

COLLEGIATE CHARTER SCHOOL OF LOWELL

FINANCIAL STATEMENTS

for the years ended June 30, 2017 and 2016

COLLEGIATE CHARTER SCHOOL OF LOWELL

for the years ended June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Collegiate Charter School of Lowell

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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 Collegiate Charter School of Lowell, as of June 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 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 30, 2017, on our consideration of Collegiate Charter School of Lowell'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 Collegiate Charter School of Lowell's internal control over financial reporting and compliance.

Moriarty: Prunard, P.C.

Springfield, Massachusetts
October 30, 2017

COLLEGIATE CHARTER SCHOOL OF LOWELL

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017 and 2016

The following discussion and analysis of Collegiate Charter School of Lowell's (the School) financial performance provides an overview of the School's financial services for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the School's financial statements, which begin on page 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 for the period July 1, 2013 through June 30, 2018. 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 2017, the School operated kindergarten through grade 6 and the enrollment was comprised of approximately 646 students. During the fiscal year 2016, the School operated kindergarten through grade 5 and the enrollment was comprised of approximately 500 students.

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*.

COLLEGIATE CHARTER SCHOOL OF LOWELL

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2017 and 2016

Financial Statements – continued

The *Net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding 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.

COLLEGIATE CHARTER SCHOOL OF LOWELL

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2017 and 2016

Financial Highlights

The following financial highlights are for the years ended June 30, 2017 and 2016:

The School held total assets of \$2,273,302 and \$1,594,007 at June 30, 2017 and 2016, respectively, which consisted of cash, receivables, prepaid expenses and capital assets.

The School held total liabilities of \$ 590,365 and \$459,169 at June 30, 2017 and 2016, respectively, which consisted of payables, accrued expenses, and debt.

Total net position for the School was \$1,682,937 and \$1,134,838 at June 30, 2017 and 2016, respectively, of which \$ 1,260,426 and \$984,361 was unrestricted and \$422,884 and \$150,477 was investment in capital assets, respectively.

The School earned total operating revenues of \$8,684,737 and \$6,437,912, (excluding on-behalf pension and in-kind revenue), for the years ended June 30, 2017 and 2016, respectively.

The School had total operating expenses of \$8,136,638 and \$5,685,764, (excluding on-behalf pension and in-kind expense), for the years ended June 30, 2017 and 2016, respectively.

The School incurred net income of \$548,099 and \$752,148 for the years ended June 30, 2017 and 2016, respectively.

Budgetary Highlights

For the fiscal year ended June 30, 2017, the School incurred \$8,136,638 in actual expenditures (excluding on-behalf pension and in-kind expense), compared to budgeted expenditures of \$7,707,934.

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 \$11,868 in per pupil funding in fiscal year 2017, versus \$11,573 in per pupil funding in fiscal year 2016. This represents 88% and 91% of the School's revenue for the years ended June 30, 2017 and 2016, respectively. In addition, the School received various federal and Commonwealth of Massachusetts grants, which totaled \$352,385 and \$272,605 in fiscal years June 30, 2017 and 2016, respectively.

COLLEGIATE CHARTER SCHOOL OF LOWELL

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

June 30, 2017 and 2016

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, 2017 and 2016 was \$73,667 and \$325,000, respectively. The lease ended in August 2017.

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 year ended June 30, 2016 was \$66,000. This lease ended and the School paid Vanguard \$88,000 in 2016 to dismantle and remove the modular buildings. In 2017, the School paid a settlement charge of \$10,000.

The School had 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 2017 and 2016 was \$78,788 and \$250,000.

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 began on July 1, 2016 and will end on June 30, 2023. Rent expense for fiscal year 2017 was \$889,110.

In 2017, the School had a month to month lease to rent office space at 1075 Westford Street, Lowell, MA. Total rent paid in 2017 was \$17,100.

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.

COLLEGIATE CHARTER SCHOOL OF LOWELL

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents.....	\$ 1,336,080	\$ 1,331,974
Federal and state receivables.....	489,338	86,556
Prepaid rent.....	<u>25,000</u>	<u>25,000</u>
Total current assets.....	1,850,418	1,443,530
Capital assets, net.....	<u>422,884</u>	<u>150,477</u>
TOTAL ASSETS.....	<u>\$ 2,273,302</u>	<u>\$ 1,594,007</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accrued expenses.....	\$ 567,474	\$ 447,187
Due to related parties.....		11,982
Accounts payable.....	<u>22,891</u>	<u></u>
Total liabilities.....	<u>590,365</u>	<u>459,169</u>
Net position		
Net investment in capital assets.....	422,884	150,477
Unrestricted.....	<u>1,260,053</u>	<u>984,361</u>
Total net position.....	<u>1,682,937</u>	<u>1,134,838</u>
TOTAL LIABILITIES AND NET POSITION.....	<u>\$ 2,273,302</u>	<u>\$ 1,594,007</u>

See notes to financial statements.

COLLEGIATE CHARTER SCHOOL OF LOWELL

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Student tuition.....	\$ 7,607,858	\$ 5,869,946
Federal and state grants.....	352,385	272,605
School lunch program.....	286,288	191,558
Student services and other.....	133,931	103,803
State transportation reimbursement.....	304,275	
In-kind transportation		109,800
On-behalf pension.....	<u>527,597</u>	<u>1,053,662</u>
Total operating revenues.....	<u>9,212,334</u>	<u>7,601,374</u>
Operating expenses		
Salaries.....	2,783,392	2,147,672
Payroll taxes.....	116,714	75,101
Fringe benefits.....	330,594	260,316
Management license fee.....	1,065,100	821,792
Grant programs.....	588,240	429,486
Classroom and other supplies.....	404,295	336,336
School lunch program.....	360,431	276,792
Depreciation.....	99,689	36,140
Repairs, maintenance and supplies.....	239,658	110,732
Building repair and maintenance.....	54,727	27,232
Occupancy costs.....	1,177,254	760,239
Office supplies, postage and expense.....	19,181	17,734
Computer expense.....	37,045	40,736
Professional services.....	80,777	55,331
Insurance expense.....	14,510	13,886
Payroll service charge.....	34,550	24,849
Extended day expenses.....	91,808	90,946
Staff development.....	19,217	17,331
Board of trustees expense.....	10,640	9,655
Advertising.....	14,840	16,721
Telephone.....	3,476	6,332
Travel.....	714	2,339
Utilities.....	64,210	77,814
Miscellaneous.....	71,476	30,252
Transportation expense.....	454,100	
In-kind transportation.....		109,800
On-behalf pension.....	<u>527,597</u>	<u>1,053,662</u>
Total operating expenses.....	<u>8,664,235</u>	<u>6,849,226</u>
Change in net position.....	548,099	752,148
Net position, beginning of year.....	<u>1,134,838</u>	<u>382,690</u>
Net position, end of year.....	<u>\$ 1,682,937</u>	<u>\$ 1,134,838</u>

See notes to financial statements.

COLLEGIATE CHARTER SCHOOL OF LOWELL

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Receipts from student tuition.....	\$ 7,607,858	\$ 5,869,946
Receipts from federal and state grants.....	253,878	248,142
Receipts from lunch program.....	286,288	191,558
Receipts from other income.....	133,931	103,803
Payments to employees.....	(2,844,142)	(2,012,632)
Payments to vendors and suppliers.....	<u>(5,061,611)</u>	<u>(3,436,405)</u>
Net cash provided by operating activities.....	<u>376,202</u>	<u>964,412</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets.....	(372,096)	(80,040)
Proceeds from disposal of capital assets.....	<u> </u>	<u>19,300</u>
Net cash used in capital and related financing activities.....	<u>(372,096)</u>	<u>(60,740)</u>
Increase in cash and cash equivalents.....	4,106	903,672
Cash and cash equivalents, beginning of year.....	<u>1,331,974</u>	<u>428,302</u>
Cash and cash equivalents, end of year.....	<u>\$ 1,336,080</u>	<u>\$ 1,331,974</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:		
Change in net position.....	\$ 548,099	\$ 752,148
Depreciation.....	99,689	36,140
Gain on disposal of capital assets.....	<u> </u>	<u>(1,445)</u>
(Increase) decrease in operating assets		
Grants receivable.....	(402,782)	(24,463)
Prepaid rent.....	<u> </u>	<u>1,448</u>
Increase (decrease) in operating liabilities		
Accounts payable	22,891	(157)
Accrued expenses.....	120,287	191,612
Due to related parties.....	<u>(11,982)</u>	<u>9,129</u>
Net cash provided by operating activities.....	<u>\$ 376,202</u>	<u>\$ 964,412</u>

See notes to financial statements.

COLLEGIATE CHARTER SCHOOL OF LOWELL

NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization

Collegiate Charter School of Lowell (the “School”) (formerly known as Lowell Collegiate Charter 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 current charter runs from July 1, 2013 to June 30, 2018.

The School has one location in Lowell, Massachusetts and offers children in the city of Lowell in kindergarten through grade 7, a public supported academic education. During fiscal year 2017, the School served 646 students in kindergarten through grade 6 (2016 – kindergarten through grade 5 and 499 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.

As of July 1, 2016, the School changed its name to the Collegiate Charter School of Lowell.

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.

COLLEGIATE CHARTER SCHOOL OF LOWELL

NOTES TO FINANCIAL STATEMENTS, Continued

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

Cash and Cash Equivalents

For the 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 \$99,689 and \$36,140 was recorded for each of the years ended June 30, 2017 and 2016, 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.

COLLEGIATE CHARTER SCHOOL OF LOWELL

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
FDIC insured deposits	\$ 250,000	\$ 250,000
DIF insured deposits	1,320,702	1,217,430
	<u>\$ 1,570,702</u>	<u>\$ 1,467,430</u>

4. Capital Assets

Changes in capital assets during fiscal years 2017 and 2016 are as follows:

	<u>Balance</u> <u>6/30/2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/2017</u>
Equipment	\$ 56,637			\$ 56,637
Computer equipment	14,454	\$ 75,718		90,172
Furniture and fixtures	162,554	103,236		265,790
Leasehold Improvements	<u> </u>	<u>193,142</u>	<u> </u>	<u>193,142</u>
Total capital assets	<u>233,645</u>	<u>372,096</u>	<u> </u>	<u>605,741</u>
Less accumulated depreciation	<u>83,168</u>	<u>99,689</u>	<u> </u>	<u>182,857</u>
Net capital assets	<u>\$ 150,477</u>	<u>\$ 272,407</u>	<u>\$ </u>	<u>\$ 422,884</u>
	<u>Balance</u> <u>6/30/2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/2016</u>
Equipment	\$ 81,637		\$ (25,000)	\$ 56,637
Computer equipment	14,454			14,454
Furniture and fixtures	82,514	\$ 80,040		162,554
Total capital assets	<u>178,605</u>	<u>80,040</u>	<u>(25,000)</u>	<u>233,645</u>
Less accumulated depreciation	<u>54,173</u>	<u>36,140</u>	<u>7,145</u>	<u>83,168</u>
Net capital assets	<u>\$ 124,432</u>	<u>\$ 43,900</u>	<u>\$ (17,855)</u>	<u>\$ 150,477</u>

COLLEGIATE CHARTER SCHOOL OF LOWELL

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, 2017. Interest is charged at 6.00%. The note is secured by all assets of the School. There was no outstanding balance at June 30, 2017 and 2016.

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 and SES the following during fiscal years 2017 and 2016:

	<u>2017</u>	<u>2016</u>
License fee	\$ 608,629	\$ 469,596
Management fee	456,471	352,196
Text books and other	<u>333,110</u>	<u>285,869</u>
	<u>\$ 1,398,210</u>	<u>\$ 1,107,661</u>

There was no amount due to SEM at June 30, 2017 (\$11,982 - 2016).

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 \$1,065,100 and \$821,792 for the years ended June 30, 2017 and 2016, respectively.

7. Donated Transportation

For the year ended June 30, 2016, the School received \$109,800, in donated transportation services from the Lowell School District. For the year ended June 30, 2017, the school did not receive any donated transportation services from the Lowell School District, as they are now required to provide their own busing, and will receive a reimbursement from the state of Massachusetts.

COLLEGIATE CHARTER SCHOOL OF LOWELL

NOTES TO FINANCIAL STATEMENTS, Continued

8. Concentration of Revenue

DESE provided 98% of the funding to the School for the years ended June 30, 2017 and 2016 through a per pupil reimbursement, Federal and Commonwealth of Massachusetts grants, and transportation reimbursement.

9. Operating Leases

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 will end on August 14, 2023. Rent is payable in phases based on completion of construction of the building. Phase I rent was payable at \$55,690 per month, phase II rent was payable at \$67,114 per month, phase III rent was payable at \$108,557 per month, and phase IV rent was payable at \$150,000 per month. Phase IV was completed in June 2017. Rent expense under this lease in 2017 amounted to \$889,110. Future lease payments are \$1,800,000 per year for the next 6 years.

The School had 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 was payable on a month-to-month basis in the amount of \$25,000 per month, total rent expense in 2017 was \$78,788 (2016 - \$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, the lease was on a month to month basis in the amount of \$27,083 per month. Total rent expense for the years ended June 30, 2017 and 2016 was \$73,667 and \$325,000, respectively.

The School rented modular buildings with Vanguard Modular Building Systems, LLC. Total rent expense for the years ended June 30, 2017 and 2016 was \$10,000 and \$66,000, respectively.

In 2017, the School had a month to month lease to rent office space at 1075 Westford Street, Lowell, MA. Total rent paid in 2017 was \$17,100.

COLLEGIATE CHARTER SCHOOL OF LOWELL

NOTES TO FINANCIAL STATEMENTS, Continued

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 vest fully after 10 years of qualified employment and an employee may receive retirement benefits after 20 years of service or having reached the age of 55 if the participant (1) has a record of 10 years of creditable service, (2) was first employed by the school after January 1, 1978, (3) voluntarily left school employment on or after that date, and (4) left an accumulated annuity deduction in the fund. This retirement plan requires an employee contribution of eight to eleven percent (depending on the plan and the employment date) of their compensation.

The MTRS retirement plan, under GASB Statement No.68, *Accounting and Financial Reporting for Pensions*, is required by statute to determine the net pension liability for all participants. The net pension liability for the retirement plan at the June 30, 2016 measurement date was determined by an actuarial valuation prepared as of January 1, 2016 rolled forward to June 30, 2016. The school's share of MTRS net pension liability is \$5,172,187.

11. On-behalf Payments

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, the School is required to recognize its proportional share of pension revenue and expenses, as reported by MTRS, as on-behalf payments in their financial statements. As of June 30, 2017, the School recognized \$527,597 of on-behalf revenues and expenses (2016 - \$1,053,662).

12. Litigation

In February 2015, the School was named a co-defendant in a lawsuit claiming breach of contract. 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.

13. Subsequent Events

The School has evaluated subsequent events through October 30, 2017, 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
Collegiate Charter School of Lowell

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

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Collegiate Charter School of Lowell'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 Collegiate Charter School of Lowell's internal control. Accordingly, we do not express an opinion on the effectiveness of Collegiate Charter School of Lowell'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 Collegiate Charter School of Lowell'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.

Mouritz | Prinnick, P.C.

Springfield, Massachusetts
October 30, 2017



ACCEPTANCE OF THE BOARD OF TRUSTEES

We, the Board of Trustees of Collegiate Charter School of Lowell 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, 2017 and 2016.

We also certify that the representations made by management and the disclosures in the financial statements are accurate and have been correctly and completely disclosed as required by accounting principles generally accepted in the United States of America and the Commonwealth of Massachusetts Charter School Audit Guide for the periods ended June 30, 2017 and 2016.

Mattie M. Grail

Board President or Treasurer or Other Designated Person

10/30/2017

Date