

MARBLEHEAD COMMUNITY CHARTER PUBLIC SCHOOL

**REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2009

DRAFT 12/12/09

DRAFT 12/12/09

MARBLEHEAD COMMUNITY CHARTER PUBLIC SCHOOL

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2009

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	2
<i>Financial Statements</i>	5
Statement of Net Assets.....	6
Statement of Revenues, Expenses and Changes in Net Assets.....	7
Statement of Cash Flows.....	8
Notes to Financial Statements.....	9
Independent Auditors' Report On Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit Financial Statements Performed in Accordance With Government Auditing Standards.....	15
Board Acceptance Letter.....	17

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DRAFT 12/12/09

Independent Auditors' Report

The Board of Trustees
Marblehead Community Charter Public School
Marblehead, Massachusetts 01945

We have audited the accompanying statement of net assets of the Marblehead Community Charter Public School, as of June 30, 2009 and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marblehead Community Charter Public School as of June 30, 2009, and the respective changes in its net assets and cash flows for the fiscal year 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 _____, 2009, on our consideration of the Marblehead Community Charter Public School internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 read in conjunction with this report in considering the results of our audit.

Wakefield, MA
_____, 2009

Management's Discussion and Analysis

DRAFT 12/2/09

Management's Discussion and Analysis

This discussion and analysis of Marblehead Community Charter Public School's (the School) financial performance provides an overview of the school's financial activities for the fiscal year ending June 30, 2009. Please read it in conjunction with the financial statements of the School, which begins on page five.

The School as a Whole

The School was granted its charter in 1995 to operate as a public school in the Commonwealth of Massachusetts. The initial charter was awarded for the five-year period through June 2000 and was renewed by the Commonwealth of Massachusetts Board of Education through June 2010.

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. In accordance with GASB No. 34 the School issues a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These statements provide information about the financial activities of the School, as a whole.

Financial Highlights

- The School had operating revenues of \$2.8 million for the fiscal year ended June 30, 2009, of which 90% was from state aid, and 10% was other revenues, contributions, school lunch receipts and student activities.
- Net assets at June 30, 2009 totaled \$380,000, of this amount, \$146,000 is invested in capital assets, \$17,800 is temporarily restricted as it relates to donor stipulated private contributions and \$217,000 was unrestricted.

Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets includes all assets, liabilities, revenue and expenses of the School. This activity is 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 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 financial health of the School.

Revenues:

Operating revenues were \$2.8 million in fiscal year 2009, an increase of \$416,000 from fiscal year 2008. Most of the increase was attributable to increase in state allocation.

The School recognized \$2.5 million in revenues from government sources. The remaining revenue sources consisting of student activities, school lunch, contributions and other revenues totaled \$289,000.

Expenses:

The Trustees approved a budget of \$2.4 million in operating expenses for the year ended June 30, 2009. Increases in the budget were approved by the Trustees based on adjustment to expected receipts from federal and state grant proceeds and fundraising activities.

Overall expenses increased \$164,000, when compared to fiscal year 2008. Personnel costs make up 78% of the operating costs of the School; while occupancy costs (rent, maintenance and utilities) equal 11% of operating costs.

Other Financial Factors

The School leases its building space under a non-cancelable lease through June 2010.

During fiscal year 2006, the School entered into a loan agreement totaling \$300,000 with Mass Development to fund the school expansion project. As of June 30, 2009 the outstanding debt totaled \$219,771.

Contacting the School's Financial Management

This financial report is designed to provide the reader with a general overview of the Marblehead Community Charter Public School's finances and to show the accountability for the funds received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager at the Marblehead Community Charter Public School.

Financial Statements

DRAFT 12/2/09

STATEMENT OF NET ASSETS

JUNE 30, 2009

ASSETS

CURRENT:

Cash and cash equivalents.....	\$ 234,128
Receivables, net of uncollectibles:	
Intergovernmental.....	20,084

OTHER ASSETS:

Security Deposits.....	10,000
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NONCURRENT:

Capital assets, net of accumulated depreciation.....	365,312
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TOTAL ASSETS.....	<u>629,524</u>
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LIABILITIES

CURRENT:

Accounts payable.....	9,820
Notes payable.....	<u>219,771</u>

TOTAL LIABILITIES.....	<u>229,591</u>
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NET ASSETS

Invested in capital assets, net of related debt.....	145,541
Temporarily restricted.....	17,800
Unrestricted.....	<u>236,592</u>

TOTAL NET ASSETS.....	<u><u>\$ 399,933</u></u>
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See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2009

OPERATING REVENUES:	
Intergovernmental:	
State allocation.....	\$ 2,388,240
Federal and state grants.....	105,662
Contributions.....	60,324
Other revenues.....	76,900
School lunch program.....	95,483
Student activities.....	<u>56,029</u>
Total operating revenue.....	<u>2,782,638</u>
OPERATING EXPENSES:	
Salaries.....	1,725,230
Benefits.....	261,100
Recruiting and staff development.....	12,233
Student support expenditures.....	50,844
Occupancy.....	308,958
Depreciation.....	72,047
Office and administration.....	118,571
School lunch program.....	101,766
Student activities.....	<u>67,795</u>
Total operating income expenses.....	<u>2,718,544</u>
Operating income (loss).....	<u>64,094</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income.....	332
Interest expense.....	<u>(21,308)</u>
Total nonoperating income expenses.....	<u>(20,976)</u>
Change in net assets.....	43,118
Net assets at beginning of year.....	<u>356,815</u>
Net assets at end of year.....	<u>\$ 399,933</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from state allocation.....	\$ 2,388,240
Receipts from federal and state grants.....	85,578
Receipts from private, grants, contributions and fees.....	60,324
Other revenues.....	228,412
Payments to employees.....	(1,725,230)
Payments to vendors.....	<u>(974,238)</u>

NET CASH FROM OPERATING ACTIVITIES..... 63,086

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Net proceeds (repayments) from line of credit.....	(350,000)
Acquisition of capital assets.....	(17,330)
Principal payments on notes payable.....	(27,951)
Interest expense.....	<u>(21,308)</u>

NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... (416,589)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income.....	<u>332</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS..... (353,171)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... 587,299

CASH AND CASH EQUIVALENTS AT END OF YEAR..... \$ 234,128

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:

Operating income (loss).....	\$ <u>64,094</u>
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation.....	72,047
Changes in assets and liabilities:	
Receivables.....	(20,084)
Accounts payable.....	<u>(52,971)</u>
Total adjustments.....	<u>(1,008)</u>

NET CASH FROM OPERATING ACTIVITIES..... \$ 63,086

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Marblehead Community Charter Public School (the School) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant School accounting policies are described herein.

A. Reporting Entity

The School is a Commonwealth Charter School established by the granting of a charter by the Secretary of Education of the Commonwealth of Massachusetts (Commonwealth), pursuant to Chapter 71, Section 89 of Massachusetts General Laws (MGL). Commonwealth Charter Schools are instrumentalities of the state, established and operated independently of any municipal or regional school committee.

The Secretary's grant of a charter (Charter) was made by action dated December 9, 1994, authorizing the operation of a charter school. The School is governed by a Board of Trustees (Board). The Board consists of between nine and thirteen members. The term of office of a Trustee is normally three years, except that the Trustees' terms are staggered initially so approximately one-third of all such terms of office expire in each year. The Trustees are elected from among the stakeholders of the School.

As a state chartered organization, the School is not subject to federal or state income taxes. Donors may deduct contributions to the School within Internal Revenue Service regulations.

As required by GAAP, these financial statements present the School and its component units. The Marblehead Community Charter Public School has no component units that require inclusion in these financial statements.

B. Financial Statement Presentation

The School is a special purpose governmental entity that engages in only business type activities and, accordingly, the financial statements are prepared using the accrual basis of accounting. In accordance with GASB, the School will apply Financial Accounting Standards Board (FASB) Statements and interpretations, except those that conflict with the GASB pronouncements.

C. Cash and Investments

The School's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value.

D. Accounts Receivable

The School uses the reserve method for uncollectible accounts. There were no receivables outstanding at year end.

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the providers have been met. For expenditure driven grants, receivables are recorded when the qualifying expenses are incurred and all other grant requirements are met. These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

E. Inventories

Inventories are recorded as expenses at the time of purchase. Such inventories are not material in total to the financial statements and therefore are not recorded.

F. Capital Assets

Capital assets are recorded at cost, if purchased or at the estimated fair market value at the date of donation. All purchases and construction costs in excess of \$5,000 with expected useful lives of greater than one year are capitalized at the date of acquisition or construction. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized. Capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Computers.....	5
Vehicles.....	5
Equipment.....	5
Leasehold improvements.....	10

G. Revenue Recognition

Student 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 the per pupil tuition reimbursement which is paid to the School by the Massachusetts Department of Elementary & Secondary Education (ESE).

The School records unrestricted contributions when they are received or unconditionally committed. The School reports gifts of cash and other assets as restricted funds if they are received with donor stipulations that limit the use of the donated assets.

H. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from the estimates that were used.

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$234,129 and the bank balance totaled \$348,745. Of the bank balance, \$348,745 was covered by Federal Depository Insurance and none of the balance was exposed to custodial credit risk.

Investments

As of June 30, 2009, the School had no investments.

NOTE 3 – PENSION PLAN

The School's teaching staff and certain administrators are members of the Massachusetts Teachers 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. Participants and the School are exempt from Federal social security taxes for these employees. Benefits vest fully after 10 years of qualified employment. An employee may receive retirement benefits after 20 years of service or 10 years of service having attained age 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. Pension benefits and administrative expenses paid by the Teachers Retirement Board are funded by the Commonwealth. As of June 30, 2009, there are no retirees of the School for which benefits are paid.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets being depreciated:</u>				
Building improvements.....	\$ 578,607	\$ 17,330	\$ -	\$ 595,937
Equipment and computers.....	60,729	-	-	60,729
	<u>639,336</u>	<u>17,330</u>	<u>-</u>	<u>656,666</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(180,150)	(59,595)	-	(239,745)
Equipment and computers.....	(39,157)	(12,452)	-	(51,609)
	<u>(219,307)</u>	<u>(72,047)</u>	<u>-</u>	<u>(291,354)</u>
Total governmental activities capital assets, net.....	<u>\$ 420,029</u>	<u>\$ (54,717)</u>	<u>\$ -</u>	<u>\$ 365,312</u>

NOTE 5 – SHORT-TERM FINANCING

The School has available a revolving line of credit with a maximum commitment of \$350,000. The line of credit calls for an interest rate at the bank base rate plus 1.00% and is collateralized by all the assets and revenues of the school. The agreement is renewable annually.

As of June 30, 2009, the School had no balance outstanding on the revolving line of credit.

NOTE 6 - LONG-TERM FINANCING

State law permits the School, under the provisions of Chapter 71, Section 89 (j) (6), to authorize indebtedness with repayment terms not to exceed the duration of the School's Charter, unless approved by the Board of Education.

In August, 2005 the School obtained a tenant improvement loan for construction of certain renovations and leasehold improvements of the leased property for the school operations. The loan provides for borrowings of up to \$300,000 beginning in August, 2005. The loan, a promissory note which contains covenants as to financial condition and reporting requirements, is payable at interest only over a three month term, bears interest at 6.25% and is collateralized by all the assets and revenues of the School. Principal and interest payments totaling \$3,382 per month commenced on November 1, 2006 and are being amortized over one hundred and seventeen months.

Details related to the School's outstanding indebtedness at June 30 2009, and the related debt service requirements are as follows:

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2008</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2009</u>
Leasehold improvements.....	6.25%	\$ <u>247,722</u>	\$ <u>-</u>	\$ <u>(27,951)</u>	\$ <u>219,771</u>

Debt service requirements for principal and interest in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010.....	\$ <u>219,771</u>	\$ <u>12,258</u>	\$ <u>232,029</u>

NOTE 7 – LEASES COMMITMENTS

Operating Leases

The School leases a building under a noncancelable operating lease scheduled to expire in June 2010. Rent expense was approximately \$239,500 for the fiscal year ended June 30, 2009, all of which was paid from grant proceeds.

<u>Year</u>	
2010.....	\$ <u>246,700</u>

NOTE 8 - CONTINGENCIES

The School participates in a number of state and federal financial assistance programs. These programs are subject to financial and compliance audits. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

In the course of its operations various legal actions and claims may occur. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. At June 30, 2009, management is not aware of any pending or outstanding claims.

NOTE 9 – PROFESSIONAL DEVELOPMENT

The School incurred expenses throughout the year for the purpose of providing professional development for the staff and teachers. The total amount of expenses relating to development for the staff and teachers for the year ended June 30, 2009 was \$12,233.

NOTE 10 – RISK FINANCING

The School carries commercial insurance to limit its exposure to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The School also carries commercial health care and other related insurance for its employees.

NOTE 11 – RELATED PARTY

MCCPS, Inc. (a Massachusetts corporation, not-for-profit) raises funds on behalf of the School. Under GASB Nos. 34 and 39 "Determining Whether Certain Organizations are Component Units", MCCPS, Inc. qualifies as a component unit, however, in accordance with GASB No. 34, based on the level of financial activity, MCCPS, Inc. is not included in the accompanying financial statements. During 2009, MCCPS, Inc granted the School \$30.434 which is reported as contributions in the accompanying financial statements.

NOTE 12 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

During fiscal year 2009, the following GASB pronouncements were implemented:

The GASB issued Statement #43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*. Since there is no legally established separate trust for the post-employment benefit plan this pronouncement did not impact the basic financial statements.

The GASB issued Statement #55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was implemented in fiscal year 2009. The basic financial statements were not impacted by this pronouncement.

The GASB issued Statement #56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which was implemented in fiscal year 2009. This statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. The basic financial statements were not impacted by this pronouncement.

Future GASB Pronouncements:

The GASB issued Statement #45 *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which is required to be implemented in Fiscal 2010. Management has yet to determine if this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Trustees
Marblehead Community Charter Public School
Marblehead, Massachusetts

We have audited the financial statements of the Marblehead Community Charter Public School, as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated _____, 2009. 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 Marblehead Community Charter Public School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marblehead Community Charter Public School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marblehead Community Charter Public School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Marblehead Community Charter Public School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Marblehead Community Charter Public School's financial statements that is more than inconsequential will not be prevented or detected by the Marblehead Community Charter Public School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Marblehead Community Charter Public School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance

As part of obtaining reasonable assurance about whether the Marblehead Community Charter Public 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, noncompliance with which could have a direct

and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 management of the Marblehead Community Charter Public School, and 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.

Wakefield, MA
_____, 2009

DRAFT 12/12/09

ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of Marblehead Community Charter Public School, have voted to accept the representations of management and the expression of the opinions made by Powers & Sullivan, CPA's as embodied in the financial statements, supplemental schedules and independent auditors' report for the year ended June 30, 2009.

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 Recommended Audit Guide* for the period ended June 30, 2009.

Board President or Treasurer or Other Designated Person

Date