

**LOWELL COLLEGIATE
CHARTER SCHOOL**

FINANCIAL STATEMENTS

for the year ended June 30, 2014

LOWELL COLLEGIATE CHARTER SCHOOL

for the year ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Lowell Collegiate Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Lowell Collegiate Charter School, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lowell Collegiate Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lowell Collegiate Charter School, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Requirement by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2014, on our consideration of Lowell Collegiate Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Lowell Collegiate Charter School's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moriarty Prinsack, P.C.".

Springfield, Massachusetts
October 28, 2014

LOWELL COLLEGIATE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

The following discussion and analysis of Lowell Collegiate Charter School's (the School) financial performance provides an overview of the School's financial services for the fiscal year ended June 30, 2014. Please read it in conjunction with the School's financial statements, which begin on page 8.

The School as a Whole

The School received its initial charter on May 9, 2012 to operate as a public charter school in the Commonwealth of Massachusetts. The charter is awarded in five year increments and is subject to renewal at the discretion of the Commonwealth of Massachusetts' Board of Elementary and Secondary Education. During the fiscal year 2014, the first year of operations, the School operated kindergarten through grade 3 and the enrollment was comprised of approximately 272 students. The School currently expects to be operating at capacity in 2015, which would be approximately 350 children.

Using This Annual Report

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

Financial Statements

The *Statement of Net Position* presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the School, as of the end of the fiscal year, June 30. The *Statement of Net Position* is a point-in-time financial statement. The purpose of the *Statement of Net Position* is to present a fiscal snapshot of the School to the readers of the financial statements. Assets are resources with present service capacity that the School presently controls. Liabilities are present obligations to sacrifice resources that School has little or no discretion to avoid. A deferred outflow of resources is a consumption of net assets by the School that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the School that is applicable to a future reporting period. Net position represents the difference between all other elements in a statement of financial position and is displayed in three components – *net investment in capital assets, restricted* (distinguishing between major categories or restrictions); and *unrestricted*.

LOWELL COLLEGIATE CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2014

Financial Statements – continued

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

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

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

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

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

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

LOWELL COLLEGIATE CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2014

Supplemental Information

The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget, *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. The schedule of expenditures of federal awards can be found on page 17 of this report.

Financial Highlights

The following financial highlights are for the year ended June 30, 2014:

The School held total assets of \$1,039,277 at June 30, 2014, which consisted of cash, receivables, and prepaid expenses.

The School held total liabilities of \$1,130,324 at June 30, 2014, which consisted of payables, accrued expenses, and debt.

Total net position for the School was \$(91,047) at June 30, 2014, of which \$(230,214) was unrestricted and \$139,167 was investment in capital assets.

The School earned total operating revenues of \$3,922,720 for the year ended June 30, 2014.

The School had total expenses of \$3,964,377 for the year ended June 30, 2014.

The School incurred a net loss of \$(91,047) for the year ended June 30, 2014.

Budgetary Highlights

For the fiscal year ended June 30, 2014, the School incurred \$4,130,531 in actual expenditures (inclusive of capitalized purchases), compared to budgeted expenditures of \$4,221,324.

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 \$12,170 in per pupil funding in fiscal year 2014. This represents 84% of the School's revenue for the year ended June 30, 2014. In addition, the School received various federal and Commonwealth of Massachusetts grants, which totaled \$452,132 in fiscal year 2014.

LOWELL COLLEGIATE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2014

Other Financial Factors

The School entered into a sublease agreement with the Charter School Development Corporation for use of the land and building located at 25 Father John Sarantos Way, Lowell, Massachusetts.

The sublease expense for the year ended June 30, 2014 was \$1,169,676.

The School also had a temporary lease with Club Lafayette, which totaled \$5,839 in 2014.

Contacting the School's Financial Management

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

LOWELL COLLEGIATE CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2014

ASSETS

Current Assets

| | |
|--------------------------------|-----------------------------------|
| Cash and cash equivalents..... | \$ 93,281 |
| Tuition receivable..... | 716,708 |
| Grants receivable..... | 15,121 |
| Prepaid rent..... | <u>75,000</u> |
| Total current assets..... | <u>900,110</u> |
| Capital assets, net..... | <u>139,167</u> |
| TOTAL ASSETS..... | <u><u>\$ 1,039,277</u></u> |

LIABILITIES AND NET POSITION

Current Liabilities

| | |
|------------------------------------------------|-----------------------------------|
| Accounts payable..... | \$ 10,408 |
| Accrued expenses..... | 181,593 |
| Accrued rent..... | 97,210 |
| Due to related parties..... | 161,113 |
| Line of credit..... | <u>680,000</u> |
| Total liabilities..... | <u>1,130,324</u> |
| Net position | |
| Net investment in capital assets..... | 139,167 |
| Unrestricted..... | <u>(230,214)</u> |
| Total net position..... | <u>(91,047)</u> |
| TOTAL LIABILITIES AND NET POSITION..... | <u><u>\$ 1,039,277</u></u> |

See notes to financial statements.

LOWELL COLLEGIATE CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

for the year ended June 30, 2014

| | <u>2014</u> |
|-------------------------------------------|--------------------|
| Operating revenues | |
| Student tuition..... | \$ 3,310,043 |
| Federal and state grants..... | 452,132 |
| School lunch program..... | 116,678 |
| Student services..... | 43,867 |
| | 3,922,720 |
| Operating expenses | |
| Salaries..... | 1,284,925 |
| Payroll taxes..... | 72,575 |
| Fringe benefits..... | 136,829 |
| Management license fee..... | 463,406 |
| Grant programs..... | 233,184 |
| Classroom and other supplies..... | 181,969 |
| School lunch program..... | 116,747 |
| Depreciation..... | 25,898 |
| Repairs, maintenance and supplies..... | 68,795 |
| Building repair and maintenance..... | 15,547 |
| Occupancy costs..... | 1,175,515 |
| Office supplies, postage and expense..... | 29,069 |
| Computer expense..... | 9,774 |
| Professional services..... | 27,937 |
| Insurance expense..... | 14,615 |
| Payroll service charge..... | 8,140 |
| Extended day expenses..... | 58,365 |
| Staff development..... | 12,799 |
| Board of trustees expense..... | 3,338 |
| Advertising..... | 26,599 |
| Telephone..... | 12,860 |
| Travel..... | 2,042 |
| Utilities..... | 7,535 |
| Miscellaneous..... | 5,964 |
| | 3,994,427 |
| Operating loss..... | (71,707) |
| Nonoperating income (expense) | |
| Interest expense..... | (19,950) |
| In-kind revenue..... | 108,000 |
| In-kind expense..... | (108,000) |
| | (19,950) |
| Total nonoperating expense..... | (19,950) |
| Change in net position..... | (91,657) |
| Net position, beginning of year..... | 610 |
| Net position, end of year..... | \$ (91,047) |

See notes to financial statements.

LOWELL COLLEGIATE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

for the year ended June 30, 2014

Cash flows from operating activities:

| | |
|---------------------------------------------|------------------|
| Receipts from student tuition..... | \$ 2,593,335 |
| Receipts from federal and state grants..... | 437,011 |
| Receipts from lunch program..... | 116,678 |
| Receipts from other income..... | 43,867 |
| Payments to employees..... | (1,177,478) |
| Payments to vendors and suppliers..... | (2,556,929) |
| | <u>(543,516)</u> |
| Net cash used in operating activities..... | <u>(543,516)</u> |

Cash flows from capital and related financing activities:

| | |
|---------------------------------------------------------------|----------------|
| Purchase of capital assets..... | (116,154) |
| Proceeds from line of credit..... | 797,500 |
| Payments on line of credit..... | (117,500) |
| Interest paid..... | (19,950) |
| | <u>543,896</u> |
| Net cash provided by capital and related financing activities | <u>543,896</u> |
| Increase in cash and cash equivalents..... | 380 |
| Cash and cash equivalents, beginning of year..... | 92,901 |
| Cash and cash equivalents, end of year..... | \$ 93,281 |

Reconciliation of the change in net position to net cash used in operating activities:

| | |
|-----------------------------------------------------------------------------------------------|------------------|
| Adjustments to reconcile the change in net position to net cash used in operating activities: | |
| Loss from operations..... | \$ (71,707) |
| Depreciation..... | 25,898 |
| (Increase) decrease in operating assets | |
| Tuition receivable..... | (716,708) |
| Grants receivable..... | (15,121) |
| Prepaid rent..... | (75,000) |
| Increase (decrease) in operating liabilities | |
| Accounts payable | (11,512) |
| Accrued expenses..... | 181,593 |
| Accrued rent..... | 97,210 |
| Due to related parties..... | 41,831 |
| | <u>(543,516)</u> |
| Net cash used in operating activities..... | \$ (543,516) |

See notes to financial statements.

LOWELL COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization

Lowell Collegiate Charter School (the “School”) was established on May 9, 2012 after receiving their charter from the Commonwealth of Massachusetts under Chapter 71 Section 89 of the General Laws of Massachusetts. The School’s charter is awarded in five year increments and is subject to renewal at the discretion of the Commonwealth of Massachusetts Department of Elementary and Secondary Education (DESE).

The School has one location in Lowell, Massachusetts and offers children in the city of Lowell in kindergarten through grade 3, a public supported academic education. During fiscal year 2014, the School served 272 students in kindergarten through grade 3.

The mission of the School is to be a provider of top-quality education to a highly diverse student body. The School will prepare all students for success, equip them with the ability and desire for lifelong learning, and strengthen their civic, ethical, and moral values. The School will maintain high standards of efficiency and accountability throughout its operation.

2. Summary of Significant Accounting Policies

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

Financial Statement Presentation

The School, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statement - and Management’s Discussion and Analysis - for State and Local Governments*, is considered a special purpose governmental entity that engages in only business type activities and is not a component unit of another governmental entity. Therefore, the financial statements are prepared using the accrual basis of accounting and all of the activity is recorded in the enterprise fund. The School’s financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

Tax Status

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

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

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.

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

Cash and Cash Equivalents

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

Tuition Receivable

Tuition receivable is stated at the amount management expects to collect from balances outstanding at year-end.

Grants Receivable

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

Capital Assets

Furniture and equipment are recorded at cost, if purchased or at fair market value at the date of donation. Capital assets purchased with a cost or value greater than \$1,000 are capitalized. Depreciation will be computed on the straight-line basis using estimated useful lives of 5 years for computers, 7 years for furniture, fixtures and equipment. Depreciation expense of \$25,898 was recorded for the year ended June 30, 2014.

Use of Estimates

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

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

Operating Revenue and Expenses

Operating revenue and expenses generally result from providing educational and instructional services in connection with the School's principal ongoing operations. The principal operating revenues include tuition and Federal and Commonwealth of Massachusetts grants. Operating expenses include educational costs and administrative expenses and depreciation on capital assets.

3. Deposits with Financial Institution

The School maintains its cash balances in one financial institution. The balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit per financial institution. Management acknowledges the possibility of risk in this arrangement; however, the size and longevity of the depository institution minimizes such risk. In addition the financial institution is a Massachusetts Chartered Savings Bank that maintains additional insurance through the Depositors Insurance Fund (DIF), a private industry sponsored insurance company.

As required by GASB No. 40, Deposits and Investment Risk Disclosures, the following represents a summary of deposits as of June 30, 2014:

| | |
|-----------------------|--------------------------|
| FDIC insured deposits | <u><u>\$ 100,856</u></u> |
|-----------------------|--------------------------|

4. Capital Assets

Changes in capital assets during fiscal year 2014 are as follows:

| | <u>Balance</u> <u>6/30/2013</u> | <u>Additions</u> | <u>Balance</u> <u>6/30/2014</u> |
|-------------------------------|------------------------------------|-------------------------|------------------------------------|
| Equipment | \$ 36,777 | \$ 44,860 | \$ 81,637 |
| Computer equipment | 12,134 | | 12,134 |
| Furniture and fixtures | | 71,294 | 71,294 |
| Total capital assets | <u>48,911</u> | <u>116,154</u> | <u>165,065</u> |
| Less accumulated depreciation | | <u>25,898</u> | <u>25,898</u> |
| Net capital assets | <u><u>\$ 48,911</u></u> | <u><u>\$ 90,256</u></u> | <u><u>\$ 139,167</u></u> |

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

5. Related Parties

The School has a line of credit agreement with a related party, Springfield Education Management LLC (SEM). According to the agreement, the School may borrow up to \$750,000 at any time. Any outstanding principal is due on June 30, 2015. Interest is charged at 6.00%. The note is secured by all assets of the School. The outstanding balance was \$680,000 at June 30, 2014. The School paid \$19,950 in interest expense on this line of credit for the year ended June 30, 2014.

The School purchases a majority of their text books and miscellaneous items from Sabis Educational Systems (SES) a related party.

The School paid SEM & SES the following during fiscal year 2014:

| | |
|----------------------|-------------------|
| License fee | \$ 264,803 |
| Management fee | 198,603 |
| Startup expenses | 150,624 |
| Text books and other | <u>138,446</u> |
| | <u>\$ 752,476</u> |

As of June 30, 2014, the amount due to SEM was \$161,113.

6. Management Contract

The School has a management contract with Springfield Education Management LLC, to manage the teaching, accounting, and business administration functions of the School. The management agreement provides for the payment of an annual management fee to SEM. The agreement states that the School shall pay SEM a license fee of 8% of total per pupil tuition and a management fee of 6% of total per pupil tuition, which will be payable upon each receipt of per pupil tuition from the Commonwealth of Massachusetts. This agreement ends June 30, 2018, and may be renewed for an additional five years, by agreement of both parties. The fees amount to \$463,406 in 2014.

7. Donated Transportation

For the year ended June 30, 2014, the School received \$108,000 in donated transportation services from the Lowell School District.

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

8. Concentration of Revenue

DESE provided 96% of the funding to the School for the year ended June 30, 2014 through a per pupil reimbursement and Federal and Commonwealth of Massachusetts grants.

9. Operating Lease

On July 30, 2013, the School entered into a lease agreement with Charter School Development Corporation (CSDC) to rent the facility located at 25 Father John Sarantos Way, Lowell, Massachusetts, under a sublease. The lease is for a one year term commencing July 1, 2013 and ending June 30, 2014. Rent was paid monthly in the amount of \$20,833. In December 2013, this sublease was amended to include rental of additional space, including modular buildings. The monthly rent payments under this amendment were \$109,577. Total rent expense for 2014 was \$1,175,515. This sublease was not renewed as of June 30, 2014.

On April 1, 2014, the School entered into a lease agreement with the Transfiguration Greek Orthodox Church, for space located at 25 Father John Sarantos Way, Lowell, Massachusetts, which will begin July 1, 2014 and end June 30, 2015. Rent will be payable monthly in the amount of \$20,833.

On June 23, 2014, the School entered into a lease agreement with Vanguard Modular Building Systems, LLC for modular buildings located at 25 Father John Sarantos Way, Lowell, Massachusetts. This lease will begin on September 23, 2014 and end on June 23, 2015. On July 31, 2014, an amendment to the lease was signed extending the lease to September 23, 2015. Rent will be payable monthly in the amount of \$6,000.

Total minimum rental payments for fiscal year 2015 under these two new leases will be approximately \$322,000.

10. Retirement Plan

The School's teaching staff and certain administrators participate individually in the Massachusetts Teachers Retirement System (MTRS). All qualified teachers and administrators are covered by and must participate in MTRS. All qualified teachers and administrators who qualify for the plan, along with the School are exempt from federal social security taxes for these employees. Benefits are fully vested after 10 years of qualified employment and an employee may receive retirement benefits after 20 years of service or having reached the age of 55 if the participant (1) has a record of 10 years of credible service, (2) was first employed by the School after January 1, 1978, (3) voluntarily left School employment on or after that date, and (4) left an accumulated annuity deduction in the fund. This retirement plan requires an employee contribution of eight to eleven percent (depending on the plan and the employment date) of their compensation. No teachers have retired from the School since it received its charter; therefore the Massachusetts Teachers Retirement Board has not paid any pension benefits for the year ended June 30, 2014.

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

11. Supplementary Cash Flow Information

Supplemental cash flow information is as follows for fiscal year 2014:

| | |
|--------------------------------|-----------|
| Cash paid during the year for: | |
| Interest | \$ 19,950 |

12. Subsequent Events

The School has evaluated subsequent events through October 28, 2014, the date the financial statements were available to be issued.

LOWELL COLLEGIATE CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2014

| <u>Federal Grantor/Pass-through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|------------------------------------------------------------------|---------------------------------------|----------------------------------------|
| U.S. Department of Education: | | |
| Pass-through from Massachusetts Department of Education: | | |
| Title I - Grants to Local Educational Agencies | 84.010 | \$ 96,717 |
| Title IIA - Improving Teacher Quality State Grants | 84.367 | 12,700 |
| Special Education - Grants to States | 84.027 | 52,715 |
| Charter Schools Program Grant | 84.282 | <u>290,000</u> |
| Total U.S. Department of Education | | <u>452,132</u> |
| U.S. Department of Agriculture: | | |
| Pass-through from Massachusetts Department of Education: | | |
| National School Lunch Program | 10.555 | <u>88,211</u> |
| Total U.S. Department of Agriculture | | <u>88,211</u> |
| Total Expenditures of Federal Awards | | <u><u>\$ 540,343</u></u> |

LOWELL COLLEGIATE CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Lowell Collegiate Charter School under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of operations of Lowell Collegiate Charter School, it is not intended to and does not present the financial position, changes in net position, or cash flows of Lowell Collegiate Charter School.

2. Summary of Significant Accounting Policies

Expenditures

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

To the Board of Trustees of
Lowell Collegiate Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of Lowell Collegiate Charter School, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lowell Collegiate Charter School's basic financial statements, and have issued our report thereon dated October 28, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lowell Collegiate Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lowell Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Lowell Collegiate Charter School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lowell Collegiate Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and is described in the accompanying schedule of findings and questioned costs as item 2014-001.

Lowell Collegiate Charter School's Response to Finding

Lowell Collegiate Charter School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Lowell Collegiate Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.


Springfield, Massachusetts
October 28, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

To the Board of Trustees of
Lowell Collegiate Charter School

Report on Compliance for Each Major Federal Program

We have audited Lowell Collegiate Charter School's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lowell Collegiate Charter School's major federal programs for the year ended June 30, 2014. Lowell Collegiate Charter School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lowell Collegiate Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lowell Collegiate Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Lowell Collegiate Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Lowell Collegiate Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lowell Collegiate Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lowell Collegiate School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance, and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Springfield, Massachusetts
October 28, 2014

LOWELL COLLEGIATE CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2014

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Lowell Collegiate Charter School.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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.
3. No instances of noncompliance material to the financial statements of Lowell Collegiate Charter School, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for Lowell Collegiate Charter School expresses an unmodified opinion on the major federal program.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was the Charter Schools Program Grant – 84.282.
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. Lowell Collegiate Charter School did not qualify as a low risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

Finding 2014-001:

Condition:

The employees' contributions to the MTRS were not paid in a timely manner. The School failed to submit two of the twelve monthly payments within the required time period.

Effect:

The School was not in compliance with the requirements of the MTRS.

LOWELL COLLEGIATE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued

for the year ended June 30, 2014

FINDINGS - FINANCIAL STATEMENTS AUDIT - continued

Cause:

The School did not have procedures in place to submit the payments timely.

Criteria:

Per MTRS regulations, each governmental unit with employees who are members of the MTRS must remit payment of various amounts withheld for deposit in the annuity savings fund on or before the tenth day of each succeeding month.

Recommendation:

We recommend that the School establish controls around the submission of the employees' contributions to ensure they are made timely.

Management Response:

The School has implemented a system for the Business Manager to send the Human Resource Coordinator a reminder at the beginning of the month to make the payment to MTRS.

Responsibility:

The Business Manager is responsible for implementing the corrective action.

Timing:

The corrective action will be implemented in fiscal year 2015.

FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None



Lowell Collegiate Charter School

Member of the SABIS® School Network

ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of Lowell Collegiate Charter School, have voted to accept the representations of management and the expression of the opinions made by Moriarty & Primack, P.C. as embodied in the financial statements, supplemental schedules and independent auditors' reports for the year ended June 30, 2014.

We also certify that the representations made by management and the disclosures in the financial statements are accurate and have been correctly and completely disclosed as required by accounting principles generally accepted in the United States of America and the Commonwealth of Massachusetts Charter School Audit Guide for the period ended June 30, 2014.

Katherine McCarty

Board President or Treasurer or Other Designated Person

10/21/14

Date