

**THE SABIS INTERNATIONAL
CHARTER SCHOOL**

FINANCIAL STATEMENTS

for the years ended June 30, 2017 and 2016

THE SABIS INTERNATIONAL CHARTER SCHOOL

years ended June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The SABIS International Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The SABIS International Charter School, which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these 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 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 auditors' 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 of The SABIS International Charter School, as of June 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years 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 management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a 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 of the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Requirement by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2017, on our consideration of The SABIS International Charter School's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering The SABIS International Charter School's internal control over financial reporting and compliance.

Moriarty Primack, P.C.
Springfield, Massachusetts
October 30, 2017

THE SABIS INTERNATIONAL CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017 and 2016

The following discussion and analysis of The SABIS International Charter School's (the School) financial performance provides an overview of the School's financial activities for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the School's financial statements, which begin on page 8.

The School as a Whole

The School received its initial charter on July 1, 1995 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 issued May 4, 2015. During fiscal year 2017 and 2016, the School operated kindergarten through grade twelve and the enrollment was comprised of 1,572 and 1,568 students, respectively. At capacity, the School will serve kindergarten through grade twelve and enrollment will be approximately 1,574 students.

Using This Annual Report

This annual report consists of a series of financial statements. In accordance with Governmental Accounting Standards Board No. 34 - *Basic Financial Statement - Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), the School is considered a special purpose government entity that engages in only business type activities. All of the financial activity of the School is recorded in an enterprise fund within the proprietary fund group. In accordance with GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the School issues a *Statement of Net Position*, a *Statement of Revenues, Expenses and Changes in Net Position* and a *Statement of Cash Flows*. These statements provide information about the financial activities of the School, as a whole. This annual report also contains notes to the financial statements and other information which provide additional information that is essential to a full understanding of the information provided in the basic financial statements and the schedule of federal expenditures, which identifies all of the School's federal funding.

Financial Statements

The *Statement of Net Position* presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the School, as of the end of the fiscal year. The *Statement of Net Position* is a point-in-time financial statement. The purpose of the *Statement of Net Position* is to present a fiscal snapshot of the School to the readers of the financial statements. Assets are resources with present service capacity that the School presently controls. Liabilities are present obligations to sacrifice resources that the School has little or no discretion to avoid. A deferred outflow of resources is consumption of net assets by the School that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the School that is applicable to a future reporting period. Net position represents the difference between all other elements in a statement of financial position and is displayed in three components – *net investment in capital assets, restricted* (distinguishing between major categories or restrictions); and *unrestricted*.

THE SABIS INTERNATIONAL CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2017 and 2016

Financial Statements – continued

The *Net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Over time, readers of financial statements will be able to evaluate the School's fiscal health (liquidity and solvency) or financial position by analyzing the increases and decreases in net position to determine if the School's financial health is improving or deteriorating. The reader will also need to consider other non-financial factors such as changes in economic conditions and new or amended charter school legislation when evaluating the overall financial health of the School. This statement is also a good source for readers to determine how much the School owes to vendors and creditors and the available assets that can be used to satisfy those liabilities.

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

The *Statement of Cash Flows* provides information about the School's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from *operations, investing, and capital and noncapital financing activities* and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in the cash balance during the reporting period?" This statement also is an important tool in assisting users assessing the School's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its needs for external financing.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the information provided in the School's financial statements.

THE SABIS INTERNATIONAL CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2017 and 2016

Supplemental Information

The Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The Schedule of Expenditures of Federal Awards can be found on page 22 of this report.

Financial Highlights

The following financial highlights are for the fiscal years 2017 and 2016:

The School held total assets of \$43,151,406 and \$44,266,811 at June 30, 2017 and 2016, respectively, of which \$26,492,652 and \$26,986,954 were net capital assets, respectively and the majority of remaining assets consisted of cash.

The School held total liabilities of \$37,319,161 and \$38,713,048 at June 30, 2017 and 2016, respectively. In fiscal years 2017 and 2016, there were current and non-current liabilities. In 2017, the School held \$2,695,853 in current liabilities and \$34,623,308 in non-current liabilities. In 2016, the School held \$3,173,876 in current liabilities and \$35,539,172 in non-current liabilities.

Total net position for the School was \$5,832,245 and \$5,553,763 at June 30, 2017 and 2016, respectively, of which \$10,528,673 and \$10,256,590 were unrestricted and \$(4,426,428) and \$(4,702,827) were for investments in capital assets, respectively. As of June 30, 2017, the Board of Trustees has designated \$222,360 of unrestricted net position for future capital assets.

The School earned total revenues of \$19,000,949 and \$19,185,370, (excluding on-behalf pension and in-kind revenues), for the years ended June 30, 2017 and 2016, respectively.

The School had total expenses of \$18,722,467 and \$19,416,306, (excluding on-behalf pension and in-kind expenses) for the years ended June 30, 2017 and 2016, respectively.

The School earned net income of \$278,482 and incurred a net loss of \$(230,936) for the years ended June 30, 2017 and 2016, respectively.

Budgetary Highlights

For the fiscal year ended June 30, 2017, the School incurred \$19,264,409 in actual expenditures (inclusive of capitalized purchases and excluding on-behalf pension and in-kind expenses) compared to budgeted expenditures of \$19,397,568.

THE SABIS INTERNATIONAL CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2017 and 2016

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 \$17,616,522 in per pupil funding in fiscal year 2017, versus \$17,883,704 in per pupil funding in fiscal year 2016. This represents 93.7% and 93.2% of the School's revenue for the years ended June 30, 2017 and 2016, respectively. In addition, the School received various federal and Commonwealth of Massachusetts grants, which totaled \$1,067,520 and \$1,172,724 for fiscal years 2017 and 2016, respectively.

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 financial information, contact the Business Office of the School.

THE SABIS INTERNATIONAL CHARTER SCHOOL

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents.....	\$ 9,444,493	\$ 9,699,391
Grants receivable.....	<u>98,347</u>	<u>143,580</u>
Total current assets.....	<u>9,542,840</u>	<u>9,842,971</u>
Noncurrent assets		
Capital assets, net.....	<u>26,492,652</u>	<u>26,986,954</u>
Total noncurrent assets.....	<u>26,492,652</u>	<u>26,986,954</u>
Deferred outflows of resources		
Deferred loss on refunding.....	<u>7,115,914</u>	<u>7,436,886</u>
Total deferred outflows of resources.....	<u>7,115,914</u>	<u>7,436,886</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES.....	<u>\$ 43,151,406</u>	<u>\$ 44,266,811</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable.....	\$ 192,769	\$ 134,169
Accrued expenses.....	539,967	557,705
Due to related party.....		240,730
Accrued compensation.....	1,047,253	1,355,408
Bonds payable, current portion.....	<u>915,864</u>	<u>885,864</u>
Total current liabilities.....	2,695,853	3,173,876
Bonds payable, net of current portion.....	<u>34,623,308</u>	<u>35,539,172</u>
Total liabilities.....	<u>37,319,161</u>	<u>38,713,048</u>
Net position		
Investment in capital assets, net of related debt.....	(4,426,428)	(4,702,827)
Unrestricted.....	<u>10,258,673</u>	<u>10,256,590</u>
Total net position.....	<u>5,832,245</u>	<u>5,553,763</u>
TOTAL LIABILITIES AND NET POSITION.....	<u>\$ 43,151,406</u>	<u>\$ 44,266,811</u>

See notes to financial statements.

THE SABIS INTERNATIONAL CHARTER SCHOOL

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Student tuition.....	\$ 17,616,522	\$ 17,883,704
Federal and state grants.....	1,067,520	1,172,724
Educational fees.....	84,568	90,632
On-behalf pension.....	2,238,498	1,698,790
In-kind meals.....	660,510	618,509
In-kind transportation.....	2,130,107	2,028,312
Other income.....	<u>2,809</u>	<u>127</u>
Total operating revenue.....	<u>23,800,534</u>	<u>23,492,798</u>
Operating expenses		
Salaries	8,662,648	8,362,902
Payroll taxes.....	269,802	264,476
Fringe benefits.....	1,176,628	1,025,067
Classroom and other supplies.....	985,272	1,015,939
Office supplies, postage and expense.....	138,344	150,114
Advertising.....	11,852	11,394
Board of trustees expense.....	19,098	28,501
Professional services.....	88,798	73,914
Travel.....	973	1,447
Depreciation and amortization.....	1,030,109	1,026,133
Telephone.....	11,571	25,011
Repairs, maintenance, and supplies.....	504,729	571,993
Occupancy costs.....	330,483	361,592
Insurance.....	71,801	69,347
Grant programs.....	1,082,332	1,187,848
Extra curricular activities.....	162,259	178,249
After school program.....	1,866	2,377
Computer expense.....	172,038	207,839
Instructional management fee, (see note 10).....	1,993,000	2,197,000
Staff development	22,637	27,728
Student testing.....	11,717	12,070
Payroll service charge.....	55,495	58,205
Bank fees.....	357	560
On-behalf pension.....	2,238,498	1,698,790
In-kind expense.....	<u>2,790,617</u>	<u>2,646,821</u>
Total operating expenses.....	<u>21,832,924</u>	<u>21,205,317</u>
Operating income.....	1,967,610	2,287,481
Nonoperating revenue (expense)		
Interest income.....	25,530	38,183
Unearned management fee, (see note 10).....	204,000	
Bond issue costs.....		(610,011)
Interest expense.....	<u>(1,918,658)</u>	<u>(1,946,589)</u>
Total nonoperating expense.....	<u>(1,689,128)</u>	<u>(2,518,417)</u>
Change in net position.....	278,482	(230,936)
Net position, beginning of year.....	<u>5,553,763</u>	<u>5,784,699</u>
Net position, end of year.....	<u>\$ 5,832,245</u>	<u>\$ 5,553,763</u>

See notes to financial statements.

THE SABIS INTERNATIONAL CHARTER SCHOOL

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Receipts from student tuition.....	\$ 17,616,522	\$ 17,883,704
Receipts from federal and state grants.....	1,112,753	1,104,296
Receipts from educational fees.....	84,568	90,632
Receipts from other income.....	2,809	127
Payments to employees.....	(8,960,800)	(8,058,913)
Payments to vendors and suppliers.....	<u>(7,202,787)</u>	<u>(7,226,843)</u>
Net cash provided by operating activities.....	<u>2,653,065</u>	<u>3,793,003</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets.....	(541,942)	(1,218,938)
Disposal of capital assets.....	6,135	
Payments on bonds payable.....	(800,000)	(705,000)
Interest paid on capital debt.....	(1,597,686)	(1,680,146)
Loss on defeasance.....		(29,784)
Bond issuance costs.....		<u>(59,524)</u>
Net cash used in capital and related financing activities.....	<u>(2,933,493)</u>	<u>(3,693,392)</u>
Cash flows from investing activities:		
Interest on cash and cash equivalents.....	<u>25,530</u>	<u>38,183</u>
Net cash provided by investing activities.....	<u>25,530</u>	<u>38,183</u>
Increase in cash and cash equivalents.....	(254,898)	137,794
Cash and cash equivalents, beginning of year.....	<u>9,699,391</u>	<u>9,561,597</u>
Cash and cash equivalents, end of year.....	<u>\$ 9,444,493</u>	<u>\$ 9,699,391</u>
Reconciliation of the change in net position to net cash provided by operating activities:		
Adjustments to reconcile the income from operations to net cash provided by operating activities:		
Income from operations.....	\$ 1,967,610	\$ 2,287,481
Depreciation	1,030,109	1,026,133
Bond premium.....	(85,864)	(74,787)
(Increase) decrease in operating assets		
Grants receivable.....	45,233	(45,046)
Miscellaneous receivable.....		25,150
Prepaid expenses.....		5,499
Increase (decrease) in operating liabilities		
Accounts payable	58,600	4,642
Accrued expenses.....	(121,893)	587,313
Due to related parties.....	(240,730)	
Deferred revenue.....		<u>(23,382)</u>
Net cash provided by operating activities.....	<u>\$ 2,653,065</u>	<u>\$ 3,793,003</u>

See notes to financial statements.

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization

The SABIS International Charter School (the “School”) was established on July 1, 1995 after receiving their 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 2015 and expires June 30, 2020.

The School has one location in Springfield, Massachusetts and offers children in the city of Springfield in grades kindergarten through twelve, a public supported academic education. The School served 1,572 and 1,568 students during fiscal years 2017 and 2016, respectively. The School had a maximum capacity of 1,574 students for both years.

The School’s mission is a college preparatory school that provides top-quality education on a non-selective basis to children of different races, religions, nationalities and backgrounds. It teaches these children to perform to the best of their ability, to achieve academic excellence in a global context, and prepares graduates to attend colleges and universities. The School develops and strengthens students’ ethical, moral and civic values thus molding men and women with the knowledge, skills, and social judgment they will need to face the challenges of the times. The School believes those students with a Sabis® education, especially in a multicultural setting, will be able to provide leadership throughout the world.

2. Summary of Significant Accounting Policies

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

Financial Statement Presentation

The School, in accordance with Governmental 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. The School’s financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows.

Basis of Accounting

The accrual basis of accounting is used for all governmental entities that operate as business type entities. Accordingly, revenue is recognized when earned and capital assets and expenditures are recorded when received and incurred, respectively.

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

Basis of Accounting, continued

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

Cash and Cash Equivalents

For the purpose of the Statement of Net Position and the Statement of Cash Flows, the School considers all short term investments with an original maturity of three months or less to be cash equivalents.

Receivables

Receivables are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realized losses on balances outstanding at year-end will be immaterial.

Capital Assets

Furniture and equipment are recorded at cost, if purchased, or at fair market value at the date of donation. Capital assets purchased with a cost or value equal to or greater than \$5,000 are capitalized. Depreciation is computed on the straight-line basis using estimated useful lives of 5 years for computers, 7 years for furniture, fixtures and equipment, 5-15 years for building improvements, and 40 years for buildings and building additions. Depreciation expense of \$1,030,109 and \$1,026,133 was recorded for the years ended June 30, 2017 and 2016, respectively.

Deferred Revenue

Revenue is recognized when earned, however funds received that are not earned as of year-end are recorded as a liability under deferred revenue.

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

Operating Revenue and Expenses

Operating revenue and expenses generally result from providing educational and instructional services in connection with the School's principal ongoing operations. The principal operating revenues include tuition and Federal and Commonwealth of Massachusetts grants. Operating expenses include educational costs, administrative expenses and depreciation on capital assets. All other revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Tax Status

The School was established under a Charter granted by the Commonwealth of Massachusetts Department of Education 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

3. Deposits with Financial Institutions

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

As required by GASB No. 40, Deposits and Investment Risk Disclosures, the following represents a summary of deposits as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
FDIC insured deposits	\$ 250,000	\$ 250,000
Uninsured deposits	<u>9,421,148</u>	<u>9,697,174</u>
	<u>\$ 9,671,148</u>	<u>\$ 9,947,174</u>

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

4. Capital Assets

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

	Balance <u>06/30/16</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>06/30/17</u>
Equipment	\$ 575,730	\$ 17,815		\$ 593,545
Computers and software	1,531,085	40,222		1,571,307
Vehicles	68,456			68,456
Furniture and fixtures	717,041	9,464		726,505
Building	24,500,000			24,500,000
Building improvements	6,624,893	474,441		7,099,334
Land	1,000,000			1,000,000
Construction in progress	<u>279,207</u>		<u>(6,135)</u>	<u>273,072</u>
Total capital assets	<u>35,296,412</u>	<u>541,942</u>	<u>(6,135)</u>	<u>35,832,219</u>
Less accumulated depreciation:				
Equipment	(500,444)	(20,770)		(521,214)
Computers and software	(1,234,914)	(119,966)		(1,354,880)
Vehicles	(53,248)	(6,083)		(59,331)
Furniture and fixtures	(674,534)	(12,716)		(687,250)
Building	(5,105,950)	(729,421)		(5,835,371)
Building improvements	<u>(740,368)</u>	<u>(141,153)</u>		<u>(881,521)</u>
Total accumulated depreciation	<u>(8,309,458)</u>	<u>(1,030,109)</u>		<u>(9,339,567)</u>
Net capital assets	<u>\$ 26,986,954</u>	<u>\$ (488,167)</u>	<u>\$ (6,135)</u>	<u>\$ 26,492,652</u>

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

Capital Assets, Continued

Changes in capital assets during fiscal year 2016 are as follows:

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Balance</u> <u>06/30/16</u>
Equipment	\$ 546,806	\$ 28,924		\$ 575,730
Computers and software	1,443,494	87,591		1,531,085
Vehicles	68,456			68,456
Furniture and fixtures	714,369	2,672		717,041
Building	24,500,000			24,500,000
Building improvements	5,522,277	158,897	\$ 943,719	6,624,893
Land	1,000,000			1,000,000
Construction in progress	<u>282,072</u>	<u>940,854</u>	<u>(943,719)</u>	<u>279,207</u>
Total capital assets	<u>34,077,474</u>	<u>1,218,938</u>		<u>35,296,412</u>
Less accumulated depreciation:				
Equipment	(474,523)	(25,921)		(500,444)
Computers and software	(1,113,204)	(121,710)		(1,234,914)
Vehicles	(47,165)	(6,083)		(53,248)
Furniture and fixtures	(650,094)	(24,440)		(674,534)
Building	(4,376,529)	(729,421)		(5,105,950)
Building improvements	<u>(621,810)</u>	<u>(118,558)</u>		<u>(740,368)</u>
Total accumulated depreciation	<u>(7,283,325)</u>	<u>(1,026,133)</u>		<u>(8,309,458)</u>
Net capital assets	<u>\$ 26,794,149</u>	<u>\$ 192,805</u>	<u>\$</u>	<u>\$ 26,986,954</u>

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

5. Line of Credit

The School has a line of credit with a local bank. According to the agreement, the School may borrow up to \$1,000,000 at any time. Any outstanding principal is due on demand. Interest is charged at the bank's base rate minus 0.25% (4.25% as of June 30, 2017 and 3.5% as of June 30, 2016). The line of credit has a second priority blanket security interest in the assets of the School behind Wells Fargo Bank, N.A., as trustee under the MDFA Tax-Exempt Bonds. The line is subject to annual renewal. There was no outstanding balance at June 30, 2017 or 2016

6. Bonds Payable

On August 13, 2015, the School borrowed \$34,935,000 in Series A Tax Exempt Revenue Bonds with an average interest rate of 4.5% to advance refund \$31,425,000 of outstanding 2009 Series bonds with an average interest rate of 6.0625%. The net proceeds of \$36,781,589 million (after payment of \$300,000 in underwriting fees, plus insurance and other issuance costs totaling \$250,488) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2009 Series bonds. As a result, the 2009 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position. The outstanding principal of the defeased bonds is \$30,435,000 at June 30, 2017.

The advance refunding reduced total debt service payments over the next 24 years by nearly \$4,817,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$3,791,000.

Bonds payable consist of the following for the year ended June 30:

	<u>2017</u>	<u>2016</u>
Series A Tax Exempt Revenue Bonds, issued August 13, 2015 and maturing April 10, 2040, subject to sinking fund redemption as noted below. Principal is paid annually and interest is payable on a semiannual basis. Interest is payable at various rates according to the maturity schedule, (4.00% - 5.00%). The bonds are secured by the building and land located at 160 Joan Street, Springfield, MA.	\$ 35,538,911	\$ 36,425,036
Less current portion	<u>915,864</u>	<u>885,864</u>
	<u>\$ 34,623,047</u>	<u>\$ 35,539,172</u>

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

Bonds Payable, Continued

The annual debt service requirements to maturity, including principal and interest, are as follows:

Years ended <u>June 30,</u>	Principal and Sinking Fund <u>Installments</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 915,864	\$ 1,651,550	\$ 2,567,414
2019	950,864	1,618,350	2,569,214
2020	985,864	1,583,750	2,569,614
2021	1,020,864	1,547,750	2,568,614
2022	1,070,864	1,501,000	2,571,864
2023-2027	6,134,320	6,716,250	12,850,570
2028-2032	7,704,320	5,140,500	12,844,820
2033-2037	9,719,320	3,130,250	12,849,570
2038-2040	<u>7,036,892</u>	<u>687,500</u>	<u>7,724,392</u>
	<u>\$ 35,539,172</u>	<u>\$ 23,576,900</u>	<u>\$ 59,116,072</u>

The School is required to maintain a historical debt service coverage ratio of at least 1.10 measured annually. The School is also required to maintain a days cash on hand of at least 75 days. The School was in compliance with these covenants at June 30, 2017.

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

Bonds Payable, Continued

The covenants are calculated as follows:

<u>Historical Debt Service Coverage Ratio</u>	<u>06/30/17</u>
Net income available for debt service.....	\$ 3,227,249
Debt service requirements.....	2,397,686
	1.35

Calculation of net income available for debt service:

= Gross revenues - operating expenses

Gross revenues:

Total Revenues.....	<u>19,000,949</u>
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Operating expenses:

Total expenses	18,722,467
Less: Depreciation	(1,030,109)
Less: Debt service on long term indebtness.....	<u>(1,918,658)</u>
	<u>15,773,700</u>

Net Income Available for Debt Service.....	<u>\$ 3,227,249</u>
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Days Cash on Hand

06/30/17

Total unrestricted cash and cash equivalents on June 30, 2017.....	\$ 9,444,493
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Divided by total operating expenses for the year ended June 30, 2017.....	<u>16,803,809</u>
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0.56

Multiplied by 365	<u>365</u>
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Days cash on hand June 30, 2017.....	<u>204</u>
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THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

7. Donated Food Service and Transportation

For the years ended June 30, 2017 and 2016, the School received \$2,790,617 and \$2,646,821, respectively, in donated food services and transportation from the Springfield School District.

8. Retirement Plan

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 in MTRS. 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.

The MTRS retirement plan, under GASB Statement No.68, *Accounting and Financial Reporting for Pensions*, is required by statute to determine the net pension liability for all participants. The net pension liability for the retirement plan at the June 30, 2016 measurement date was determined by an actuarial valuation prepared as of January 1, 2016 rolled forward to June 30, 2016. The School's share of MTRS net pension liability is \$21,944,644.

9. On-behalf Payments

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, the School is required to recognize its proportional share of pension revenue and expenses, as reported by MTRS, as on-behalf payments in their financial statements. As of June 30, 2017, the School recognized \$2,238,498 of on-behalf revenues and expenses, (2016 – \$1,698,790).

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

10. Management Contract

The School has a management agreement with Springfield Education Management LLC (SEM), a related party, to manage the teaching, accounting and business administration functions of the School. The management agreement states that SEM shall receive a fixed fee of \$2,197,000 for license and management fees. This fee can be increased if student enrollment exceeds 1,574 students. This agreement ends June 30, 2020. In fiscal year 2017, this fee was adjusted to \$1,993,000 to reflect certain conditions in the management agreement and SEM also forgave a payment due on the 2016 management fee in the amount of \$204,000.

The School purchases a majority of their text books from SABIS Educational Systems (SES), a related party.

The School paid SEM & SES the following:

	<u>2017</u>	<u>2016</u>
Instructional management fee	\$1,993,000	\$2,197,000
Text books and other	<u>623,619</u>	<u>766,499</u>
	<u>\$2,616,619</u>	<u>\$2,963,499</u>

11. Concentration of Revenue

DESE provided 99% of the funding to the School for the years ended June 30, 2017 and 2016 through a per pupil reimbursement and Federal and Commonwealth of Massachusetts grants.

12. Supplementary Cash Flow Information

Supplemental cash flow information is as follows

	<u>2017</u>	<u>2016</u>
Cash paid during the year for:		
Interest	\$1,597,686	\$1,680,146
<i>Supplemental Disclosures of Non-Cash Activities:</i>		
Bond proceeds from refunding		39,991,519
Unearned management fee	204,000	

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Continued

13. Board Designated Net Position

As of June 30, 2017, the Board of Trustees has designated \$222,360 of unrestricted net position for future capital assets.

14. Subsequent Events

The School has evaluated subsequent events through October 30, 2017, the date the financial statements were available to be issued.

THE SABIS INTERNATIONAL CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2017

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Education:			
Pass-through from Massachusetts Department of Education:			
Title I - Grants to Local Educational Agencies.....	84.010	305-102111-2017-0441	\$ 550,516
	84.010	305-073297-2016-0441	<u>83,058</u>
			<u>633,574</u>
Special Education - Grants to States.....	84.027	240-104592-2017-0441	<u>317,703</u>
Title IIA - Improving Teacher Quality State Grants.....	84.367	140-102241-2017-0441	55,025
	84.367	140-086671-2016-0441	<u>60,755</u>
			<u>115,780</u>
Total U.S. Department of Education.....			<u>1,067,057</u>
Total Expenditures of Federal Awards.....			<u>\$ 1,067,057</u>

See notes to schedule of expenditures of federal awards

THE SABIS INTERNATIONAL CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The SABIS International Charter School under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The SABIS International Charter School, it is not intended to and does not present the financial position, changes in net position, or cash flows of The SABIS International Charter School.

2. Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The SABIS International Charter School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

To the Board of Trustees of
The SABIS International 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 of The SABIS International Charter School, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise The SABIS International Charter School's basic financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The SABIS International 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The SABIS International Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of The SABIS International 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 material weaknesses 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 The SABIS International Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are 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.

Moriarty Primack, P.C.

Springfield, Massachusetts
October 30, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
The SABIS International Charter School

Report on Compliance for Each Major Federal Program

We have audited The SABIS International Charter School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The SABIS International Charter School's major federal programs for the year ended June 30, 2017. The SABIS International Charter School's major federal program is identified in the summary of Auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The SABIS International Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The SABIS International Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of The SABIS International Charter School's compliance.

Opinion on Each Major Federal Program

In our opinion, The SABIS International Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of The SABIS International Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The SABIS International Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The SABIS International Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Springfield, Massachusetts
October 30, 2017

THE SABIS INTERNATIONAL CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2017

SUMMARY OF AUDIT RESULTS

1. The Auditors' report expresses an unmodified opinion on whether the financial statements of The SABIS International Charter School were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of The SABIS International Charter School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance.
5. The Auditors' report on compliance for major federal award programs for The SABIS International Charter School expresses an unmodified opinion on the major federal program.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as the major program was Title I 84.010.
8. The threshold for distinguishing between Types A and B programs was \$750,000.
9. The SABIS International Charter School was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None



ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of The SABIS International Charter School or its designated committee or individual, have voted to accept the representations of management and the expression of the opinions made by Moriarty & Primack, P.C. as embodied in the financial statements, supplemental schedules and independent auditors' reports for the year ended June 30, 2017 and 2016.

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, 2017 and 2016.



Board President or Treasurer or Other Designated Person

10/30/2017

Datexx