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**Marblehead Community Charter Public School
and
Marblehead Charter Education Fund, Inc.**

Combined Financial Statements and
Independent Auditors' Report in Accordance with
Government Auditing Standards

June 30, 2021

Draft

Marblehead Community Charter Public School
Marblehead Charter Education Fund, Inc.
June 30, 2021

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DANIEL DENNIS & Co
Certified Public Accountants

Independent Auditors' Report

The Board of Trustees
**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

Report on the Combined Financial Statements

We have audited the accompanying combined statement of net position of Marblehead Community Charter Public School (a governmental entity) and Marblehead Charter Education Fund, Inc. (a nonprofit organization) (collectively, the Organization) as of and for the year ended June 30, 2021, and the related combined statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the combined financial statements, which collectively comprise the Organization's combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organization, as of June 30, 2021, and the respective changes in its combined financial position and combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's fiscal year 2020 combined financial statements, and our report dated October 27, 2020, expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein, as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **October XX, 2021**, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

October XX, 2021

Marblehead Community Charter Public School

Management's Discussion and Analysis

June 30, 2021 (Unaudited)

Draft

The following management's 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 ended June 30, 2021, with comparative totals for fiscal year 2020. Please read this in conjunction with the School's combined financial statements and the related notes, which begin on page 8.

The School as a Whole

The School received their initial charter in June 1994 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 by the Commonwealth of Massachusetts Department Elementary and Secondary Education (DESE). The School's charter was renewed during fiscal year 2020 and is effective for the five year period ending June 30, 2025. During fiscal years 2021 and 2020, the School operated grades four through eight and the enrollment was comprised of approximately 212 and 208 students, respectively, for each fiscal year. The School's maximum enrollment approved by the DESE is 230 students.

The School's mission is: *to foster a community that empowers children to become capable, self-determining, fully engaged individuals who are critical and creative thinkers committed to achieving their highest intellectual, artistic, social, emotional, and physical potential. The School is dedicated to involving learning from, participating in, and serving our school community and the community at large.*

Financial Reporting Entity

As required by generally accepted accounting principles, and in conformance with the *Government Accounting Standards Board (GASB) Statements No. 14, The Financial Reporting Entity* and *GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units and subsequently amended by GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* and *GASB No. 80, Blending Requirements for Certain Component Units*, the School evaluated its potential component unit and determined that Marblehead Charter Education Fund, Inc. (Fund) was a component unit of the School and should be presented as a blended component unit in the combined financial statements. The School and its blended component unit, the Fund, are referred to collectively as the Organization.

Using this Annual Report

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

Financial Statements

The *Combined Statement of Net Position* presents the assets, liabilities and net position of the Organization as a whole, as of the end of the fiscal year and is a point-in-time financial statement. The purpose of the *Combined Statement of Net Position* is to present a fiscal snapshot of the Organization to the readers of the financial statements. Assets are resources with present service capacity that the Organization presently controls. Liabilities are present obligations to sacrifice resources that the Organization has little or no discretion to avoid. Net position represents the difference between all other elements in a statement of net position and is displayed in three components - *net investment in capital assets*; *restricted* (distinguishing between major categories of restrictions); and *unrestricted*.

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

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

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

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

The *Combined Statement of Revenues, Expenses and Changes in Net Position* reports the financial (revenue and expenses) activities of the Organization and divides it into two categories: *Operating activities* and *Non-operating activities*. Operating activities include all financial activities associated with the operation of the Organization and its related programs. Consequently, all non-operating activities include all financial activities not related to the operation of a charter school. Changes in total net position as presented on the *Combined Statement of Revenues, Expenses and Changes in Net Position* are based on the activity presented in this statement. This statement helps to determine whether the Organization had sufficient revenues to cover expenses during the fiscal year and its net increase or net decrease in net position based on current year operations.

Financial Statements – *Continued*

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

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

Financial Highlights

The following financial highlights are for the fiscal year ended June 30, 2021 and will provide comparative information for fiscal year 2020:

- The School held total assets of \$4,546,636 and \$4,304,634 at June 30, 2021 and 2020, respectively, of which \$3,680,214 and \$3,734,238, respectively were capital assets, net and the majority of the remaining assets consisted of cash. The increase in total assets was due to the increase in cash generated from operations.
- The School had total liabilities of \$4,047,464 and \$3,957,127 at June 30, 2021 and 2020, respectively. At June 30, 2021, \$537,349 was current and \$3,510,115 was noncurrent. At June 30, 2020, \$341,352 was current and \$3,615,775 was noncurrent. The increase in total liabilities was due to the advance, which represents the Department of Revenue's over payment of the June 2021 tuition revenue.
- Total net position for the School was \$499,172 and \$347,507 at June 30, 2021 and 2020, respectively, of which \$436,291 and \$332,513, respectively was unrestricted. In addition, for the years ended June 30, 2021 and 2020, the School had \$62,881 and \$14,994, respectively, in net position, which was related to net investments in capital assets. The increase in the net position is due to the current year surplus.
- The School earned total revenues of \$3,651,405 and \$3,332,363, excluding on-behalf fringe benefits, for the years ended June 30, 2021 and 2020, respectively of which 98%, were operating revenues and approximately 2%, were non-operating revenues (private grants, contributions, etc.) for both fiscal years ended June 30, 2021 and 2020. The increase in revenue is due to the increase in per pupil tuition, resulting from an increase in the number of students enrolled during fiscal year 2021 and an increase in in state and federal grants in response to the COVID-19 pandemic.

Financial Highlights - *Continued*

- The School had total expenses of \$3,499,740 and \$3,261,702, excluding on-behalf fringe benefits, for the years ended June 30, 2021 and 2020, respectively. For the years ended June 30, 2021 and 2020, total expenses include operating expenses of \$3,372,179 and \$3,119,906, excluding on-behalf fringe benefits, respectively, and non-operating expenses of \$127,561 and \$141,796, respectively. The increase is mainly due to an increase in salaries and related expenses and the purchase of equipment in response to the remote learning environment.
- The School had an increase in net position of \$151,665 and \$70,661 for the years ended June 30, 2021 and 2020 respectively. In fiscal year 2021, the change in net position was comprised of operating income of \$193,346 and a non-operating loss of \$41,681. In fiscal year 2020, the change in net position was comprised of an operating income of \$142,183 and a non-operating loss of \$71,522.

Budgetary Highlights

Due to the pandemic, fiscal year 2021 was the most unusual in the School's history. The switch to fully remote learning, followed by a hybrid model, and concluding with a more normal in-person environment stretched the operating budget in many different ways.

The School had to purchase and manage several site licenses for different software to accommodate all of the varied approaches to learning, provide the appropriate professional development and ensure each student had a device and internet access.

When the School switched to the hybrid model it was necessary to maintain this level of technology while adding the in-person component of curriculum delivery, restarting the preparation and distribution of school breakfast and lunch, vastly expand the materials available for individual student use, increase the ability to clean and sanitize the facility, as well as account for the common quarantining of staff suspected of contracting COVID-19.

The adjustment to full in-person learning meant the School needed to add staff and reconfigure most of the building to accommodate required social distancing standards.

Even with the influx of additional government grant funding, the School had to continuously examine and adjust the operating budget on a monthly basis. With careful oversight and flexibility, the School's Finance Committee addressed each financial challenge as it arose and provided the Board of Trustees with both a short-term and long-term strategy for keeping the School from operating with a loss.

School's Financial Activities

The majority of the School's funding was received from DESE and is based on a standard per pupil rate. The School received \$3,171,262 in per pupil funding in fiscal year 2021 compared to \$3,025,960 in per pupil funding in fiscal year 2020. This represent approximately 87% and 91% of the School's revenue for the fiscal years ended June 30, 2021 and 2020, respectively. In addition, the School received various government grants, which totaled \$230,202 and \$74,237 for fiscal years 2021 and 2020, respectively.

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Marblehead Community Charter Public School
Management's Discussion and Analysis - *Continued*
June 30, 2021 (Unaudited)

Current Known Facts, Decisions and Conditions

Coronavirus

On March 11, 2020, the World Health Organization characterized the outbreak of a novel strain of coronavirus as a pandemic. As a result, the School transitioned into a remote working and learning environment for the remainder of fiscal year 2020 and the majority of fiscal year 2021. The School anticipates a return to an in-person learning and working environment for the start of the 2021-2022 school year. The extent to which COVID-19 may impact the School's activities will depend upon future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions required to contain the virus.

Contacting the School's Financial Management

This financial report is designed to provide the reader with a general overview of the Organization'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 Marblehead Community Charter Public School.

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**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**
Combined Statement of Net Position
With Combining Information as of June 30, 2021
With Summarized Comparative Totals as of June 30, 2020

	<i>Marblehead Community Charter Public School</i>	<i>Marblehead Charter Education Fund, Inc.</i>	<i>Memorandum Only Total Primary Government June 30, 2021</i>	<i>Memorandum Only Summarized Comparative June 30, 2020</i>
Assets				
Current Assets:				
Cash	\$ 826,132	\$ 4,272	\$ 830,404	\$ 539,944
Tuition and accounts receivable	<u>40,290</u>	<u>-</u>	<u>40,290</u>	<u>35,210</u>
Total current assets	<u>866,422</u>	<u>4,272</u>	<u>870,694</u>	<u>575,154</u>
Noncurrent Assets:				
Capital assets, net	<u>3,680,214</u>	<u>-</u>	<u>3,680,214</u>	<u>3,734,238</u>
Total noncurrent assets	<u>3,680,214</u>	<u>-</u>	<u>3,680,214</u>	<u>3,734,238</u>
Total assets	<u>\$ 4,546,636</u>	<u>\$ 4,272</u>	<u>\$ 4,550,908</u>	<u>\$ 4,309,392</u>
Liabilities and Net Position				
Current Liabilities:				
Accounts payable	\$ 4,802	\$ -	\$ 4,802	\$ 9,943
Accrued expenses	81,691	-	81,691	81,691
Accrued payroll	151,900	-	151,900	146,249
Advance	191,738	-	191,738	-
Note payable - current	<u>107,218</u>	<u>-</u>	<u>107,218</u>	<u>103,469</u>
Total current liabilities	<u>537,349</u>	<u>-</u>	<u>537,349</u>	<u>341,352</u>
Noncurrent Liabilities:				
Note payable	<u>3,510,115</u>	<u>-</u>	<u>3,510,115</u>	<u>3,615,775</u>
Total noncurrent liabilities	<u>3,510,115</u>	<u>-</u>	<u>3,510,115</u>	<u>3,615,775</u>
Total liabilities	<u>4,047,464</u>	<u>-</u>	<u>4,047,464</u>	<u>3,957,127</u>
Net Position:				
Net investment in capital assets	62,881	-	62,881	14,994
Unrestricted	<u>436,291</u>	<u>4,272</u>	<u>440,563</u>	<u>337,271</u>
Total net position	<u>499,172</u>	<u>4,272</u>	<u>503,444</u>	<u>352,265</u>
Total liabilities and net position	<u>\$ 4,546,636</u>	<u>\$ 4,272</u>	<u>\$ 4,550,908</u>	<u>\$ 4,309,392</u>

See accompanying notes to combined financial statements.

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**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

**Combined Statement of Revenues, Expenses, and Changes in Net Position
With Combining Information For the Year Ending June 30, 2021
With Summarized Comparative Totals For the Year Ending June 30, 2020**

	<i>Marblehead Community Charter Public School</i>	<i>Marblehead Charter Education Fund, Inc.</i>	<i>Memorandum Only Total Primary Government June 30, 2021</i>	<i>Memorandum Only Summarized Comparative June 30, 2020</i>
Operating revenues:				
Tuition	\$ 3,171,262	\$ -	\$ 3,171,262	\$ 3,025,960
Federal grants	230,202	-	230,202	74,237
Food service	93,705	-	93,705	71,517
Contributions	-	42,499	42,499	26,982
Other revenues	63,640	953	64,593	58,616
Student activities	6,716	-	6,716	31,923
On-behalf fringe benefits	719,353	-	719,353	647,434
Total operating revenues	<u>4,284,878</u>	<u>43,452</u>	<u>4,328,330</u>	<u>3,936,669</u>
Operating expenses:				
Salaries	2,299,008	-	2,299,008	2,172,038
Payroll taxes	118,699	-	118,699	100,173
Fringe benefits	339,436	-	339,436	378,664
Occupancy	66,675	-	66,675	49,217
Professional services	40,367	6,000	46,367	31,974
Insurance	30,534	-	30,534	28,717
Student supplies and materials	155,899	-	155,899	103,072
Student activities	9,462	-	9,462	22,034
Office	33,607	-	33,607	26,877
Food service	56,532	-	56,532	44,439
Training and development	36,123	-	36,123	14,904
Repairs and maintenance	87,905	-	87,905	50,479
On-behalf fringe benefits	719,353	-	719,353	647,434
Depreciation	97,124	-	97,124	94,667
Contracted services	-	-	-	1,943
Miscellaneous	808	442	1,250	3,524
Total operating expenses	<u>4,091,532</u>	<u>6,442</u>	<u>4,097,974</u>	<u>3,770,156</u>
Operating income	<u>193,346</u>	<u>37,010</u>	<u>230,356</u>	<u>166,513</u>
Nonoperating revenues/(expenses):				
Rental income	25,561	-	25,561	20,172
Contributions	8,878	-	8,878	1,585
Interest income	340	13	353	123
Fundraising income	13,592	-	13,592	20,405
Contributions from the Fund/(to School)	37,509	(37,509)	-	-
Other expense	(5,041)	-	(5,041)	(16,036)
Interest expense	(122,520)	-	(122,520)	(125,760)
Total net nonoperating expenses	<u>(41,681)</u>	<u>(37,496)</u>	<u>(79,177)</u>	<u>(99,511)</u>
Change in net position	<u>151,665</u>	<u>(486)</u>	<u>151,179</u>	<u>67,002</u>
Net position, beginning of the year	<u>347,507</u>	<u>4,758</u>	<u>352,265</u>	<u>285,263</u>
Net position, end of the year	<u>\$ 499,172</u>	<u>\$ 4,272</u>	<u>\$ 503,444</u>	<u>\$ 352,265</u>

See accompanying notes to combined financial statements.

Draft

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**
Combined Statement of Cash Flows
With Combining Information For the Year Ended June 30, 2021
With Summarized Comparative Totals For the Year Ended June 30, 2020

	<i>Marblehead Community Charter Public School</i>	<i>Marblehead Charter Educational Fund, Inc.</i>	<i>Memorandum Only Total Primary Government June 30, 2021</i>	<i>Memorandum Only Summarized Comparative June 30, 2020</i>
Cash flows from operating activities:				
Receipts from tuition	\$ 3,363,000	\$ -	\$ 3,363,000	\$ 3,305,362
Receipts from governmental grants	225,072	-	225,072	39,077
Receipts from food service program	93,705	-	93,705	73,756
Receipts from other	70,356	43,452	113,808	116,693
Payments to employees	(2,710,779)	-	(2,710,779)	(2,585,234)
Payments to suppliers and vendors	(563,766)	(6,442)	(570,208)	(368,135)
Net cash provided by operating activities	<u>477,588</u>	<u>37,010</u>	<u>514,598</u>	<u>581,519</u>
Cash flows from investing activities:				
Interest income	<u>340</u>	<u>13</u>	<u>353</u>	<u>123</u>
Net cash provided by investing activities	<u>340</u>	<u>13</u>	<u>353</u>	<u>123</u>
Cash flows from non capital financing activities:				
Non-operating receipts	85,540	-	85,540	42,285
Non-operating disbursements	(5,041)	(37,509)	(42,550)	(16,159)
Net cash provided by financing activities	<u>80,499</u>	<u>(37,509)</u>	<u>42,990</u>	<u>26,126</u>
Cash flows from capital and financing activities:				
Payments of loan principal	(101,911)	-	(101,911)	(98,670)
Purchase of capital assets	(43,100)	-	(43,100)	-
Interest expense	(122,520)	-	(122,520)	(125,760)
Net cash used in capital and financing activities	<u>(267,531)</u>	<u>-</u>	<u>(267,531)</u>	<u>(224,430)</u>
Net increase in cash	290,896	(436)	290,460	383,338
Cash, beginning of year	535,236	4,708	539,944	156,606
Cash, end of year	<u>\$ 826,132</u>	<u>\$ 4,272</u>	<u>\$ 830,404</u>	<u>\$ 539,944</u>
Reconciliation of operating income to net cash (used in)/ provided by in operating activities:				
Operating income	\$ 193,346	\$ 37,010	\$ 230,356	\$ 166,513
<i>Adjustments to reconcile total operating income to net cash provided by operating activities:</i>				
Depreciation	97,124	-	97,124	94,667
<i>Changes in operating assets and liabilities:</i>				
Grants and accounts receivable	(5,130)	-	(5,130)	246,481
Prepaid rent and prepaid expenses	-	-	-	19,594
Deferred revenue	191,738	-	191,738	-
Accounts payable	(5,141)	-	(5,141)	9,943
Accrued expenses	5,651	-	5,651	44,321
Net cash provided by operating activities	<u>\$ 477,588</u>	<u>\$ 37,010</u>	<u>\$ 514,598</u>	<u>\$ 581,519</u>

See accompanying notes to combined financial statements.

1. Nature of Organization

Marblehead Community Charter Public School (the School) was formed in 1994 after receiving its charter from the Commonwealth of Massachusetts under Chapter 71, Section 89 of the General Laws of Massachusetts. The School's charter is awarded in five year increments and is subject to renewal at the discretion of the Commonwealth of Massachusetts' Department of Elementary and Secondary Education (DESE). The School's charter was most recently renewed in fiscal year 2020 and expires on June 30, 2025. DESE provided approximately 95% and 93% of the funding to the School for the years ended June 30, 2021 and 2020, respectively, through a per pupil reimbursement and Federal and Commonwealth of Massachusetts grants.

The School is located in Marblehead, Massachusetts and offers children primarily residing in Marblehead and Swampscott, in grades four through eight, a public supported academic education.

The School's mission is: *to foster a community that empowers children to become capable, self determining, fully engaged individuals who are critical and creative thinkers committed to achieving their highest intellectual, artistic, social, emotional, and physical potential. The School is dedicated to involving learning from, participating in, and serving our school community and the community at large.*

The combined financial statements consist of the following:

Primary Government

- The School – operates as a middle school in Marblehead, Massachusetts and at capacity can serve 230 students in grades four through eight.
- Marblehead Charter Education Fund, Inc. (the Fund) – is a legally separate, tax-exempt organization that acts primarily as a fundraising organization to supplement the resources of the School. The Fund is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Because these restricted resources can only be used by or for the benefit of the School, the Fund is considered a component unit of the School and is presented as a blended component unit.

The School and its blended component unit, the Fund, are collectively referred to as the Organization.

2. Summary of Significant Accounting Policies

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

2. *Summary of Significant Accounting Policies – Continued*

Financial Reporting Entity

As required by generally accepted accounting principles, and in conformance with the *Government Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity* and *GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units and subsequently amended by GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34, and GASB No. 80, Blending Requirements for Certain Component Units*, the School evaluated its potential component unit to determine the reporting entity.

Component units are legally separate organizations for which the board is financially accountable for or other organizations whose nature and significant relationship with the School are such that exclusion would cause the combined financial statements to be misleading or incomplete. The School is financially accountable if it appoints a majority of the Fund's board members and (1) is able to impose its will on the Fund, or (2) there is a potential to provide specific financial benefit to or impose a burden on the School.

The Fund was evaluated and is included as a blended component unit. The blended component unit, although a legally separate entity, is in substance, part of the School's operations and therefore, the financial data is combined and reported within the financial data of the primary government.

The Fund is a non-profit organization that reports under Financial Accounting Standards Board (FASB) accounting standards, including *Accounting Standards Codification 958 (ASC 958), Financial Reporting for Non-Profit Organizations*. As such, certain revenue recognition criteria and financial presentation features are different from GASB's revenue recognition and financial presentation features. No modifications have been made to the Fund's financial information for those differences.

Complete financial statements for the Fund can be obtained from the School's Business Office.

Financial Statement Presentation

The School, in accordance with *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, all of the financial activity is recorded in the enterprise fund.

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. Grants and contributions are recognized when all eligibility requirements are met.

2. *Summary of Significant Accounting Policies – 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 Organization has elected to apply the provisions of all relevant pronouncements of the FASB that do not conflict with or contradict GASB pronouncements.

Tax Status

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

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Fund is also exempt from Massachusetts income taxes, except for income taxes on unrelated business income, if any. For the years ended June 30, 2021 and 2020, the Fund had no unrelated business income.

The Fund evaluates its tax positions taken or expected to be taken in its tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable federal or state authority. The Fund has evaluated the tax positions taken in its previously filed returns and those expected to be taken in its 2021 returns and believes they are more-likely-than not to be sustained if examined by federal or state tax authorities. The Fund's returns are subject to examination by federal and state tax authorities for up to a three year period after the returns have been filed (2018 - 2020).

Cash and Cash Equivalents

For the purpose of the *Combined Statement of Net Position* and the *Combined Statement of Cash Flows*, the Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents. As of June 30, 2021 and 2020, the Organization did not hold any cash equivalents.

Capital Assets

Capital assets are recorded at cost or at fair market value at the date of donation. Capital assets purchased with a cost or value greater than \$5,000 are capitalized. Depreciation is computed on the straight-line basis using estimated useful lives of 39 years for building, 3 years for computer hardware and software, 5 years for office equipment and office furniture, and 10 years for equipment.

Grants and Accounts Receivable

Grants and accounts receivables are presented net of the allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on its past experience. Receivables are written off when deemed uncollectible. At June 30, 2021 and 2020, no allowance for doubtful accounts had been recorded, as management considers all receivables to be fully collectible.

2. *Summary of Significant Accounting Policies – Continued*

Operating Revenue and Expenses

The School - Operating revenue and expenses generally result from providing educational and instructional services in connection with the Organization'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 non-operating revenues and expenses.

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

Classification of Net Position

The following are the net position classifications:

- Net Investment in Capital Assets – book value of capital assets net of any related debt
- Restricted – amounts that can be spent only for specific purposes because of externally imposed restrictions by grantors or contributors
- Unrestricted Net Position – portion of funds to support operations

The Organization applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Employees of the School are entitled to paid vacations and paid holidays, depending on the job classification, length of service, and other factors. Any unused absences not used by fiscal year end are not paid out and therefore the School does not accrue for these.

On-Behalf Payments

The School recognizes its proportional share of pension revenue and expense, as reported by Massachusetts Teachers' Retirement System (the MTRS), as on-behalf payments in the *Combined Statement of Revenues, Expenses, and Changes in Net Position*.

2. Summary of Significant Accounting Policies – Continued

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Summarized Comparative Information

The combined financial statements include certain prior-year summarized comparative information in total but not by individual reporting entity. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s combined financial statements for the fiscal year ended June 30, 2020, from which the summarized information was derived.

3. Deposits with Financial Institutions

The Organization maintained its cash accounts at two financial institutions. These balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit per financial institution. Management acknowledges the possibility of risk in this arrangement; however, the size and longevity of the depository institution minimizes such risk. In addition, one of the financial institutions is a Massachusetts Chartered Savings Bank that maintains additional insurance through the Depositors Insurance Fund, a private industry sponsored insurance company, which covers balances above the FDIC limit of \$250,000. As required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. The following represents a summary of deposits as of June 30, 2021 and 2020:

	<i>2021</i>	<i>2020</i>
Fully insured deposits	\$ 871,201	\$ 556,146
Uncollateralized	<u>6,192</u>	<u>2,599</u>
Total	<u>\$ 877,393</u>	<u>\$ 558,745</u>

4. Tuition and Accounts Receivable

Tuition and accounts receivable at June 30, 2021 and 2020 are as follows:

	<i>2021</i>	<i>2020</i>
Commonwealth of Massachusetts	\$ 37,430	35,160
Other	<u>2,860</u>	<u>50</u>
Total	<u>\$ 40,290</u>	<u>\$ 35,210</u>

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**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**
Notes to Combined Financial Statements - *Continued*
June 30, 2021

5. *Accounts Payable and Accrued Expenses*

Accounts payable and accrued expenses at June 30, 2021 and 2020 are as follows:

	<i>2021</i>	<i>2020</i>
Payables to vendors	\$ 45,780	\$ 50,921
Payroll and fringe	<u>192,613</u>	<u>186,962</u>
Total	<u>\$ 238,393</u>	<u>\$ 237,883</u>

6. *Capital Assets*

The following are the capital assets as of June 30, 2021 and 2020:

School

	<i>Balance July 1, 2020</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 2021</i>
<i>Capital assets not being depreciated</i>				
Land	\$ 687,400	\$ -	\$ -	\$ 687,400
Total capital assets not being depreciated	<u>687,400</u>	<u>-</u>	<u>-</u>	<u>687,400</u>
<i>Capital assets being depreciated</i>				
Building	3,562,600	-	-	3,562,600
Building improvements	33,184	43,100	-	76,284
Equipment and computers	<u>66,648</u>	<u>-</u>	<u>-</u>	<u>66,648</u>
Total capital assets being depreciated	<u>3,662,432</u>	<u>43,100</u>	<u>-</u>	<u>3,705,532</u>
<i>Less accumulated depreciation</i>				
Building	532,868	91,349	-	624,217
Building improvements	16,079	5,775	-	21,854
Equipment and computers	<u>66,647</u>	<u>-</u>	<u>-</u>	<u>66,647</u>
Total accumulated depreciation	<u>615,594</u>	<u>97,124</u>	<u>-</u>	<u>712,718</u>
Capital assets, net	<u>\$ 3,734,238</u>	<u>\$ (54,024)</u>	<u>\$ -</u>	<u>\$ 3,680,214</u>
	<i>Balance July 1, 2019</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance June 30, 2020</i>
<i>Capital assets not being depreciated</i>				
Land	\$ 687,400	\$ -	\$ -	\$ 687,400
Total capital assets not being depreciated	<u>687,400</u>	<u>-</u>	<u>-</u>	<u>687,400</u>
<i>Capital assets being depreciated</i>				
Building	3,562,600	-	-	3,562,600
Building improvements	33,184	-	-	33,184
Equipment and computers	<u>66,648</u>	<u>-</u>	<u>-</u>	<u>66,648</u>
Total capital assets being depreciated	<u>3,662,432</u>	<u>-</u>	<u>-</u>	<u>3,662,432</u>
<i>Less accumulated depreciation</i>				
Building	441,519	91,349	-	532,868
Building improvements	12,761	3,318	-	16,079
Equipment and computers	<u>66,647</u>	<u>-</u>	<u>-</u>	<u>66,647</u>
Total accumulated depreciation	<u>520,927</u>	<u>94,667</u>	<u>-</u>	<u>615,594</u>
Capital assets, net	<u>\$ 3,828,905</u>	<u>\$ (94,667)</u>	<u>\$ -</u>	<u>\$ 3,734,238</u>

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**
Notes to Combined Financial Statements - *Continued*
June 30, 2021

7. Mortgage Payable

The School entered into a \$4,250,000 mortgage agreement with a financial institution during fiscal year 2015 at a fixed interest rate of 3.29% through August 2024, then adjusted annually to the Federal Home Loan Bank of Boston advance rate plus .50% through August 2044.

The mortgage is secured by the property located on 17 Lime Street, Marblehead, Massachusetts and substantially all assets of the School. The mortgage is also guaranteed by the Fund and Mass Development. The mortgage agreement contains provisions that upon the occurrence and continuance of any Event of Default, the financial institution may declare the mortgage amount then outstanding to be due and payable immediately. The Organization is required to maintain a debt service coverage ratio of 1.00 measured annually and a maximum loan to value ratio of 80% measured periodically. The following summarizes the long term debt activity of the Organization for the year ended June 30, 2021 and 2020:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
June 30, 2021	<u>\$ 3,719,244</u>	<u>\$ -</u>	<u>\$ 101,911</u>	<u>\$ 3,617,333</u>	<u>\$ 107,218</u>
June 30, 2020	<u>\$ 3,817,914</u>	<u>\$ -</u>	<u>\$ 98,670</u>	<u>\$ 3,719,244</u>	<u>\$ 103,469</u>

Interest expense was \$122,520 and \$125,760 for the years ended June 30, 2021 and 2020, respectively.

Aggregate maturities of the long-term debt for the term of the loan are as follows:

<i>Fiscal Year</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2022	\$ 107,218	\$ 117,212	\$ 224,430
2023	110,800	113,630	224,430
2024	114,500	109,930	224,430
2025	118,325	106,105	224,430
2026	122,277	102,153	224,430
2027-2031	675,444	446,706	1,122,150
2032-2036	796,036	326,114	1,122,150
2037-2041	938,159	183,991	1,122,150
2042-2045	<u>634,574</u>	<u>56,070</u>	<u>690,644</u>
Total	<u>\$ 3,617,333</u>	<u>\$ 1,561,911</u>	<u>\$ 5,179,244</u>

8. Line of Credit

The School has a \$300,000 line of credit with a financial institution expiring on December 31, 2021. Advances on this line of credit are payable on demand and carried an interest rate of 1% over the prime rate, which was 3.75% for both years ended June 30, 2021 and 2020. The line of credit is collateralized by a security interest in substantially all business assets of the School and is guaranteed by the Fund. The outstanding balance on the line of credit for both years ended June 30, 2021 and 2020 was \$0. Interest paid during fiscal years 2021 and 2020 was \$0.

9. Operating Lease Commitments

The School leased certain office equipment under non-cancelable operating leases that expire between May 2022 and April 2024.

Rent expense on the leases was \$14,207 and \$13,719 during the years ended June 30, 2021 and 2020, respectively. The following represents minimum lease payments for the remaining term of the leases:

<i>Fiscal Year</i>	<i>Amount</i>
2022	\$12,038
2023	\$ 3,889
2024	\$ 3,564

10. Retirement Plan

Massachusetts Teachers Retirement System

The Commonwealth of Massachusetts provides for retirement benefits to the School's eligible teachers through the Massachusetts Teachers' Retirement System (the MTRS), a contributory retirement system administered by the Massachusetts Teachers' Retirement Board. The MTRS is governed by Massachusetts General Laws (M.G.L.), Chapter 32, as well as regulations contained in the Code of Massachusetts Regulations (CMR). Oversight is provided by a seven member board. The MTRS issues a publicly available annual report that includes financial statements and required supplementary information, which may be obtained by writing to Public Employee Retirement Administration Commission (PERAC), 5 Middlesex Avenue, Suite 304, Somerville, Massachusetts, 02145.

This retirement plan requires an employee contribution of five, seven, eight, or eleven percent (depending on the plan and the employment date) of the employee's compensation. The School is not assessed under this plan. This retirement system is a contributory defined benefit plan covering all the employees deemed eligible. Members of the plan become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 55 and upon attaining 20 years of service.

The plan also provides for retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was first employed by the School after January 1, 1978, (3) voluntarily left School employment on or after that date, and (4) left an accumulated annuity deduction in the fund.

10. Retirement Plan – Continued

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, 2020 measurement date was determined by an actuarial valuation prepared as of January 1, 2020 rolled forward to June 30, 2020. At June 30, 2021 and 2020, the School's share of MTRS net pension liability was \$5,824,042 and \$5,338,900 respectively.

11. 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 combined financial statements. As of June 30, 2021 and 2020, the School recognized \$719,353 and \$647,434, respectively of on-behalf revenues and expenses.

12. Contingencies

Grant Funding

The School is subject to audit of its Federal and State grants and contracts and as such, if determined that funds are not expended in accordance with the grant and contract agreements, the grantor agency has the right to recapture these funds. As of the date of these statements, the materiality of adjustments to final costs, if any, cannot be determined and therefore no adjustment has been recorded in the accompanying combined financial statements.

Cumulative Surplus Revenue

Effective July 1, 2010, any cumulative surplus revenue generated by the School must comply with M.G.L. c. 71, §89 (as amended by Chapter 12 of the Acts of 2010 under §7 (hh)). In accordance with this legislation and subsequent DESE regulations, if the School's cumulative surplus revenue, as defined, exceeds 20% of its operating budget and its budgeted capital costs for the succeeding fiscal year, the amount in excess of said 20% shall be returned by the School to the sending district or districts and the Commonwealth in proportion to their share of tuition paid during the fiscal year. Management does not anticipate any repayment in fiscal year 2021.

Unemployment Insurance

Previously to January 1, 2010, the School was self-insured in regards to unemployment insurance with the Commonwealth of Massachusetts. As of June 30, 2021 and 2020, the combined financial statements include a liability of \$40,978 payable to the Commonwealth of Massachusetts for unpaid unemployment claims. The actual amount due to the Commonwealth inclusive of interest, if any, cannot be determined as of June 30, 2021.

12. Contingencies – Continued

COVID-19

On March 11, 2020, the World Health Organization characterized the outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. During fiscal year 2021, in response to COVID-19, the School transitioned between remote, hybrid and in person learning models. The extent to which COVID-19 may impact the Organization’s activities will depend upon future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the virus.

13. Related Party Transactions

During fiscal year 2021 and 2020, the Fund donated \$37,509 and \$28,000, respectively to the School.

14. Concentrations

During fiscal year 2021 and 2020, DESE provided 95% and 93%, respectively, for both fiscal years of the Organization’s revenue through Federal and Commonwealth funding respectively.

15. Rental Income

In fiscal years, 2021 and 2020, the School leased out approximately 1000 square feet of the building and parking spaces for elderly housing and residents in the neighborhood. Related rental income for the fiscal years ended June 30, 2021 and 2020 was \$25,561 and \$20,172, respectively.

The minimum rental income over the term of the leases are as follows:

<i>Fiscal Year</i>	<i>Amount</i>
2022	\$20,522

16. Subsequent Events

The Organization has evaluated subsequent events through **October XX, 2021**, which is the date the combined financial statements were available to be issued. There are no recognized subsequent events, events that provide additional evidence about conditions that existed at the *Combined Statement of Net Position* date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the *Combined Statement of Net Position* date, which are necessary to disclose to keep the combined financial statements from being misleading.

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

Draft



DANIEL DENNIS & Co
Certified Public Accountants

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With
Government Auditing Standards

The Board of Trustees

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined statement of net position of Marblehead Community Charter Public School and the Marblehead Charter Education Fund, Inc., (collectively, the Organization), as of and for the year ended June 30, 2021, and the combined statements of revenues, expenses and changes in net position and cash flows, and the related notes to the combined financial statements, which collectively comprise the Organization's combined financial statements, and have issued our report thereon dated **October XX, 2021**.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organization's internal control over financial reporting (internal controls) as a basis for determining audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that might be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. 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.

October XX, 2021

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SCHEDULE OF FINDINGS AND RESPONSES

Draft

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**
Schedule of Findings and Responses
For the Year Ended June 30, 2021

No Current Year Findings

Draft

SCHEDULE OF PRIOR YEAR FINDINGS

Draft

**Marblehead Community Charter Public School and
Marblehead Charter Education Fund, Inc.**
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2021

No Prior Year Findings

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BOARD ACCEPTANCE LETTER

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ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of Marblehead Community Charter Public School and Marblehead Charter Education Fund, Inc. or its designated committee or individual, have voted to accept the representations of management and the expression of the opinions made by Daniel Dennis & Company LLP as embodied in the combined financial statements and independent auditors' reports for the year ended June 30, 2021.

We also certify that the representations made by management and the disclosures in the combined 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, 2021.

Board President or Treasurer
or Other Designated Person