decrease was mainly driven by a decrease in cash and accounts receivable of \$79,706. During fiscal year 2012, the School invested \$21,190 in equipment assets. The Foundation had total assets of \$4,808,982 as of June 30, 2012, compared to \$4,579,456 as of June 30, 2011. The Foundation used cash of \$2,401,247 and transferred property to the Codman Square Health Center (the Health Center) in exchange for a \$3,500,000 note receivable. The Health Center would then construct an addition to its existing facility from which the School would lease a condo unit as its main facility.

Liabilities

The School's liabilities were \$173,313 at June 30, 2012, and \$179,717 at June 30, 2011, a decrease of \$6,404, or 4%.

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

(Continued)

Financial Highlights (Continued)

Net Assets

The School's net assets at June 30, 2012, were \$494,311, of which 87% is operating net assets and 13% is invested in capital. The current available operating net assets represent approximately 16% of the School's fiscal year 2012 operating budget.

The Foundation has \$4,608,982 of total net assets at June 30, 2012. Of this amount, \$264,000 is restricted program net assets, \$1,028,607 is unrestricted operating net assets, and \$3,316,375 is invested in capital.

Combined Financial Statements

The combined statements of net assets and the combined statements of revenues, expenses and changes in net assets include all assets, liabilities, revenue and expenses of the Agency. These activities are recorded using the accrual basis of accounting, under which all revenue and expenses are recognized when earned or incurred regardless of when the cash is received or paid. Additionally, these combined statements report the School's net assets. The School's net assets, the difference between assets and liabilities, represents one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets are one indicator of whether the School's financial health is improving or declining. You should consider other non-financial factors when considering the overall health of the School.

The combined statement of revenues, expenses and changes in net assets include operating and general activities. The operating activities include all financial activities associated with the School and its related programs.

Other Financial Factors

During fiscal year 2012, the School leased its building space from Codman Square Health Center, a related party. Rent expense on this lease was \$65,396 for the year ended June 30, 2012. The lease is renewed annually. During fiscal year 2012, the School also leased temporary space at 584 Washington Street, Dorchester, Massachusetts. Rent expense on this lease was \$18,000. The School also utilizes a 2,500 square foot space that was donated by Citizens Bank at 569 Washington Street, Dorchester, Massachusetts. This space was valued at \$20,833.

Contacting the School's Financial Management

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

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE

COMBINED STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

ASSETS	2012					2011				
	COMPONENT UNIT FOUNDATION				(Memorandum Only)	COMPONENT UNIT FOUNDATION				(Memorandum Only)
	ENTERPRISE FUND SCHOOL	OPERATING AND FIXED ASSET FUNDS	RESTRICTED PROGRAM FUNDS	TOTAL		ENTERPRISE FUND SCHOOL	OPERATING AND FIXED ASSET FUNDS	RESTRICTED PROGRAM FUNDS	TOTAL	
CURRENT ASSETS:										
Cash and cash equivalents	\$ 539,650	\$ 710,289	\$ 32,000	\$ 742,289	\$ 1,281,939	\$ 566,626	\$ 1,505,664	\$ 1,637,872	\$ 3,143,536	\$ 3,710,162
Certificates of deposit	-	-	-	-	-	-	224,451	-	224,451	224,451
Grants and other receivable	1,620	4,325	-	4,325	5,945	54,350	-	-	-	54,350
Current portion of pledges receivable	-	150,000	110,325	260,325	260,325	-	-	460,500	460,500	460,500
Due from School	-	17,993	-	17,993	17,993	-	-	-	-	-
Prepaid expenses and other	50,857	-	-	-	50,857	3,922	-	-	-	3,922
Total current assets	592,127	882,607	142,325	1,024,932	1,617,059	624,898	1,730,115	2,098,372	3,828,487	4,453,385
PLEDGES RECEIVABLE, net of current portion	-	150,000	117,675	267,675	267,675	-	-	87,500	87,500	87,500
NOTE RECEIVABLE	-	3,500,000	-	3,500,000	3,500,000	-	-	-	-	-
FIXED ASSETS, net	75,497	16,375	-	16,375	91,872	111,636	663,469	-	663,469	775,105
Total assets	\$ 667,624	\$ 4,548,982	\$ 260,000	\$ 4,808,982	\$ 5,476,606	\$ 736,534	\$ 2,393,584	\$ 2,185,872	\$ 4,579,456	\$ 5,315,990
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES:										
Current portion of capital lease obligation	\$ 9,412	\$ -	\$ -	\$ -	\$ 9,412	\$ 28,453	\$ -	\$ -	\$ -	\$ 28,453
Accounts payable	10,156	-	-	-	10,156	18,759	4,375	-	4,375	23,134
Accrued expenses	132,499	-	-	-	132,499	106,546	-	-	-	106,546
Due to Foundation	17,993	-	-	-	17,993	-	-	-	-	-
Deferred grant revenue	3,253	-	-	-	3,253	14,586	-	-	-	14,586
Total current liabilities	173,313	-	-	-	173,313	168,344	4,375	-	4,375	172,719
NOTE PAYABLE	-	200,000	-	200,000	200,000	-	-	-	-	-
CAPITAL LEASE OBLIGATION, net of current portion	-	-	-	-	-	11,373	-	-	-	11,373
Total liabilities	173,313	200,000	-	200,000	373,313	179,717	4,375	-	4,375	184,092
NET ASSETS:										
Unrestricted:										
Operating	428,226	1,032,607	-	1,032,607	1,460,833	485,007	1,725,740	-	1,725,740	2,210,747
Invested in capital	66,085	3,316,375	-	3,316,375	3,382,460	71,810	663,469	-	663,469	735,279
Total unrestricted	494,311	4,348,982	-	4,348,982	4,843,293	556,817	2,389,209	-	2,389,209	2,946,026
Restricted program	-	-	260,000	260,000	260,000	-	-	2,185,872	2,185,872	2,185,872
Total net assets	494,311	4,348,982	260,000	4,608,982	5,103,293	556,817	2,389,209	2,185,872	4,575,081	5,131,898
Total liabilities and net assets	\$ 667,624	\$ 4,548,982	\$ 260,000	\$ 4,808,982	\$ 5,476,606	\$ 736,534	\$ 2,393,584	\$ 2,185,872	\$ 4,579,456	\$ 5,315,990

The accompanying notes are an integral part of these combined general purpose statements.

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
 COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012					2011				
	COMPONENT UNIT FOUNDATION				(Memorandum Only)	COMPONENT UNIT FOUNDATION				(Memorandum Only)
	ENTERPRISE FUND SCHOOL	OPERATING AND FIXED ASSET FUNDS	RESTRICTED PROGRAM FUNDS	TOTAL		ENTERPRISE FUND SCHOOL	OPERATING AND FIXED ASSET FUNDS	RESTRICTED PROGRAM FUNDS	TOTAL	
OPERATING REVENUE:										
Tuition	\$ 2,015,101	\$ -	\$ -	\$ -	\$ 2,015,101	\$ 2,009,317	\$ -	\$ -	\$ -	\$ 2,009,317
In-kind services, goods and space	22,159	923,248	-	923,248	945,407	50,833	198,306	198,306	-	249,139
Grants - government	179,514	-	-	-	179,514	248,983	-	-	-	248,983
Program fees	63,269	-	-	-	63,269	56,744	-	-	-	56,744
Program specific grants and contributions - private	-	-	32,000	32,000	32,000	-	10,000	72,272	82,272	82,272
Transfer between funds - purpose restrictions	-	99,717	(99,717)	-	(99,717)	-	62,000	(62,000)	-	-
Total operating revenue	<u>2,280,043</u>	<u>1,022,965</u>	<u>(67,717)</u>	<u>955,248</u>	<u>3,235,291</u>	<u>2,365,877</u>	<u>270,306</u>	<u>280,578</u>	<u>2,646,455</u>	
OPERATING EXPENSES:										
Personnel and related costs:										
Salaries	1,545,191	-	-	-	1,545,191	1,590,417	-	-	-	1,590,417
Payroll taxes and fringe benefits	165,562	-	-	-	165,562	197,915	-	-	-	197,915
Recruitment and staff development	54,700	-	-	-	54,700	49,581	-	-	-	49,581
Total personnel and related costs	<u>1,765,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,765,453</u>	<u>1,837,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,837,913</u>
Occupancy:										
Rent	105,555	-	-	-	105,555	94,321	-	-	-	94,321
Maintenance	17,628	-	-	-	17,628	28,922	-	-	-	28,922
Utilities	3,953	-	-	-	3,953	4,016	-	-	-	4,016
Total occupancy	<u>127,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,136</u>	<u>127,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,259</u>
Other operating costs:										
Professional fees	77,415	923,248	-	923,248	1,000,663	72,671	169,906	-	169,906	242,577
Grant expense	-	480,000	-	480,000	480,000	-	350,000	-	350,000	350,000
School instructional program expenses	444,863	-	-	-	444,863	354,102	-	-	-	354,102
Minor furniture and equipment	150,076	-	-	-	150,076	62,684	28,400	-	28,400	91,084
Consultants and service contractors	117,948	-	-	-	117,948	88,069	-	-	-	88,069
Development	39,269	-	-	-	39,269	30,234	-	-	-	30,234
Insurance	24,149	-	-	-	24,149	19,018	-	-	-	19,018
Miscellaneous	16,660	4,863	-	4,863	21,523	16,982	4,986	-	4,986	21,948
Telephone	11,101	-	-	-	11,101	13,536	-	-	-	13,536
Supplies	6,849	-	-	-	6,849	10,956	-	-	-	10,956
Printing and postage	4,506	-	-	-	4,506	6,540	-	-	-	6,540
Total other operating costs	<u>892,836</u>	<u>1,408,111</u>	<u>-</u>	<u>1,408,111</u>	<u>2,300,947</u>	<u>674,772</u>	<u>533,292</u>	<u>-</u>	<u>533,292</u>	<u>1,228,064</u>
Depreciation	57,329	14,380	-	14,380	71,709	82,374	14,380	-	14,380	96,754
Total operating expenses	<u>2,842,754</u>	<u>1,422,491</u>	<u>-</u>	<u>1,422,491</u>	<u>4,265,245</u>	<u>2,722,318</u>	<u>567,672</u>	<u>-</u>	<u>567,672</u>	<u>3,289,990</u>
Changes in unrestricted net assets from operations	<u>(562,711)</u>	<u>(399,526)</u>	<u>(67,717)</u>	<u>(467,243)</u>	<u>(1,029,954)</u>	<u>(356,441)</u>	<u>(297,366)</u>	<u>10,272</u>	<u>(287,094)</u>	<u>(643,335)</u>
GENERAL REVENUE (EXPENSE):										
Contributions and capital grants	500,205	855,144	301,945	1,157,089	1,657,294	359,914	1,528,110	2,121,600	3,649,710	4,009,624
Interest and other	-	5,645	-	5,645	5,645	7,405	14,668	-	14,668	22,073
Transfer between funds - capital	-	2,160,100	(2,160,100)	-	-	-	-	-	-	-
Capital grant expense	-	(293,000)	-	(293,000)	(293,000)	-	-	-	-	-
Loss on disposal of fixed assets	-	(368,590)	-	(368,590)	(368,590)	(9,299)	-	-	-	(9,299)
Total general revenue (expense)	<u>500,205</u>	<u>2,359,299</u>	<u>(1,858,155)</u>	<u>301,144</u>	<u>1,001,349</u>	<u>358,020</u>	<u>1,542,778</u>	<u>2,121,600</u>	<u>3,664,378</u>	<u>4,022,598</u>
Changes in net assets	<u>(62,506)</u>	<u>1,959,773</u>	<u>(1,925,872)</u>	<u>33,901</u>	<u>(28,603)</u>	<u>1,579</u>	<u>1,245,412</u>	<u>2,131,872</u>	<u>3,377,284</u>	<u>3,378,863</u>
NET ASSETS, beginning of year	<u>556,817</u>	<u>2,389,209</u>	<u>2,185,872</u>	<u>4,575,081</u>	<u>5,131,898</u>	<u>555,238</u>	<u>1,143,797</u>	<u>54,000</u>	<u>1,197,797</u>	<u>1,753,035</u>
NET ASSETS, end of year	<u>\$ 494,311</u>	<u>\$ 4,348,982</u>	<u>\$ 260,000</u>	<u>\$ 4,608,292</u>	<u>\$ 5,103,293</u>	<u>\$ 556,817</u>	<u>\$ 2,389,209</u>	<u>\$ 2,185,872</u>	<u>\$ 4,575,081</u>	<u>\$ 5,131,898</u>

The accompanying notes are an integral part of these combined general purpose statements.

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012			2011		
	ENTERPRISE FUND SCHOOL	COMPONENT UNIT FOUNDATION	(Memorandum Only) TOTAL	ENTERPRISE FUND SCHOOL	COMPONENT UNIT FOUNDATION	(Memorandum Only) TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts for tuition	\$ 2,015,101	\$ -	\$ 2,015,101	\$ 2,009,317	\$ -	\$ 2,009,317
Receipts from government grants	204,676	-	204,676	265,569	-	265,569
Receipts from other sources	579,709	425,471	1,005,180	409,619	86,940	496,559
Employee compensation and related	(1,739,501)	-	(1,739,501)	(1,827,783)	-	(1,827,783)
Payments for supplies and services	(1,035,357)	(489,238)	(1,524,595)	(737,007)	(350,611)	(1,087,618)
Net cash provided by (used in) operating activities	<u>24,628</u>	<u>(63,767)</u>	<u>(39,139)</u>	<u>119,715</u>	<u>(263,671)</u>	<u>(143,956)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from maturity of certificates of deposit	-	224,451	224,451	-	214,788	214,788
Issuance of note receivable	-	(3,500,000)	(3,500,000)	-	-	-
Acquisition of fixed assets	(21,190)	(28,876)	(50,066)	(21,508)	-	(21,508)
Net cash provided by (used in) investing activities	<u>(21,190)</u>	<u>(3,304,425)</u>	<u>(3,325,615)</u>	<u>(21,508)</u>	<u>214,788</u>	<u>193,280</u>
CASH FLOWS FROM FINANCING ACTIVITIES:						
Principal payments on capital lease obligation	(30,414)	-	(30,414)	(30,413)	-	(30,413)
Proceeds from note payable	-	200,000	200,000	-	-	-
Capital grants	-	766,945	766,945	-	3,111,710	3,111,710
Net cash provided by (used in) financing activities	<u>(30,414)</u>	<u>966,945</u>	<u>936,531</u>	<u>(30,413)</u>	<u>3,111,710</u>	<u>3,081,297</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(26,976)</u>	<u>(2,401,247)</u>	<u>(2,428,223)</u>	<u>67,794</u>	<u>3,062,827</u>	<u>3,130,621</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>566,626</u>	<u>3,143,536</u>	<u>3,710,162</u>	<u>498,832</u>	<u>80,709</u>	<u>579,541</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 539,650</u>	<u>\$ 742,289</u>	<u>\$ 1,281,939</u>	<u>\$ 566,626</u>	<u>\$ 3,143,536</u>	<u>\$ 3,710,162</u>
CASH FLOWS FROM OPERATING ACTIVITIES:						
Changes in net assets	\$ (62,506)	\$ 33,901	\$ (28,605)	\$ 1,579	\$ 3,377,284	\$ 3,378,863
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:						
Capital grants	-	(301,945)	(301,945)	-	(3,111,710)	(3,111,710)
Depreciation	57,329	14,380	71,709	82,374	14,380	96,754
Loss on disposal of fixed assets	-	368,590	368,590	9,299	-	9,299
Capital grant expense	-	293,000	293,000	-	-	-
Changes in operating assets and liabilities:						
Grants and other receivable	52,730	(4,325)	48,405	(12,444)	-	(12,444)
Pledges receivable	-	(445,000)	(445,000)	-	(548,000)	(548,000)
Prepaid expenses and other	(46,935)	-	(46,935)	27,691	-	27,691
Accounts payable	(8,603)	(4,375)	(12,978)	(13,499)	4,375	(9,124)
Accrued expenses	25,953	-	25,953	10,129	-	10,129
Due to (from)	17,993	(17,993)	-	-	-	-
Deferred grant revenue	(11,333)	-	(11,333)	14,586	-	14,586
Net cash provided by (used in) operating activities	<u>\$ 24,628</u>	<u>\$ (63,767)</u>	<u>\$ (39,139)</u>	<u>\$ 119,715</u>	<u>\$ (263,671)</u>	<u>\$ (143,956)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cost basis of fixed assets disposed	\$ -	\$ 716,612	\$ 716,612	\$ 221,554	\$ -	\$ 221,554
Cash paid for interest	\$ -	\$ 3,339	\$ 3,339	\$ -	\$ -	\$ -
Fixed asset additions financed through capital lease obligation	\$ -	\$ -	\$ -	\$ 28,233	\$ -	\$ 28,233

The accompanying notes are an integral part of these combined general purpose statements.

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(1) ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND OPERATIONS

In February, 2001, Codman Academy Charter Public School (the School) was granted a charter by the Commonwealth of Massachusetts under Chapter 71, Section 89 of the General Laws of Massachusetts through June, 2006. The School's charter is subject to renewal every five years and has been renewed through June, 2016. The School's primary purpose is to prepare students from the City of Boston in the intellectual, economic and civic life of our society by ensuring their preparation and access to further education. The School operates as a high school with grades 9 through 12.

As a state chartered organization, the School is not subject to Federal or state income taxes. Donors may deduct contributions made to the School within the requirements of the Internal Revenue Code (IRC).

Codman Academy Foundation, Inc. (the Foundation) was formed in October, 2001, to support the mission and promote the overall financial well-being of the School, including soliciting, receiving in-kind and cash donations from individuals, foundations and corporations, and administering funds for operation and maintenance of the School. The Foundation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the IRC. The Foundation is also exempt from state income taxes. Donors may deduct contributions made to the Foundation within the requirements of the IRC.

The Foundation's main activities consist of raising funds to support the mission and programs of the School. The School and the Foundation have separate Boards of Trustees with one ex-officio overlapping position, the Executive Director. The School's Board evaluates and hires the Executive Director of the School.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - GASB Standards

The accompanying combined general purpose financial statements were prepared on the accrual basis. Because the School is a quasi-public corporation, its accounting policies and financial statement presentation are governed by standards issued by the Governmental Accounting Standards Board (GASB). The School has adopted GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*". GASB Statement No. 34 outlines financial reporting requirements for state and local governments. The School is considered a special purpose government organization that conducts only business-type activities within the meaning of GASB Statement No. 34.

Consistent with the provisions of GASB Statement Nos. 14 and 39, the Foundation is presented in these combined general purpose financial statements as a component unit of the School. The "Memorandum Only Total" is presented in accordance with GASB Statement No. 14. This represents the combined totals of the School and the Foundation without the elimination of inter-agency balances and transactions.

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(1) **ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fixed assets and expenditures are recorded when received and incurred, respectively. Grants and contributions are recognized when all eligible requirements are met.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the School has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents consists of checking, money market and savings accounts.

Certificates of Deposit

The Foundation had two certificates of deposit for which the initial maturities were greater than three months at June 30, 2011. These certificates of deposit matured in October, 2011, and earned interest at a rate of 1%.

Classification of Funds and Net Assets

Enterprise funds:

Operating represents the portion of expendable funds that are used to support operations, including funds for which donor-imposed restrictions have been met in accordance with funding agreements. Included in operating net assets is \$350,000 designated by the Board for strategic reserves at June 30, 2012 and 2011. Operating net assets as of June 30, 2011, also included \$1,080,000 in Board designated net assets for the Campus Project (see Note 10). These funds were expended during fiscal year 2012.

Invested in Capital represents the net book value of fixed assets, net of related liabilities. Invested in capital net assets also include a note receivable pertaining to the School's Campus Project (see Notes 10 and 11).

Restricted Program include all funds received or committed for future time periods or to fund specific programs or fixed asset needs, which have not yet been expended. These funds were restricted to fund specific programs or fixed asset needs.

Revenue Recognition

Tuition and grant revenue are recorded as services are provided and costs are incurred. The Commonwealth of Massachusetts, Executive Office of Administration and Finance calculates per-pupil tuition reimbursement, which is paid to the School by the Massachusetts Department of Elementary and Secondary Education (DESE).

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(1) **ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Agency records unrestricted contributions when they are received or unconditionally committed. Gifts of cash and other assets are reported as restricted program funds, if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to operating and fixed asset funds and are reported in the combined statements of revenues, expenses and changes in net assets as transfers between funds.

All other revenue is recorded when earned.

Pledges Receivable

Pledges receivable at June 30, 2012 and 2011, consist of contributions committed to capital campaigns and the annual fund (see Note 3). Pledges are recorded at their net present value when unconditionally committed. No discount was deemed necessary on pledges receivable as it is immaterial to the combined general purpose financial statements as a whole.

Fixed Assets and Depreciation

Fixed assets are recorded at cost, if purchased, or at fair market value at the time of donation. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as they are incurred. The Agency capitalizes items over \$5,000 with an estimated useful life of greater than one year. Depreciation is computed using the straight-line method over the following estimated useful lives:

Property held for development	N/A
Furniture, equipment and computers	3 - 5 years
Leasehold improvements	3 - 6 years

The School purchases classroom supplies, which include textbooks, literature and other materials, to carry on educational activities. These purchases are expensed in the year of acquisition.

Property held for development relates to cost of land, building and related development costs for a property under development for the future permanent facility for the School (see Note 10).

In-Kind Services, Goods and Space

The Foundation received donated legal services valued at \$923,248 and \$169,906 for the years ended June 30, 2012 and 2011, respectively. These services are reflected in the accompanying combined general purpose financial statements based upon the estimated value assigned to them by the donating company. Donated legal services for the years ended June 30, 2012 and 2011, were expensed and are included in professional fees. The School also receives other donated services from a variety of volunteers. No amounts have been recognized in the accompanying combined general purpose financial statements, since these services do not meet the criteria for recording in accordance with accounting principles generally accepted in the United States of America.

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(1) ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Services, Goods and Space (Continued)

The School has an agreement to receive donated space from a local bank through June 30, 2012. The School has recorded \$20,833 of in-kind rent for this space for the years ended June 30, 2012 and 2011, which is included in in-kind services, goods and space and rent expense in the accompanying combined statements of revenues, expenses and changes in net assets.

The School receives donated transportation from the City of Boston for certain students, as required by DESE. The value of these services is estimated to be \$1,326 and \$30,000 for the years ended June 30, 2012 and 2011, respectively, and is included as in-kind services, goods and space as well as in school instructional program expenses in the accompanying combined statements of revenues, expenses and changes in net assets.

The Foundation received donated furniture and equipment with a fair market value of \$28,400, as determined by the donor, during the year ended June 30, 2011. These amounts are recorded as in-kind services, goods and space, as well as minor furniture and equipment in the accompanying combined statement of revenues, expenses and changes in net assets.

Estimates

The preparation of combined general purpose financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the combined general purpose financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(2) FUNDING

The School receives significant funding from the Commonwealth of Massachusetts for its tuition revenue. This funding is subject to audit by the appropriate governmental agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the School as of June 30, 2012 and 2011, or on the changes in its net assets for the years then ended. Tuition and grants from the Commonwealth of Massachusetts were approximately 98% and 97% of the School's total operating revenue for the years ended June 30, 2012 and 2011, respectively. Grants receivable from the Commonwealth of Massachusetts was approximately 73% of total grants and other receivable as of June 30, 2011. Grants receivable at June 30, 2011, was collected in fiscal year 2012. There were no receivables from the Commonwealth of Massachusetts as of June 30, 2012.

As of June 30, 2012 and 2011, approximately 57% and 18%, respectively, of pledges receivable were due from one donor. The June 30, 2012 balance is expected to be collected in fiscal year 2013 and, accordingly, no allowance for doubtful accounts has been recorded and the balance is reflected as a current asset in the accompanying combined statement of net assets as of June 30, 2012. The June 30, 2011 balance was collected during fiscal year 2012.

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(3) PLEDGES RECEIVABLE

Pledges receivable at June 30, 2012 and 2011, were due as follows:

<u>Fiscal Year</u>	<u>2012</u>	<u>2011</u>
2012	\$ -	\$460,500
2013	264,325	26,500
2014	209,000	26,500
2015	44,675	24,500
2016	10,000	7,500
2017	-	2,500
	<u>528,000</u>	<u>548,000</u>
Less - current portion	<u>264,325</u>	<u>460,500</u>
Long-term pledges receivable, net	<u>\$263,675</u>	<u>\$ 87,500</u>

The School has not recorded a discount on future pledges receivable as the amount is immaterial to the combined general purpose financial statements.

(4) FIXED ASSETS

Changes in fixed assets as of June 30, 2012 and 2011, are as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2012</u>
School:				
Furniture, equipment and computers	\$265,983	\$ 21,190	\$ -	\$287,173
Leasehold improvements	<u>13,100</u>	<u>-</u>	<u>-</u>	<u>13,100</u>
Total cost	279,083	21,190	-	300,273
Less - accumulated depreciation	<u>167,447</u>	<u>57,329</u>	<u>-</u>	<u>224,776</u>
School's fixed assets, net	<u>\$111,636</u>	<u>\$(36,139)</u>	<u>\$ -</u>	<u>\$ 75,497</u>
Foundation:				
Property held for development	\$632,212	\$ 12,501	\$644,713	\$ -
Furniture, equipment and computers	-	16,375	-	16,375
Leasehold improvements	<u>71,899</u>	<u>-</u>	<u>71,899</u>	<u>-</u>
Total cost	704,111	28,876	716,612	16,375
Less - accumulated depreciation	<u>40,642</u>	<u>14,380</u>	<u>55,022</u>	<u>-</u>
Foundation's fixed assets, net	<u>\$663,469</u>	<u>\$ 14,496</u>	<u>\$661,590</u>	<u>\$ 16,375</u>

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(4) FIXED ASSETS (Continued)

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2011</u>
School:				
Furniture, equipment and computers	\$437,796	\$ 49,741	\$221,554	\$265,983
Leasehold improvements	<u>13,100</u>	<u>-</u>	<u>-</u>	<u>13,100</u>
Total cost	450,896	49,741	221,554	279,083
Less - accumulated depreciation	<u>297,328</u>	<u>82,374</u>	<u>212,255</u>	<u>167,447</u>
School's fixed assets, net	<u>\$153,568</u>	<u>\$(32,633)</u>	<u>\$ 9,299</u>	<u>\$111,636</u>
Foundation:				
Property held for development	\$632,212	\$ -	\$ -	\$632,212
Leasehold improvements	<u>71,899</u>	<u>-</u>	<u>-</u>	<u>71,899</u>
Total cost	704,111	-	-	704,111
Less - accumulated depreciation	<u>26,262</u>	<u>14,380</u>	<u>-</u>	<u>40,642</u>
Foundation's fixed assets, net	<u>\$677,849</u>	<u>\$(14,380)</u>	<u>\$ -</u>	<u>\$663,469</u>

(5) LEASES

The School has acquired computer equipment under capital lease agreements that initially expired in September, 2013, and required annual payments of \$30,413. These agreements were non-interest bearing. The total cost of assets under these capital lease obligations was \$77,882. Accumulated depreciation on these assets was \$61,208 and \$24,783 as of June 30, 2012 and 2011, respectively. The capital lease obligation was repaid in August, 2012. Lease payments for the year ended June 30, 2013, will be \$9,412.

(6) RETIREMENT PLANS

The School's teaching staff and certain administrators participate individually in the Massachusetts Teacher Retirement System (MTRS). The School is not legally required to contribute to MTRS. All qualified teaching staff and administrators are covered by, and must participate in, MTRS. The teachers and the School are exempt from Federal social security taxes for these employees. Benefits vest fully after ten years of qualified employment.

An employee may receive retirement benefits after twenty years of service or ten years of service having attained the age of 55. Covered employees are required by state statute to contribute 8% to 11% of their salaries. The Commonwealth is required to make actuarially determined contributions to maintain the financial integrity of the retirement system.

The School also sponsors a retirement plan under the IRC Section 403(b) for all employees. Employees may make voluntary salary contributions into this plan within the IRC guidelines. The School does not match or make contributions to the plan.

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(7) CONCENTRATION OF CREDIT RISK

The Agency maintains its cash and certificates of deposit balances in banks in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceed the insured amounts. The Agency has not experienced any losses in these accounts. The Agency believes it is not exposed to any significant credit risk on its cash and cash equivalents.

As required by GASB Statement No. 40, *Deposits and Investment Risk Disclosure*, the following represents a summary of deposits at June 30:

	<u>2012</u>		<u>2011</u>	
	<u>School</u>	<u>Foundation</u>	<u>School</u>	<u>Foundation</u>
Fully insured	\$514,131	\$290,952	\$563,442	\$ 751,762
Uninsured	<u>25,519</u>	<u>451,337</u>	<u>3,184</u>	<u>2,616,225</u>
	<u>\$539,650</u>	<u>\$742,289</u>	<u>\$566,626</u>	<u>\$3,367,987</u>

(8) PROFESSIONAL DEVELOPMENT

The School incurred expenses to provide professional development to staff and teachers. The total expense for the years ended June 30, 2012 and 2011, was approximately \$54,500 and \$43,000, respectively, which is included in recruitment and staff development in the accompanying combined statements of revenues, expenses and changes in net assets.

(9) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses in the accompanying combined statements of net assets consist of approximately 93% and 85% of accrued salaries and benefits and approximately 7% and 15% payable to vendors at June 30, 2012 and 2011, respectively.

(10) CAMPUS PROJECT

During fiscal year 2008, the Foundation and the Codman Square Health Center (the Health Center) began negotiations to create a joint venture to build a new facility, which will be occupied by the School and the Health Center (Campus Project). This facility will be built on parcels of land owned by the Foundation and the Health Center. Construction began in August, 2011. As of June 30, 2011, the Foundation has \$632,212 of costs incurred in connection with the Campus Project (see Notes 1 and 4). At June 30, 2011, the Foundation has the following net assets available for the Campus Project:

Restricted program	\$2,121,600
Board designated (see Note 1)	<u>1,080,000</u>
	<u>\$3,201,600</u>

The Foundation utilized these funds as well as other funds raised in fiscal year 2012 to extend a sponsor loan to the Health Center (see Note 11).

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(10) CAMPUS PROJECT (Continued)

During the year ended June 30, 2012, the Foundation transferred land and certain land improvements (see above) to the Health Center for \$10. The value assigned to this land was \$293,000 which is included in capital grant expense in the accompanying combined statement of revenue, expenses and changes in net assets for the year ended June 30, 2012. The Foundation recorded an impairment loss totaling \$368,590 to reduce the property's carrying basis to its transfer value, which is included in loss on disposal of fixed assets in the accompanying combined statement of revenue, expenses and changes in net assets for the year ended June 30, 2012.

Immediately following the property transfer, the Health Center formed a two-unit condominium and then entered into a master lease with Codman Square Health and Education Center, Inc. (CSHEC) for a term of ninety-nine years. CSHEC entered into an agreement to lease one of the units to the Health Center and the other unit to the Foundation (see Note 12). The Foundation will have the rights to purchase the School's unit from the Health Center, and to terminate CSHEC's leasehold interest in the School's unit, in accordance with certain purchase option agreements (see below).

To further finance the Campus Project, the Foundation made a \$3,500,000 loan to the Health Center, which was outstanding as of June 30, 2012 (see Note 11). The Health Center utilized these proceeds along with proceeds from other sources to finance a \$12,709,855 loan by the Health Center to Chase NMTC Codman Investment Fund, LLC (the Investment Fund Loan). These proceeds were used by the Investment Fund to fund part of an equity investment in NFF New Market Fund XII (NFF) and in MHIC CDE II Subsidiary II LLC (MHIC). NFF and MHIC utilized the proceeds to make loans to CSHEC to finance the project.

Fee Purchase Option

The Health Center has granted the Foundation an option to purchase the Health Center's interest in the School's unit for \$10. The purchase option is exercisable between the project completion date and eight years thereafter (December, 2019). The Foundation's rights under this agreement are not assignable without the consent of other parties.

Leasehold Interest Purchase Option

CSHEC has granted the Foundation a one-year option to purchase CSHEC's interest in the School's unit beginning the earlier of December, 2018, or as certain conditions are met as defined in the agreement. The Foundation's rights under this agreement were not assignable without the consent of other parties and are subject to other conditions as defined in the agreement. The purchase price will be the greater of the fair market value of the unit or the outstanding balance of the Foundation's note receivable (see Note 11), as defined in agreement.

(11) NOTE RECEIVABLE

During fiscal year 2012, the Foundation provided a sponsor loan totaling \$3,500,000 to the Health Center to fund development of the Campus Project (see Note 10). The note matures in July, 2037, and interest accrues at an interest rate as defined in the agreement on a quarterly basis. As of June 30, 2012, the outstanding principal and interest balance was \$3,500,000. This loan is secured by an assignment of the Health Center's security interest in the Investment Fund Loan.

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE
NOTES TO COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(12) RELATED PARTY TRANSACTIONS

Leases

The School rents its facility under a one-year operating lease agreement which expired on June 30, 2012. This lease was extended beginning July 1, 2012 through October 31, 2012. This lease is with the Health Center, whose Executive Director, through June, 2011, was the President of the School's Board. Total rent paid for this facility for the years ended June 30, 2012 and 2011, was \$65,396 and \$70,488, respectively. The Foundation entered into a lease agreement with CSHEC (see Note 10) to lease this facility beginning in December, 2011, and expiring on May 31, 2044. Quarterly rent of \$10,269 is due beginning on March 31, 2012, through the development period, as defined in the agreement. The Foundation must maintain certain insurance coverage and pay for its proportionate share of real estate taxes and common area operating expenses. Subsequent to the development period, the Foundation will pay their allocable share of all costs to operate the building.

The Foundation entered into a sublease agreement to lease this facility to the School. The lease commenced in December, 2011, and expires in December, 2020. Quarterly rent of \$10,269 is due beginning on March 31, 2012. Annual rent due from the School to the Foundation is \$41,076 through the end of the lease. The Foundation must maintain certain insurance coverage and pay for its proportionate share of real estate taxes and common area operating expenses.

Guarantee

In connection with a bank extending a \$800,000 loan to the Foundation, (see Note 13), the Health Center guarantees the Foundation's performance under the terms of the note.

(13) NOTE PAYABLE

In December, 2011, the Foundation entered into a note payable agreement with a bank for \$800,000, of which \$200,000 was outstanding as of June 30, 2012. The terms require monthly interest only payments through December, 2015, at the bank's prime rate (3.25% at June 30, 2012). Per the terms of the agreement, principal is due upon collection of specified pledges receivable by the Foundation. This note payable contains various covenants, as described in the agreements. The Foundation was in compliance with these covenants at June 30, 2012.

(14) CUMULATIVE SURPLUS REVENUE

Effective July 1, 2010, any cumulative surplus revenue generated by the School must comply with M.G.L.c.71, Section 89 (as amended by Chapter 12 of the Acts of 2010 under Section 8 (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, 2012 and 2011, 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 the calculation.



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Alexander, Aronson, Finning & Co., P.C.

21 East Main Street, Westborough, MA 01581-1461 (508) 366-9100
Boston, MA (617) 205-9100 Wellesley, MA (781) 965-9100
www.aafcpa.com FAX (508) 366-9789 info@aafcpa.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINED
GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Boards of Trustees of
Codman Academy Charter Public School and Affiliate:

We have audited the combined general purpose financial statements of Codman Academy Charter Public School and Affiliate (collectively, the Agency) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 2, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined general purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's combined general purpose financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

10-TOWN-W-002

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's combined general purpose financial statements are free of 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 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*.

This report is intended solely for the information and use of the Boards of Trustees, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alexander, Aronson, Finning & Co., P.C.

Wellesley, Massachusetts
October 2, 2012

CODMAN ACADEMY CHARTER PUBLIC SCHOOL AND AFFILIATE

SCHEDULE OF 20% EXCESS CARRYOVER CALCULATION

JUNE 30, 2012

(Unaudited)

1	Cumulative surplus (deficit)	\$ (386,651)	
2	Change in net assets	(62,506)	
	Less:		
3	Contributions	500,205	
4	Interest income	-	
5	Principal payments on debt	30,414	
6	Capital expenses, less related debt/reserve funds	21,191	
7	Current deposits to reserve funds for capital project	-	
8	Current deposits to reserve funds held as security for debt	-	
9	Other	-	
	Subtotal		\$ (1,000,967)
10	Plus:		
11	Fundraising expenses	39,269	
12	Depreciation	14,228	
	Other	-	
	Subtotal		<u>53,497</u>
	Total surplus (deficit)		(947,470)
13	25% of actual tuition payment for current year	503,775	
14	20% of projected tuition for following year	417,716	
15	20% budgeted expenditures from capital projects reserve fund for following year	-	
16	Allowable carryover:		<u>(921,491)</u>
17	Excess surplus (deficit)		<u><u>\$ (1,868,961)</u></u>

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