



**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND
CAPE COD LIGHTHOUSE CHARTER SCHOOL
EDUCATION FOUNDATION, INC.**

**COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

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June 30, 2020 and 2019

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**Unmodified Opinion on Combined General Purpose Financial Statements Accompanied
by Other Information - Governmental Entity**

Independent Auditor's Report

To the Boards of Trustees of
Cape Cod Lighthouse Charter School and Cape Cod Lighthouse
Charter School Education Foundation, Inc.:

Report on the Combined General Purpose Financial Statements

We have audited the accompanying combined general purpose financial statements of Cape Cod Lighthouse Charter School (a Massachusetts charter school) (the School) and Cape Cod Lighthouse Charter School Education Foundation, Inc. (a Massachusetts corporation, not for profit) (the Foundation) (collectively, the Organization), which comprise the combined statements of net position as of June 30, 2020 and 2019, and the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the combined general purpose financial statements.

Management's Responsibility for the Combined General Purpose Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined general purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined general purpose 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 general purpose 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 general purpose 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 general purpose financial statements referred to on page one present fairly, in all material respects, the combined net position of Cape Cod Lighthouse Charter School and Cape Cod Lighthouse Charter School Education Foundation, Inc. as of June 30, 2020 and 2019, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 2 through 4 be presented to supplement the basic combined general purpose financial statements. Such information, although not a part of the basic combined general purpose financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined general purpose financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 combined general purpose financial statements, and other knowledge we obtained during our audit of the basic combined general purpose financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2020, 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 for the year ended June 30, 2020. 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 Organization's internal control over financial reporting and compliance.

AAFCPA, Inc.

Westborough, Massachusetts
October 19, 2020

CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE CHARTER SCHOOL EDUCATION FOUNDATION, INC.

Management's Discussion and Analysis
June 30, 2020 and 2019

This discussion and analysis of the financial performance of Cape Cod Lighthouse Charter School (the School) provides an overview of the School's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the School's combined general purpose financial statements, which begin on page 5.

The School as a Whole

The School received its charter on December 9, 1994, to operate as a public charter school in the Commonwealth of Massachusetts. The charter is awarded for a five-year period and is subject to renewal at the discretion of the Commonwealth of Massachusetts Board of Education. The School is now chartered through June 2025. The School operated grades six through eight with an enrollment of 243 students in fiscal year 2020.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as clarified by GASB Statement No. 61, *The Financial Reporting Entity: "Omnibus"*, the School discretely presents financial information of the Cape Cod Lighthouse Charter School Education Foundation, Inc. (the Foundation), a related nonprofit organization, in its combined general purpose financial statements. GASB defines component units as legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship to a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Foundation acts primarily as a fundraising organization to supplement resources of the School. Although the School does not control the timing or amounts of receipts from the Foundation, the majority of resources that it holds, and revenue earned thereon, are restricted to activities of the School. Because these restricted resources can only be used by or for the benefit of the School, the Foundation is considered a component unit of the School and is discretely presented in the School's combined general purpose financial statements.

Using This Annual Report

This annual report consists of a series of combined general purpose 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 School is considered a special purpose government entity that engages in only business-type activities. Financial activity of the School is recorded in an Enterprise Fund within the Proprietary Fund group. In accordance with GASB No. 34, the School issues 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 combined general purpose financial statements that provide additional information that is essential to a full understanding of information provided in the basic combined general purpose financial statements.

General Purpose Financial Statements

The Statement of Net Position presents the assets, liabilities and net position of the School as a whole as of the end of the fiscal year. It is a point-in-time financial statement, the purpose of which in this case is to present a fiscal snapshot of the School at the end of its 2020 fiscal year. The Statement of Net Position includes year-end information concerning current and non-current assets, current and non-current liabilities, and net position. Net position, which represent the difference between assets and liabilities, are displayed in three components: invested in capital assets, restricted net position and unrestricted net position. Net position invested in capital assets consist of capital assets net of accumulated depreciation and related debt.

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Management's Discussion and Analysis
June 30, 2020 and 2019

General Purpose Financial Statements (Continued)

Net position is reported as restricted when there are limitations on their use through external restrictions imposed by creditors, grantors, contributors, or government laws or regulations. Unrestricted net position represents all other net position, those that do not meet the definition of restricted or invested in capital assets. Over time, financial statement readers will be able to evaluate the School's fiscal health (liquidity and solvency) or financial position by analyzing increases and decreases in net position to determine if the fiscal health is improving or deteriorating. When evaluating the overall fiscal health of the School, readers also should consider non-financial factors such as changes in economic conditions and new or changed charter school-related laws and regulations. The Statement of Net Position is also a good source of information about how much the School owes to vendors and creditors, and assets available that might be used to satisfy those liabilities.

The Statement of Revenues, Expenses and Changes in Net Position reports financial activities (revenue and expenses) of the School over a period of time, in this case a fiscal year. These activities are divided into two categories: operating and general revenue. Operating activities include all financial activities associated with the operation of the School and its related programs. General revenue includes unrestricted resources. Changes in net position near the bottom of this statement indicates to readers whether the School had sufficient revenue to cover expenses during the reporting period, which is to say that it represents the net increase or decrease to net position as a result of current-year operations. Changes in total net position presented on the Statement of Net Position are based on activity presented in this statement.

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

Financial Highlights – The School

The following financial highlights are for the fiscal year 2020, with comparative information from fiscal year 2019.

- The School held total assets of \$5,556,139 and \$5,851,708 at June 30, 2020 and 2019, respectively, of which \$4,363,374 and \$4,518,889 were net capital assets, respectively. The majority of the remaining assets consisted of cash, grants and accounts receivable and prepaid expenses.
- The School held total liabilities of \$3,418,719 and \$3,545,051 at June 30, 2020 and 2019, respectively.
- Unrestricted net position for the School was \$325,790 and \$829,270 at June 30, 2020 and 2019, respectively. Invested in capital net position was \$1,811,630 and \$1,477,387 at June 30, 2020 and 2019, respectively.
- The School earned total revenues of \$4,832,131 and \$4,507,593 for the years ended June 30, 2020 and 2019, respectively, of which approximately 99.56% and 98.98% were operating revenues for the years ended June 30, 2020 and 2019, respectively, and approximately .44% and 1.02% for the years ended June 30, 2020 and 2019, respectively, were from general revenues (contributions, miscellaneous income, interest income, etc.).
- The School had total expenses of \$5,001,368 and \$4,671,731 for the years ended June 30, 2020 and 2019, respectively.
- The School's changes in unrestricted net position were \$(169,237) and \$(164,138) for the years ended June 30, 2020 and 2019, respectively.

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Management's Discussion and Analysis
June 30, 2020 and 2019

Budgetary Highlights

The School's fiscal year 2020 budget was submitted to the Massachusetts Department of Elementary and Secondary Education during the summer of 2019. Budgeted expenses for the year were \$3,933,028 compared to actual expenses of \$5,001,368, resulting in a difference of \$1,068,340. This difference was due in part to the School not including non-cash activity, most notably depreciation and amortization and in-kind pension, in its budget (\$1,083,740). Budgeted revenue for the year was \$3,962,714 compared to actual income of \$4,832,131, resulting in a difference of \$857,940. This difference was mainly due in part to an unbudgeted in-kind pension of \$928,225. The remaining difference was a result of tuition funding changes based on actual attendance. The School budgeted tuition for fiscal years 2020 and 2019 based on enrollment of 243 students for each year, respectively, using the average per-pupil rate from the sending districts of the previous year plus 1.5% for both years.

The 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 \$3,771,266 in per-pupil funding in fiscal year 2020. This represents approximately 78% of the School's total revenue. In addition, the School received various Federal and state grants, which totaled \$80,509 in fiscal year 2020.

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 accountability for the funds received. If you have questions about this report or need additional financial information, contact the Business Office at the Cape Cod Lighthouse Charter School.

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Combined Statements of Net Position
June 30, 2020 and 2019

| | 2020 | | | 2019 | | |
|--|------------------------------|---------------------------------|-------------------------------|------------------------------|---------------------------------|-------------------------------|
| | Enterprise Fund School | Component Unit Foundation | Total (Memorandum Only) | Enterprise Fund School | Component Unit Foundation | Total (Memorandum Only) |
| Assets | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | \$ 679,760 | \$ 236,777 | \$ 916,537 | \$ 849,032 | \$ 216,872 | \$ 1,065,904 |
| Grants and accounts receivable | 90,947 | - | 90,947 | 381,364 | - | 381,364 |
| Current portion of restricted reserves | 45,948 | - | 45,948 | 73,236 | - | 73,236 |
| Prepaid expenses and other | 23,202 | 288 | 23,490 | 29,187 | 289 | 29,476 |
| Total current assets | 839,857 | 237,065 | 1,076,922 | 1,332,819 | 217,161 | 1,549,980 |
| Restricted Reserves | 352,908 | - | 352,908 | - | - | - |
| Capital Assets, net | 4,363,374 | - | 4,363,374 | 4,518,889 | - | 4,518,889 |
| Total assets | <u>\$ 5,556,139</u> | <u>\$ 237,065</u> | <u>\$ 5,793,204</u> | <u>\$ 5,851,708</u> | <u>\$ 217,161</u> | <u>\$ 6,068,869</u> |
| Liabilities and Net Position | | | | | | |
| Current Liabilities: | | | | | | |
| Current portion of bonds payable | \$ 176,044 | \$ - | \$ 176,044 | \$ 164,148 | \$ - | \$ 164,148 |
| Accounts payable and accrued expenses | 439,315 | - | 439,315 | 401,509 | - | 401,509 |
| Accrued interest | 28,804 | - | 28,804 | 28,804 | - | 28,804 |
| Total current liabilities | 644,163 | - | 644,163 | 594,461 | - | 594,461 |
| Bonds Payable, net of current portion | 2,774,556 | - | 2,774,556 | 2,950,590 | - | 2,950,590 |
| Total liabilities | <u>3,418,719</u> | <u>-</u> | <u>3,418,719</u> | <u>3,545,051</u> | <u>-</u> | <u>3,545,051</u> |
| Net Position: | | | | | | |
| Unrestricted | 325,790 | 237,065 | 562,855 | 829,270 | 208,462 | 1,037,732 |
| Net invested in capital assets | 1,811,630 | - | 1,811,630 | 1,477,387 | - | 1,477,387 |
| Restricted program funds - expendable | - | - | - | - | 8,699 | 8,699 |
| Total net position | <u>2,137,420</u> | <u>237,065</u> | <u>2,374,485</u> | <u>2,306,657</u> | <u>217,161</u> | <u>2,523,818</u> |
| Total liabilities and net position | <u>\$ 5,556,139</u> | <u>\$ 237,065</u> | <u>\$ 5,793,204</u> | <u>\$ 5,851,708</u> | <u>\$ 217,161</u> | <u>\$ 6,068,869</u> |

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

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Combined Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2020 and 2019

| | 2020 | | | 2019 | | |
|---|------------------------------|---------------------------------|-------------------------------|------------------------------|---------------------------------|-------------------------------|
| | Enterprise Fund School | Component Unit Foundation | Total (Memorandum Only) | Enterprise Fund School | Component Unit Foundation | Total (Memorandum Only) |
| Operating Revenue: | | | | | | |
| Per-pupil tuition | \$ 3,771,266 | \$ - | \$ 3,771,266 | \$ 3,630,726 | \$ - | \$ 3,630,726 |
| In-kind pension | 928,225 | - | 928,225 | 724,396 | - | 724,396 |
| Grants - government | 80,509 | - | 80,509 | 73,670 | - | 73,670 |
| Program fees and other | 30,842 | - | 30,842 | 32,697 | - | 32,697 |
| Transfer between funds | - | 17,754 | 17,754 | - | 11,043 | 11,043 |
| Total operating revenue | <u>4,810,842</u> | <u>17,754</u> | <u>4,828,596</u> | <u>4,461,489</u> | <u>11,043</u> | <u>4,472,532</u> |
| Operating Expenses: | | | | | | |
| Personnel and related: | | | | | | |
| Salaries | 2,883,886 | - | 2,883,886 | 2,736,010 | - | 2,736,010 |
| Payroll taxes and fringe benefits | 1,462,549 | - | 1,462,549 | 1,210,277 | - | 1,210,277 |
| Total personnel and related | <u>4,346,435</u> | <u>-</u> | <u>4,346,435</u> | <u>3,946,287</u> | <u>-</u> | <u>3,946,287</u> |
| Direct student costs: | | | | | | |
| Instructional program expenses | 99,523 | - | 99,523 | 139,525 | 11,896 | 151,421 |
| Travel | 37,427 | - | 37,427 | 3,187 | - | 3,187 |
| Technology | 30,440 | - | 30,440 | 46,796 | - | 46,796 |
| Program supplies | 12,413 | - | 12,413 | 16,208 | - | 16,208 |
| Total direct student costs | <u>179,803</u> | <u>-</u> | <u>179,803</u> | <u>205,716</u> | <u>11,896</u> | <u>217,612</u> |
| Occupancy: | | | | | | |
| Interest, net | 105,026 | - | 105,026 | 104,119 | - | 104,119 |
| Building operating costs and utilities | 49,319 | - | 49,319 | 52,659 | - | 52,659 |
| Maintenance | 42,175 | - | 42,175 | 67,379 | - | 67,379 |
| Total occupancy | <u>196,520</u> | <u>-</u> | <u>196,520</u> | <u>224,157</u> | <u>-</u> | <u>224,157</u> |
| Other operating costs: | | | | | | |
| Insurance | 41,227 | - | 41,227 | 38,074 | - | 38,074 |
| Professional fees | 32,720 | 2,021 | 34,741 | 39,880 | 210 | 40,090 |
| Grant expense | 1,546 | 30,545 | 32,091 | - | 28,532 | 28,532 |
| Office supplies | 12,444 | - | 12,444 | 20,760 | - | 20,760 |
| Dues and subscriptions | 11,536 | - | 11,536 | 10,403 | - | 10,403 |
| Recruitment and professional development | 10,884 | - | 10,884 | 12,281 | - | 12,281 |
| Miscellaneous | 2,072 | 8,346 | 10,418 | 2,636 | - | 2,636 |
| Minor furniture and equipment | 7,360 | - | 7,360 | 5,462 | - | 5,462 |
| Printing and postage | 2,771 | - | 2,771 | 2,210 | - | 2,210 |
| Telephone | 535 | - | 535 | 5,347 | - | 5,347 |
| Bad debt | - | - | - | - | 26,550 | 26,550 |
| Total other operating costs | <u>123,095</u> | <u>40,912</u> | <u>164,007</u> | <u>137,053</u> | <u>55,292</u> | <u>192,345</u> |
| Depreciation | <u>155,515</u> | <u>-</u> | <u>155,515</u> | <u>158,518</u> | <u>-</u> | <u>158,518</u> |
| Total operating expenses | <u>5,001,368</u> | <u>40,912</u> | <u>5,042,280</u> | <u>4,671,731</u> | <u>67,188</u> | <u>4,738,919</u> |
| Changes in net position from operations | <u>(190,526)</u> | <u>(23,158)</u> | <u>(213,684)</u> | <u>(210,242)</u> | <u>(56,145)</u> | <u>(266,387)</u> |
| General Revenue: | | | | | | |
| Contributions - undesignated | 6,198 | 51,424 | 57,622 | 35,526 | 49,340 | 84,866 |
| Miscellaneous | 10,472 | - | 10,472 | 7,441 | - | 7,441 |
| Interest | 4,619 | 337 | 4,956 | 3,137 | 313 | 3,450 |
| Total general revenue | <u>21,289</u> | <u>51,761</u> | <u>73,050</u> | <u>46,104</u> | <u>49,653</u> | <u>95,757</u> |
| Changes in net position before restricted program net position | <u>(169,237)</u> | <u>28,603</u> | <u>(140,634)</u> | <u>(164,138)</u> | <u>(6,492)</u> | <u>(170,630)</u> |
| Restricted Program Net Position: | | | | | | |
| Grants and contributions | - | 9,055 | 9,055 | - | 8,405 | 8,405 |
| Transfer between funds - general | - | (17,754) | (17,754) | - | (11,043) | (11,043) |
| Changes in restricted program net position | <u>-</u> | <u>(8,699)</u> | <u>(8,699)</u> | <u>-</u> | <u>(2,638)</u> | <u>(2,638)</u> |
| Changes in net position | <u>(169,237)</u> | <u>19,904</u> | <u>(149,333)</u> | <u>(164,138)</u> | <u>(9,130)</u> | <u>(173,268)</u> |
| Net Position: | | | | | | |
| Beginning of year | <u>2,306,657</u> | <u>217,161</u> | <u>2,523,818</u> | <u>2,470,795</u> | <u>226,291</u> | <u>2,697,086</u> |
| End of year | <u>\$ 2,137,420</u> | <u>\$ 237,065</u> | <u>\$ 2,374,485</u> | <u>\$ 2,306,657</u> | <u>\$ 217,161</u> | <u>\$ 2,523,818</u> |

CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.

Combined Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

| | 2020 | | | 2019 | | |
|--|------------------------------|---------------------------------|-------------------------------|------------------------------|---------------------------------|-------------------------------|
| | Enterprise Fund School | Component Unit Foundation | Total (Memorandum Only) | Enterprise Fund School | Component Unit Foundation | Total (Memorandum Only) |
| Cash Flows from Operating Activities: | | | | | | |
| Receipts for tuition | \$ 4,060,054 | \$ - | \$ 4,060,054 | \$ 3,342,828 | \$ - | \$ 3,342,828 |
| Receipts from government grants | 75,510 | - | 75,510 | 70,733 | - | 70,733 |
| Receipts from donors | 6,198 | 60,479 | 66,677 | 35,526 | 62,245 | 97,771 |
| Receipts from interest subsidy | 106,616 | - | 106,616 | 111,091 | - | 111,091 |
| Receipts from other sources | 50,645 | 337 | 50,982 | 37,888 | 313 | 38,201 |
| Employee compensation and related | (3,367,619) | - | (3,367,619) | (3,208,332) | - | (3,208,332) |
| Payments for interest | (209,726) | - | (209,726) | (215,210) | - | (215,210) |
| Payments for supplies and services | (401,192) | (40,911) | (442,103) | (492,879) | (67,187) | (560,066) |
| Net cash provided by (used in) operating activities | 320,486 | 19,905 | 340,391 | (318,355) | (4,629) | (322,984) |
| Cash Flows from Investing Activities: | | | | | | |
| Acquisitions of capital assets | - | - | - | (28,211) | - | (28,211) |
| Withdrawals from restricted reserves | 613,864 | - | 613,864 | 475,993 | - | 475,993 |
| Deposit to and interest earned on restricted reserves | (939,484) | - | (939,484) | (511,261) | - | (511,261) |
| Net cash used in investing activities | (325,620) | - | (325,620) | (63,479) | - | (63,479) |
| Cash Flows from Financing Activities: | | | | | | |
| Principal payments of bonds payable | (164,138) | - | (164,138) | (154,106) | - | (154,106) |
| Principal payments of note payable | - | - | - | (100,013) | - | (100,013) |
| Net cash used in financing activities | (164,138) | - | (164,138) | (254,119) | - | (254,119) |
| Net Change in Cash and Cash Equivalents | (169,272) | 19,905 | (149,367) | (635,953) | (4,629) | (640,582) |
| Cash and Cash Equivalents: | | | | | | |
| Beginning of year | 849,032 | 216,872 | 1,065,904 | 1,484,985 | 221,501 | 1,706,486 |
| End of year | \$ 679,760 | \$ 236,777 | \$ 916,537 | \$ 849,032 | \$ 216,872 | \$ 1,065,904 |
| Cash Flows from Operating Activities: | | | | | | |
| Changes in net position | \$ (169,237) | \$ 19,904 | \$ (149,333) | \$ (164,138) | \$ (9,130) | \$ (173,268) |
| Adjustments to reconcile changes in net position to net cash provided by (used in) operating activities: | | | | | | |
| Depreciation | 155,515 | - | 155,515 | 158,518 | - | 158,518 |
| Bad debt | - | - | - | - | 26,550 | 26,550 |
| Changes in operating assets and liabilities: | | | | | | |
| Grants and accounts receivable | 290,417 | - | 290,417 | (296,222) | (22,050) | (318,272) |
| Prepaid expenses and other | 5,985 | 1 | 5,986 | (26,053) | 1 | (26,052) |
| Accounts payable and accrued expenses | 37,806 | - | 37,806 | 9,540 | - | 9,540 |
| Net cash provided by (used in) operating activities | \$ 320,486 | \$ 19,905 | \$ 340,391 | \$ (318,355) | \$ (4,629) | \$ (322,984) |

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

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

1. ORGANIZATION AND OPERATIONS

Cape Cod Lighthouse Charter School (the School) was granted its charter by the Commonwealth of Massachusetts (the Commonwealth) under Chapter 71, Section 89 of the General Laws of Massachusetts effective December 9, 1994. The School's charter is subject to renewal every five years by the Commonwealth of Massachusetts, Department of Elementary and Secondary Education (DESE) and has been renewed through June 30, 2025.

The School's primary purpose is to provide a supportive and challenging learning environment for middle school students in the Cape Cod area of Massachusetts. As a state chartered organization, the School is not subject to Federal or state income taxes. Donors may deduct contributions made to the School within Internal Revenue Code (IRC) regulations.

Cape Cod Lighthouse Charter School Education Foundation, Inc. (the Foundation) was formed in May 1999 to benefit and support, financially, the functions of the School. The Foundation solicits, receives, and administers funds for the operation and maintenance of the School. The Foundation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the IRC. The Foundation is also exempt from state income taxes. Donors may deduct contributions made to the Foundation within the requirements of the IRC.

The School and the Foundation each appoint their respective Board of Trustees. The Foundation's activities consist of raising funds on behalf of the School. Due to this factor, the combined general purpose financial statements of the School and the Foundation (collectively referred to as the Organization) are presented on a combined basis (see Note 2).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - GASB Standards

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

Consistent with the provisions of GASB Statement Nos. 14 and 39, as clarified by GASB Statement No. 61, *The Financial Reporting Entity: "Ominibus"* an amendment to GASB Statement Nos. 14 and 39, the Foundation is presented in these combined general purpose financial statements as a component unit of the School. The "memorandum only total" is presented in accordance with GASB Statement No. 14. This represents the combined totals of the School and the Foundation without the eliminations of inter-company balances and transactions.

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The accrual method of accounting is used for all governmental entities that operate as business-type entities. Accordingly, revenue is recognized when earned and capital assets and expenditures are recorded when received and incurred, respectively. Grants and contributions are recognized when all eligible requirements are met.

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

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to GASB 72, *Fair Value Measurement and Application*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants at the measurement date.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and which reflect the assumptions that market participants would use when pricing an asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All of the Organization's assets which are valued at fair value are done so using Level 1 inputs.

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Net Position

Unrestricted - Represent the portion of expendable funds that are used to support the operations, including funds for which the donor-imposed restrictions have been met in accordance with funding agreements.

Net Invested in Capital Assets - Represents the net book value of capital assets and other resources restricted for capital, net of related debt.

Restricted Program Funds - Expendable - Include all funds received from or committed by donors to fund specific programs, which have not yet been expended. These funds were program restricted at June 30, 2019. There were no restricted funds as of June 30, 2020.

Revenue Recognition

Per-pupil tuition and grant revenue are recorded as services are provided and costs are incurred. The Commonwealth of Massachusetts Executive Office of Administration and Finance calculates per-pupil tuition reimbursement which is paid to the School by DESE.

Unrestricted grants and contributions are recorded when they are received or unconditionally committed. Gifts of cash and other assets are recorded as restricted program funds, if they are received or unconditionally committed with donor stipulations that limit the use of the donated assets. When a stipulated purpose restriction is accomplished, donor restricted program funds are reported in the combined statements of revenues, expenses and changes in net position as a transfer between funds.

Program fees and all other income are recorded when earned.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded on receivable balances which management believes may not be collectible. The allowance is based on past experience with the donor or funder and current economic trends. At June 30, 2019, the Foundation reserved \$26,550 of its accounts receivable, which are reflected as bad debt expense in the accompanying combined statements of revenues, expenses and changes in net position. There was no such allowance for doubtful accounts at June 30, 2020.

Estimates

The preparation of combined general purpose financial statements in accordance with principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined general purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets are recorded at cost, if purchased, or fair value at the time of donation. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as they are incurred. The Organization capitalizes items over \$2,500 with an estimated useful life of greater than one year. Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|---------------------------|---------------|
| Building and improvements | 15 - 40 years |
| Furniture and equipment | 3 - 10 years |
| Vehicles | 7 years |

Land is not depreciated.

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

Cash and Cash Equivalents

For the purpose of the combined statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

In-kind Pension and In-kind Goods and Services

The School receives the benefit of retirement payments made by the Commonwealth on behalf of the School (see Note 9).

There were no donated goods or services received by the School during fiscal year 2020 and 2019.

The School also receives other donated services from a variety of volunteers. No amounts have been recognized in the accompanying combined general purpose financial statements, since these services do not meet the criteria for recording in accordance with U.S. GAAP.

Subsequent Events

Subsequent events have been evaluated through October 19, 2020, which is the date the combined general purpose financial statements were available to be issued. Events that met the criteria for disclosure have been disclosed in the accompanying combined general purpose financial statements (see Note 11).

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

3. CAPITAL ASSETS

Capital assets for the School consist of the following:

| <u>June 30, 2020</u> | <u>Balance June 30, 2019</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance June 30, 2020</u> |
|----------------------------------|--------------------------------------|---------------------|------------------|--------------------------------------|
| Capital assets: | | | | |
| Building and improvements | \$ 4,303,690 | \$ - | \$ - | \$ 4,303,690 |
| Land | 905,000 | - | - | 905,000 |
| Furniture and equipment | 182,901 | - | - | 182,901 |
| Vehicles | <u>118,862</u> | <u>-</u> | <u>-</u> | <u>118,862</u> |
| Total capital assets | <u>5,510,453</u> | <u>-</u> | <u>-</u> | <u>5,510,453</u> |
| Less - accumulated depreciation: | | | | |
| Building and improvements | 775,106 | 116,950 | - | 892,056 |
| Furniture and equipment | 154,532 | 17,069 | - | 171,601 |
| Vehicles | <u>61,926</u> | <u>21,496</u> | <u>-</u> | <u>83,422</u> |
| Total accumulated depreciation | <u>991,564</u> | <u>155,515</u> | <u>-</u> | <u>1,147,079</u> |
| Capital assets, net | <u>\$ 4,518,889</u> | <u>\$ (155,515)</u> | <u>\$ -</u> | <u>\$ 4,363,374</u> |
| <u>June 30, 2019</u> | <u>Balance June 30, 2018</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance June 30, 2019</u> |
| Capital assets: | | | | |
| Building and improvements | \$ 4,303,690 | \$ - | \$ - | \$ 4,303,690 |
| Land | 905,000 | - | - | 905,000 |
| Furniture and equipment | 182,901 | - | - | 182,901 |
| Vehicles | <u>110,602</u> | <u>28,211</u> | <u>(19,951)</u> | <u>118,862</u> |
| Total capital assets | <u>5,502,193</u> | <u>28,211</u> | <u>(19,951)</u> | <u>5,510,453</u> |
| Less - accumulated depreciation: | | | | |
| Building and improvements | 658,042 | 117,064 | - | 775,106 |
| Furniture and equipment | 141,008 | 13,524 | - | 154,532 |
| Vehicles | <u>53,947</u> | <u>27,930</u> | <u>(19,951)</u> | <u>61,926</u> |
| Total accumulated depreciation | <u>852,997</u> | <u>158,518</u> | <u>(19,951)</u> | <u>991,564</u> |
| Capital assets, net | <u>\$ 4,649,196</u> | <u>\$ (130,307)</u> | <u>\$ -</u> | <u>\$ 4,518,889</u> |

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

4. FUNDING

The School receives significant funding from the Commonwealth and the Federal government for its tuition and grant revenue. This funding is subject to audit by the appropriate governmental agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the statements of net position of the School as of June 30, 2020 and 2019, or on the changes in its net position for the years then ended.

For each of the years ended June 30, 2020 and 2019, the School received approximately 99% of its total operating revenue from the Commonwealth and the Federal government.

5. LEASES

The School leases office equipment under a lease which expired in July 2020. The lease required the School to make monthly payments totaling \$329. Total lease expense for this equipment was \$3,948 for the years ended June 30, 2020 and 2019, and is included in minor furniture and equipment in the accompanying combined statements of revenues, expenses and changes in net position. The future minimum lease payments are \$329 for fiscal year 2021.

6. DEPOSITS AND INVESTED RISK

The School's and the Foundation's deposits are insured under the Federal Deposit Insurance Corporation and Depositors Insurance Fund's coverages within certain limits.

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

| | <u>2020</u> | | <u>2019</u> | |
|---------------|---------------------|-------------------|-------------------|-------------------|
| | <u>School</u> | <u>Foundation</u> | <u>School</u> | <u>Foundation</u> |
| Fully insured | \$ 908,355 | \$ 236,777 | \$ 499,044 | \$ 216,872 |
| Uninsured | <u>170,261</u> | <u>-</u> | <u>423,224</u> | <u>-</u> |
| | <u>\$ 1,078,616</u> | <u>\$ 236,777</u> | <u>\$ 922,268</u> | <u>\$ 216,872</u> |

7. GRANTS AND ACCOUNTS RECEIVABLES

The School's grants and accounts receivables are due from the following at June 30, 2020 and 2019, and are expected to be collected within one year:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|-------------|-------------|
| The Commonwealth of Massachusetts | 80% | 93% |
| Federal government | 20 | 5 |
| Other | <u>-</u> | <u>2</u> |
| | <u>100%</u> | <u>100%</u> |

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are comprised of the following as of June 30:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|-------------|-------------|
| Accrued salaries and benefits | 74% | 72% |
| Payables to the Commonwealth | 24 | 25 |
| Payables to vendors | <u>2</u> | <u>3</u> |
| | <u>100%</u> | <u>100%</u> |

9. RETIREMENT PLANS

The School's teaching staff and certain administrators participate individually in the Massachusetts Teachers' Retirement System (MTRS). The School is not legally required to contribute to MTRS. All full-time teaching staff and administrators are covered by and must participate in MTRS. These qualified employees and the School are exempt from Federal social security taxes. Benefits vest fully after ten years of full-time employment. An employee may receive retirement benefits after twenty years of service or ten years of service having attained the age of 55. Covered employees are required by state statute to contribute 8% to 11% of their salaries, depending on their date of hire, and an additional 2% of their salary in excess of \$30,000 to the plan. The Commonwealth is required to make actuarially determined contributions to maintain the financial integrity of the retirement system. The School follows GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* (GASB 27), which requires the School to recognize its proportionate share of pension expense and in-kind revenue, "on behalf of payments", related to MTRS, as reported by the Commonwealth. In accordance with GASB 68, the School's arrangement meets the definition of a special funding situation, whereby the School does not contribute to MTRS and the Commonwealth is required to make actuarially determined contributions to maintain the financial integrity of the retirement system. The School's proportionate share of MTRS's pension expense, as calculated under GASB 68, was \$928,225 and \$724,396 for the years ended June 30, 2020 and 2019, respectively, which is included in in-kind pension revenue and payroll taxes and fringe benefits in the accompanying combined statements of revenues, expenses and changes in net position. The School's proportionate share of MTRS's net pension liability was \$7,654,370 and \$7,148,495 at the measurement dates selected by the Commonwealth of June 30, 2019 and 2018, respectively. In accordance with the special funding situation under GASB 68, this amount has not been recorded in the accompanying combined general purpose financial statements.

The School also has a salary reduction plan (an IRC Section 403(b) plan), whereby employees may make elective tax deferred contributions to the plan. The School will match 2% for every 1% of employee contributions up to a maximum of 2%. The School's contributions vest immediately. The School contributed \$63,948 and \$50,615 for the years ended June 30, 2020 and 2019, respectively, which are included in payroll taxes and fringe benefits in the accompanying combined statements of revenues, expenses and changes in net position.

10. PROFESSIONAL DEVELOPMENT

The School incurs expenditures for the purpose of providing professional development to staff and teachers. The School expended \$10,734 and \$10,797 during fiscal years 2020 and 2019, respectively, for professional development, which are included in recruitment and professional development in the accompanying combined statements of revenues, expenses and changes in net position.

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

11. COLLECTIVE BARGAINING AGREEMENT

The School has signed a collective bargaining agreement which expired on August 31, 2020. Approximately 92% of the School's employees are covered under this agreement. Subsequent to June 30, 2020, this agreement was extended through August 31, 2021.

12. BONDS PAYABLE

The Organization entered into a loan and trust agreement with the Massachusetts Development Finance Agency (MDFA), as issuer, and a financial institution, as trustee, to issue \$2,762,176 in Qualified School Construction Bonds (QSCB), Cape Cod Lighthouse Charter School Issue, Series 2011A, and \$1,197,824 in Revenue Bonds, Cape Cod Lighthouse Charter School Issue, Series 2011B (collectively, Bonds). The proceeds of these Bonds were used to finance the acquisition and rehabilitation of the School's facility. The Bonds matures on November 1, 2026.

The Bonds were secured by a pledge and assignment of all rights, title and interest in substantially all of the School's assets. The Bonds were guaranteed by MDFA through Massachusetts Charter School Guaranty in the amount of \$990,000, through March 2020. Upon event of default, as defined in the agreement, the bank may declare all bond interest and principal outstanding to be due and payable immediately.

Bonds payable consist of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Series 2011A QSCB payable to MDFA, bearing interest at 7.62%. During fiscal years 2020 and 2019, the School incurred interest of \$167,365 and \$175,130, respectively. Interest is subsidized through a program under the American Recovery and Reinvestment Act of 2009, which provides reimbursement of interest paid by the School up to 5% by the U.S. Treasury. During fiscal years 2020 and 2019, the School earned reimbursements of \$104,700 and \$111,091, respectively. The total interest reimbursement is netted with the bond's interest expense. The School is required to pay quarterly installments of principal and interest based on a twenty-year amortization schedule, through November 2026, to a bank which was appointed as trustee by MDFA. The bond is secured by a first mortgage on the property and substantially all assets of the School and the Foundation. | \$ 2,108,972 | \$ 2,218,713 |
| Series 2011B bond payable to MDFA, bearing interest at 4.62%. Under this agreement, the School is required to pay monthly installments of principal and interest based on a twenty-year amortization schedule, through November 2026, to a bank which was appointed as trustee by MDFA. During fiscal years 2020 and 2019, the School incurred interest of \$40,926 and \$38,216, respectively. The bond is secured by a first mortgage on the property and substantially all assets of the School and the Foundation. | 841,628 | 896,025 |
| | 2,950,600 | 3,114,738 |
| Less - current portion | 176,044 | 164,148 |
| | <u>\$ 2,774,556</u> | <u>\$ 2,950,590</u> |

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

12. BONDS PAYABLE (Continued)

Future payments of bonds payable are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|--------------|
| 2021 | \$ 176,044 | \$ 197,812 | \$ 373,856 |
| 2022 | \$ 188,235 | \$ 185,621 | \$ 373,856 |
| 2023 | \$ 201,309 | \$ 172,547 | \$ 373,856 |
| 2024 | \$ 214,910 | \$ 158,946 | \$ 373,856 |
| 2025 | \$ 230,344 | \$ 143,512 | \$ 373,856 |
| 2026 - 2027 | \$ 1,939,758 | \$ 147,489 | \$ 2,087,247 |

As part of the bonds payable on page 15, the School must maintain a debt service reserve fund (see Note 15). These funds are used for the repayment of debt, subject to review and approval from the bank. The School must comply with various covenants as defined in the bond agreements. The School was not in compliance with these covenants at June 30, 2020, and have received a waiver from the bank. The bond is subject to a prepayment penalty equivalent to the yield maintenance costs incurred by the bank.

13. LINE OF CREDIT

The School has a working capital line of credit agreement with a bank, which allows for borrowings up to \$250,000 at June 30, 2020 and 2019. Borrowings are due on demand and interest is payable monthly at bank's prime rate (3.25% and 5.50% at June 30, 2020 and 2019, respectively), plus 0.50%, with a floor of 4.00%. This line of credit is secured by the School's grants and accounts receivables. There was no outstanding balance under this agreement at June 30, 2020 and 2019. The total available under the line of credit was \$250,000 at June 30, 2020 and 2019. Per the terms of the agreement, the School is required to pay down the entire balance by December 31st each year. The School must comply with various covenants as defined in the agreements. The School was not in compliance with these covenants at June 30, 2020, and have received a waiver from the bank.

14. NOTE PAYABLE

The School entered into a \$500,000 note payable with the Non-Profit Finance Fund (NFF) (a New York not-for-profit corporation). This note was secured by a second interest lien in the School's building and a debt service reserve account (see Note 15). This note was repaid during fiscal year 2019. Interest expense for this note payable for the year ended June 30, 2019, was \$1,864.

**CAPE COD LIGHTHOUSE CHARTER SCHOOL AND CAPE COD LIGHTHOUSE
CHARTER SCHOOL EDUCATION FOUNDATION, INC.**

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

15. RESTRICTED RESERVES

The School is required to maintain debt service funds on deposit with a trustee pursuant to its bonds payable (see Note 12). This fund is invested in checking and money market accounts.

The debt service reserve fund was established to ensure the payment of principal and interest relating to the Bonds (see Note 12), as well as the note payable (see Note 14) as defined in the agreements. The balance in the account was \$45,948 and \$73,236 as of June 30, 2020 and 2019, respectively.

During fiscal year 2020, as condition for issuance of debt covenant waiver by the bank (see Note 12), the School was required to deposit \$590,000 into an account with the bank. The bank allowed the School to make debt service payments from this account during the year which aggregated to \$240,000. The School is required to maintain a minimum balance that is equivalent to twelve months of Bonds debt service (\$373,856) in this account at all times during the remainder of the debt term. The balance in this account was \$352,908 as of June 30, 2020, and is presented as a long term asset in the accompanying combined statement of net position. The School expects to make an additional deposit into this account during fiscal year 2021 to meet the bank requirement.

16. CUMULATIVE SURPLUS REVENUE

Effective July 1, 2010, any cumulative surplus revenue generated by the School must comply with M.G.L.c.71. Section 89 (as amended by Chapter 12 of the Acts of 2010 under Section 8 (hh). In accordance with this legislation and subsequent DESE regulations, if the School's cumulative surplus revenue, as defined, exceeds 20% of its operating budget and its budgeted capital costs for the succeeding fiscal year, the amount in excess of said 20% shall be returned by the School to the sending district or districts and the state in proportion to their share of tuition paid during the fiscal year.

As of June 30, 2020 and 2019, the School's cumulative surplus revenue was less than 20%; however, the calculation is subject to DESE review and approval. Management does not anticipate any material change in the calculation.

17. CONTINGENCIES

The COVID-19 outbreak in the United States is unprecedented. It has had a significant impact on our economy and businesses and the future impact is unknown. The School has put in place e-learning environments. Administrative and fundraising activities have also safely transitioned to a cyber environment. While this disruption is expected to be temporary there is considerable uncertainty around its duration. The impact on the Organization's financial position and operating results cannot be reasonably estimated at this time.

18. RECLASSIFICATIONS

Certain amounts in the fiscal year 2019 general purpose financial statements have been reclassified to conform with the fiscal year 2020 presentation.



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**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Combined General Purpose Financial Statements
Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

To the Boards of Trustees of
Cape Cod Lighthouse Charter School and Cape Cod Lighthouse
Charter School Education Foundation, 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 general purpose financial statements of Cape Cod Lighthouse Charter School and Cape Cod Lighthouse Charter School Education Foundation, Inc. (collectively, the Organization), which comprise the combined statement of net position as of June 30, 2020, 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 general purpose financial statements, and have issued our report thereon dated October 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined general purpose financial statements, we considered the Organization'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 combined general purpose 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 Organization's combined general purpose 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 Organization's combined general purpose 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 combined general purpose 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AAFCPAs, Inc.

Westborough, Massachusetts
October 19, 2020