

**LOWELL COLLEGIATE
CHARTER SCHOOL**

FINANCIAL STATEMENTS

for the years ended June 30, 2016 and 2015

LOWELL COLLEGIATE CHARTER SCHOOL

for the years ended June 30, 2016 and 2015

C O N T E N T S

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position.....	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows.....	9
Notes to Financial Statements	10
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 <i>Government Auditing Standards</i>	17
Board Acceptance Letter	19

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, which comprise the statement of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lowell Collegiate Charter School, as of June 30, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 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 audits 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 Reporting Requirement by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2016, 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.

Moriarty: Primack, P.C.

Springfield, Massachusetts
October 31, 2016

LOWELL COLLEGIATE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

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 years ended June 30, 2016 and 2015. Please read it in conjunction with the School's financial statements, which begin on page 7.

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 2016, the School operated kindergarten through grade 5 and the enrollment was comprised of approximately 500 students. During the fiscal year 2015, the School operated kindergarten through grade 4 and the enrollment was comprised of approximately 272 students. The School currently expects to be operating at capacity in 2017, which would be approximately 639 students in kindergarten through grade 6.

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 the 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, 2016 and 2015

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, 2016 and 2015

Financial Highlights

The following financial highlights are for the years ended June 30, 2016 and 2015:

The School held total assets of \$1,594,007 and \$641,275 at June 30, 2016 and 2015, respectively, which consisted of cash, receivables, prepaid expenses and capital assets.

The School held total liabilities of \$459,169 and \$258,585 at June 30, 2016 and 2015, respectively, which consisted of payables, accrued expenses, and debt.

Total net position for the School was \$1,134,838 and \$382,690 at June 30, 2016 and 2015, respectively, of which \$984,361 and \$258,258 was unrestricted and \$150,477 and \$124,432 was investment in capital assets, respectively.

The School earned total operating revenues of \$6,437,912 and \$4,490,833, (excluding on-behalf pension and in-kind revenue), for the years ended June 30, 2016 and 2015, respectively.

The School had total operating expenses of \$5,685,764 and \$3,995,549, (excluding on-behalf pension and in-kind expense), for the years ended June 30, 2016 and 2015, respectively.

The School incurred net income of \$752,148 and \$473,737 for the years ended June 30, 2016 and 2015, respectively.

Budgetary Highlights

For the fiscal year ended June 30, 2016, the School incurred \$5,685,764 in actual expenditures (excluding on-behalf pension and in-kind expense), compared to budgeted expenditures of \$5,929,053.

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 \$11,573 in per pupil funding in fiscal year 2016, versus \$11,724 in per pupil funding in fiscal year 2015. This represents 91% and 87% of the School's revenue for the years ended June 30, 2016 and 2015, respectively. In addition, the School received various federal and Commonwealth of Massachusetts grants, which totaled \$272,605 and \$296,891 in fiscal years June 30, 2016 and 2015, respectively.

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

June 30, 2016 and 2015

Other Financial Factors

The School had a lease agreement with the Transfiguration Greek Orthodox Church, for space located at 25 Father John Sarantos Way, Lowell, Massachusetts, total rent expense for the years ended June 30, 2016 and 2015 was \$325,000 and \$249,996, respectively.

The School had a lease agreement with Vanguard Modular Building Systems, LLC for modular buildings located at 25 Father John Sarantos Way, Lowell, Massachusetts. Total rent expense for the years ended June 30, 2016 and 2015 was \$66,000 for each year. This lease has ended and the School paid Vanguard \$88,000 in 2016 to dismantle and remove the modular buildings.

The School has a lease agreement with the Holy Trinity Hellenic Orthodox Church, for space located at 62 Lewis Street, Lowell, Massachusetts, which began September 1, 2015. Rent is payable monthly in the amount of \$25,000, total rent expense in 2016 was \$250,000.

The School has a month to month lease which began in fiscal year 2016, with Macheras Service Center for parking at Holy Trinity Hellenic Orthodox Church. Total rent paid in 2016 was \$12,700.

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

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents.....	\$ 1,331,974	\$ 428,302
Federal and state receivables.....	86,556	62,093
Prepaid rent.....	<u>25,000</u>	<u>26,448</u>
Total current assets.....	<u>1,443,530</u>	<u>516,843</u>
Capital assets, net.....	<u>150,477</u>	<u>124,432</u>
TOTAL ASSETS.....	<u><u>\$ 1,594,007</u></u>	<u><u>\$ 641,275</u></u>
 LIABILITIES AND NET POSITION		
Current Liabilities		
Accrued expenses.....	\$ 447,187	\$ 255,575
Due to related parties.....	11,982	2,853
Accounts payable.....	<u> </u>	<u>157</u>
Total liabilities.....	<u>459,169</u>	<u>258,585</u>
Net position		
Net investment in capital assets.....	150,477	124,432
Unrestricted.....	<u>984,361</u>	<u>258,258</u>
Total net position.....	<u>1,134,838</u>	<u>382,690</u>
TOTAL LIABILITIES AND NET POSITION.....	<u><u>\$ 1,594,007</u></u>	<u><u>\$ 641,275</u></u>

See notes to financial statements.

LOWELL COLLEGIATE CHARTER SCHOOL

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

for the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Student tuition.....	\$ 5,869,946	\$ 3,986,031
Federal and state grants.....	272,605	296,891
School lunch program.....	191,558	130,213
Student services and other.....	103,803	77,698
In-kind transportation	109,800	109,800
On-behalf pension.....	<u>1,053,662</u>	<u>158,427</u>
Total operating revenues.....	<u>7,601,374</u>	<u>4,759,060</u>
Operating expenses		
Salaries.....	2,147,672	1,508,387
Payroll taxes.....	75,101	55,203
Fringe benefits.....	260,316	216,535
Management license fee.....	821,792	558,044
Grant programs.....	429,486	252,776
Classroom and other supplies.....	336,336	190,550
School lunch program.....	276,792	173,136
Depreciation.....	36,140	28,275
Repairs, maintenance and supplies.....	110,732	82,926
Building repair and maintenance.....	27,232	19,208
Occupancy costs.....	760,239	617,191
Office supplies, postage and expense.....	17,734	7,469
Computer expense.....	40,736	17,324
Professional services.....	55,331	57,440
Insurance expense.....	13,886	16,432
Payroll service charge.....	24,849	9,582
Extended day expenses.....	90,946	64,177
Staff development.....	17,331	14,798
Board of trustees expense.....	9,655	13,264
Advertising.....	16,721	11,709
Telephone.....	6,332	4,197
Travel.....	2,339	286
Utilities.....	77,814	66,725
Miscellaneous.....	30,252	9,915
In-kind transportation.....	109,800	109,800
On-behalf pension.....	<u>1,053,662</u>	<u>158,427</u>
Total operating expenses.....	<u>6,849,226</u>	<u>4,263,776</u>
Operating income	752,148	495,284
Nonoperating income (expense)		
Interest expense.....	<u> </u>	<u>(21,547)</u>
Total nonoperating expense.....		(21,547)
Change in net position.....	752,148	473,737
Net position, beginning of year.....	<u>382,690</u>	<u>(91,047)</u>
Net position, end of year.....	<u>\$ 1,134,838</u>	<u>\$ 382,690</u>

See notes to financial statements.

LOWELL COLLEGIATE CHARTER SCHOOL

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from student tuition.....	\$ 5,869,946	\$ 4,702,739
Receipts from federal and state grants.....	248,142	249,919
Receipts from lunch program.....	191,558	130,213
Receipts from other income.....	103,803	77,698
Payments to employees.....	(2,012,632)	(1,463,705)
Payments to vendors and suppliers.....	<u>(3,436,405)</u>	<u>(2,646,756)</u>
Net cash provided by operating activities.....	<u>964,412</u>	<u>1,050,108</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets.....	(80,040)	(13,540)
Proceeds from disposal of capital assets.....	19,300	
Payments on line of credit.....		(680,000)
Interest paid.....		<u>(21,547)</u>
Net cash used in capital and related financing activities.....	<u>(60,740)</u>	<u>(715,087)</u>
Increase in cash and cash equivalents.....	903,672	335,021
Cash and cash equivalents, beginning of year.....	<u>428,302</u>	<u>93,281</u>
Cash and cash equivalents, end of year.....	<u>\$ 1,331,974</u>	<u>\$ 428,302</u>
Reconciliation of the change in net position to net cash provided by operating activities:		
Adjustments to reconcile the change in net position to net cash provided by operating activities:		
Income from operations.....	\$ 752,148	\$ 495,284
Depreciation.....	36,140	28,275
Gain on disposal of capital assets.....	(1,445)	
(Increase) decrease in operating assets		
Tuition receivable.....		716,708
Grants receivable.....	(24,463)	(46,972)
Prepaid rent.....	1,448	48,552
Increase (decrease) in operating liabilities		
Accounts payable	(157)	(10,251)
Accrued expenses.....	191,612	73,982
Accrued rent.....		(97,210)
Due to related parties.....	<u>9,129</u>	<u>(158,260)</u>
Net cash provided by operating activities.....	<u>\$ 964,412</u>	<u>\$ 1,050,108</u>

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 4, a public supported academic education. During fiscal year 2016, the School served 499 students in kindergarten through grade 5 (2015 – kindergarten through grade 4 and 333 students).

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.

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.

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

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.

Receivables

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

Capital Assets

Furniture and equipment are recorded at cost, if purchased or at fair market value at the date of donation. Capital assets purchased with a cost or value 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 \$36,140 and \$28,275 was recorded for each of the years ended June 30, 2016 and 2015, respectively.

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.

Tax Status

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

Use of Estimates

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

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
FDIC insured deposits	\$ 250,000	\$ 250,000
DIF insured deposits	1,217,430	250,530
	<u>\$ 1,467,430</u>	<u>\$ 500,530</u>

4. Capital Assets

Changes in capital assets during fiscal years 2016 and 2015 are as follows:

	<u>Balance</u>		<u>Balance</u>
	<u>6/30/2015</u>	<u>Additions</u>	<u>6/30/2016</u>
		<u>Disposals</u>	
Equipment	\$ 81,637		\$ 56,637
Computer equipment	14,454		14,454
Furniture and fixtures	<u>82,514</u>	<u>\$ 80,040</u>	<u>162,554</u>
Total capital assets	<u>178,605</u>	<u>80,040</u>	<u>233,645</u>
Less accumulated depreciation	<u>54,173</u>	<u>36,140</u>	<u>83,168</u>
Net capital assets	<u>\$ 124,432</u>	<u>\$ 43,900</u>	<u>\$ 150,477</u>
	<u>Balance</u>		<u>Balance</u>
	<u>6/30/2014</u>	<u>Additions</u>	<u>6/30/2015</u>
		<u>Disposals</u>	
Equipment	\$ 81,637		\$ 81,637
Computer equipment	12,134	\$ 2,320	14,454
Furniture and fixtures	<u>71,294</u>	<u>11,220</u>	<u>82,514</u>
Total capital assets	<u>165,065</u>	<u>13,540</u>	<u>178,605</u>
Less accumulated depreciation	<u>25,898</u>	<u>28,275</u>	<u>54,173</u>
Net capital assets	<u>\$ 139,167</u>	<u>\$ (14,735)</u>	<u>\$ 124,432</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, 2016. Interest is charged at 6.00%. The note is secured by all assets of the School. There was no outstanding balance at June 30, 2016 and 2015. The School paid \$21,547 in interest expense on this line of credit for the year ended June 30, 2015.

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

The School paid SEM & SES the following during fiscal years 2016 and 2015:

	<u>2016</u>	<u>2015</u>
License fee	\$ 469,596	\$ 318,882
Management fee	352,196	239,162
Text books and other	<u>285,869</u>	<u>161,897</u>
	<u>\$ 1,107,661</u>	<u>\$ 719,941</u>

As of June 30, 2016, the amount due to SEM was \$11,982 (\$2,853 - 2015).

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 amounted to \$821,792 and \$558,044 for the years ended June 30, 2016 and 2015, respectively.

7. Donated Transportation

For the years ended June 30, 2016 and 2015, the School received \$109,800, for each year, in donated transportation services from the Lowell School District.

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

8. Concentration of Revenue

DESE provided 98% of the funding to the School for the years ended June 30, 2016 and 2015 through a per pupil reimbursement and Federal and Commonwealth of Massachusetts grants.

9. Operating Lease

The School has a lease agreement with the Holy Trinity Hellenic Orthodox Church, for space located at 62 Lewis Street, Lowell, Massachusetts, which began September 1, 2015. Rent is payable on a month-to-month basis in the amount of \$25,000, total rent expense in 2016 was \$250,000.

The School had a lease agreement with the Transfiguration Greek Orthodox Church, for space located at 25 Father John Sarantos Way, Lowell, Massachusetts, which began July 1, 2014 and ended June 30, 2015. As of July 1, 2015, the School renewed the lease on a month to month basis in the amount of \$27,083 per month. Total rent expense for the years ended June 30, 2016 and 2015 was \$325,000 and \$249,996, respectively.

The School rented modular buildings with Vanguard Modular Building Systems, LLC. Total rent expense for the years ended June 30, 2016 and 2015 was \$66,000, per year.

The School has a month to month lease which began in fiscal year 2016, with Macheras Service Center for parking at Holy Trinity Hellenic Orthodox Church. Total rent paid in 2016 was \$12,700.

On June 16, 2015, the School entered into a lease agreement with Commons Wealth, LLC to rent a building at 1857 Middlesex Street, Lowell, MA. This lease will begin on July 1, 2016 and end on June 30, 2023. Rent will be payable at \$1,300,000 per year.

10. Supplementary Cash Flow Information

Supplemental cash flow information is as follows for fiscal year:

	<u>2015</u>
Cash paid during the year for:	
Interest	\$ 21,547

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

11. Retirement Plan

The School's teaching staff and certain administrators participate individually in the Massachusetts Teachers' Retirement System (MTRS). All qualified teachers and administrators are covered by and must participate in MTRS. All qualified teachers and administrators who qualify for the plan, along with the School are exempt from federal social security taxes for these employees. Benefits vest fully after 10 years of qualified employment and an employee may receive retirement benefits after 20 years of service or having reached the age of 55 if the participant (1) has a record of 10 years of creditable service, (2) was first employed by the school after January 1, 1978, (3) voluntarily left school employment on or after that date, and (4) left an accumulated annuity deduction in the fund. This retirement plan requires an employee contribution of eight to eleven percent (depending on the plan and the employment date) of their compensation.

The MTRS retirement plan, under GASB Statement No.68, *Accounting and Financial Reporting for Pensions*, is required by statute to determine the net pension liability for all participants. The net pension liability for the retirement plan at the June 30, 2015 measurement date was determined by an actuarial valuation prepared as of January 1, 2015 rolled forward to June 30, 2015. The school's share of MTRS net pension liability is \$12,990,712.

12. On-behalf Payments

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, the School is required to recognize its proportional share of pension revenue and expenses, as reported by MTRS, as on-behalf payments in their financial statements. As of June 30, 2016, the School recognized \$1,053,662 of on-behalf revenues and expenses (2015 - \$158,427).

13. Litigation

In February 2015, the School was named a co-defendant in a lawsuit claiming breach of contract. As of October 31, 2016, the lawsuit is in the discovery stage. The plaintiff is seeking approximately \$580,000 in damages. The School has valid defenses and counterclaims equivalent to the damages sought by the plaintiff. Accordingly, no adjustment has been made to the financial statements.

LOWELL COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Continued

14. Reclassification

Certain 2015 amounts have been reclassified to conform with the 2016 presentation.

15. Subsequent Events

The School has evaluated subsequent events through October 31, 2016, the date the financial statements were available to be issued.

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, 2016, 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 31, 2016.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moriarty Primack, P.C.

Springfield, Massachusetts
October 31, 2016



ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of Lowell Collegiate Charter School or its designated committee or individual, have voted to accept the representations of management and the expression of the opinions made by Moriarty & Primack, P.C. as embodied in the financial statements and independent auditors' reports for the years ended June 30, 2016 and 2015.

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 periods ended June 30, 2016 and 2015.

Kathleen McCaulley

Board President or Treasurer or Other Designated Person

10-31-16

Date