

LOWELL CATHOLIC HIGH SCHOOL, INC.

Financial Statements

**For the Years Ended June 30, 2008 and 2007
(With Independent Auditors' Report)**

**Anstiss & Co., P.C.
Certified Public Accountants
Lowell, Massachusetts**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Unrestricted Net Assets	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-12

ANSTISS & CO., PC
CERTIFIED PUBLIC ACCOUNTANTS
21 GEORGE STREET • LOWELL, MASSACHUSETTS 01852
TELEPHONE (978) 452-2500
FAX (978) 458-0425

INDEPENDENT AUDITOR'S REPORT

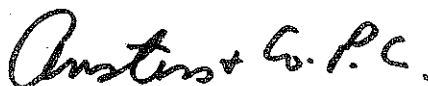
To the Board of Trustees
Lowell Catholic High School, Inc.
Lowell, MA 01851

We have audited the accompanying statements of financial position of Lowell Catholic High School, Inc., "the School", (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not recorded the fair value of its variable-to-fixed interest rate swap agreement "the agreement". The School is recognizing interest expense based on net payments currently due under the agreement without regard to any change in its estimated fair value. Accounting principles generally accepted in the United States of America require that an asset or liability be recorded equal to the estimated fair value of the agreement. The amount by which this departure would affect the assets, liabilities, net assets and expenses of the School is not reasonably determinable. Management has determined that the cost associated with estimating this amount is not justified based on the benefits that would be achieved.

In our opinion, except for the effects of not recording the fair value of the swap agreement as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Lowell Catholic High School, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Anstiss & Co., P.C.
Lowell, MA
December 18, 2008

Lowell Catholic High School, Inc.
Statements of Financial Position
June 30, 2008 and 2007

	Assets	
	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$ 756,463	\$ 747,338
Investments	17,363	23,039
GLCF Endowment Fund	315,439	325,108
Accounts receivable	17,244	13,066
Prepaid expenses	11,380	46,474
Property, equipment, and improvements, net	<u>6,615,613</u>	<u>6,771,824</u>
 Total assets	 <u>\$ 7,733,502</u>	 <u>\$ 7,926,849</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 35,184	\$ 36,015
Accrued compensation	113,198	88,015
Deferred revenue	504,943	526,824
Bond payable	<u>4,115,786</u>	<u>4,226,000</u>
 Total liabilities	 <u>4,769,111</u>	 <u>4,876,854</u>
 Net Assets		
Unrestricted	2,437,638	2,509,917
Temporarily restricted	153,083	161,408
Permanently restricted	<u>373,670</u>	<u>378,670</u>
 Total net assets	 <u>2,964,391</u>	 <u>3,049,995</u>
 Total liabilities and net assets	 <u>\$ 7,733,502</u>	 <u>\$ 7,926,849</u>

See accompanying notes to the financial statements.

Lowell Catholic High School, Inc.
Statements of Unrestricted Revenues, Expenses, and Other Changes in Unrestricted Net Assets
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Support and Revenue		
Tuition and fees	\$ 2,477,105	\$ 2,155,312
Contributions	105,492	128,979
Investment income	24,358	7,820
Facility rentals	28,290	21,770
Auxiliary services and other revenue	61,401	107,481
Net assets released from restrictions	-	-
	<hr/>	<hr/>
Total support and revenue	<u>2,696,646</u>	<u>2,421,362</u>
Expenses		
Program services:		
Salaries and fringe benefits	1,033,429	792,366
Instruction and student activities	219,587	242,123
Other expenses	73,519	35,600
	<hr/>	<hr/>
Total program services	<u>1,326,535</u>	<u>1,070,089</u>
Supporting services:		
Salaries and fringe benefits	615,231	651,892
Facility operations	320,252	341,923
Auxiliary services expenses	40,626	51,735
General administration	24,632	47,998
Fundraising expenses	17,259	39,697
Depreciation expense	180,275	180,643
Interest expense	241,042	224,991
	<hr/>	<hr/>
Total support services	<u>1,439,317</u>	<u>1,538,879</u>
Total expenses	<u>2,765,852</u>	<u>2,608,968</u>
Excess of Revenues (Deficiency) over Expenses	<u>(69,206)</u>	<u>(187,606)</u>
Change in Unrestricted Net Assets	<u>\$ (69,206)</u>	<u>\$ (187,606)</u>

See accompanying notes to the financial statements.

Lowell Catholic High School, Inc.
Statements of Changes in Net Assets
For the years ended June 30, 2008 and 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at June 30, 2006	\$ 2,698,286	\$ 114,183	\$ -	\$ 2,812,469
Change in unrestricted net assets	(187,606)	-	-	(187,606)
Temporarily restricted net assets:				
Contributions	-	24,021	378,670	402,691
Other Reclassification	(762)	762	-	-
Investment income (loss)	-	22,442	-	22,442
Net assets released from restrictions	-	-	-	-
Change in net assets	(188,368)	47,225	378,670	237,527
Net assets at June 30, 2007	\$ 2,509,918	\$ 161,408	\$ 378,670	\$ 3,049,996
Change in unrestricted net assets	(69,206)			(69,206)
Temporarily restricted net assets:				
Contributions	(10,000)	14,600		4,600
Other Reclassification		5,000	(5,000)	-
Investment income (loss)		(20,999)		(20,999)
Net assets released from restrictions	6,926	(6,926)		-
Change in net assets	(72,280)	(8,325)	(5,000)	(85,605)
Net assets at June 30, 2008	\$ 2,437,638	\$ 153,083	\$ 373,670	\$ 2,964,391

See accompanying notes to the financial statements.

Lowell Catholic High School, Inc.
Statements of Cash Flows
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (85,605)	\$ 237,526
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	180,275	180,644
Change in assets / liabilities:		
Accounts receivable	(4,178)	(1,166)
Prepaid expenses	35,094	24,695
Accounts payable and accrued expenses	(831)	(14,395)
Accrued compensation	25,183	(14,402)
Deferred revenue	(21,881)	235,638
	<u>128,057</u>	<u>648,540</u>
Cash Flows From Investing Activities		
Purchase of investments	5,677	(1,982)
Investment in GLCF Endowment Fund	9,669	(325,108)
Purchase of property, equipment and improvements	(24,064)	(55,346)
	<u>(8,718)</u>	<u>(382,436)</u>
Cash Flows From Financing Activities		
Principal payments on Note Payable	(110,214)	(24,000)
	<u>(110,214)</u>	<u>(24,000)</u>
Net Increase in Cash and Cash Equivalents	9,125	242,104
Cash and Cash Equivalents, Beginning of Year	<u>747,338</u>	<u>505,234</u>
Cash and Cash Equivalents, End of Year	<u>\$ 756,463</u>	<u>\$ 747,338</u>

See accompanying notes to the financial statements.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2008 and 2007

Note 1 - Organization

Lowell Catholic High School, Inc. (the School) was incorporated on May 9, 1975 under the laws of Massachusetts. The School is a private Catholic senior high school located in Lowell, MA. The School began operations in 1989 when three existing local Catholic schools were consolidated under the control of the School. While the School is tuition driven it has a substantial financial aid program. The School receives restricted contributions that are used to offset the financial aid that is offered to students. Substantially all of the students are located in Lowell and neighboring areas of Massachusetts. The School's enrollment for the most recent five fiscal years ended 2008 through 2004 was 337, 321, 277, 281 and 275 respectively.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

Revenues and expenses are reported on the accrual basis of accounting. Under this basis, revenues, other than contributions, and expenses are reported when incurred without regard to the date of receipt or payment of cash.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under those provisions, net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets represents gifts and pledges for which donor-imposed restrictions have not been met and for which the ultimate purpose of the proceeds is not permanently restricted.
- Permanently restricted net assets represent gifts and pledges for which donor restrictions require that the corpus be invested in perpetuity and only the income be made available for program operations, in accordance with donor restrictions.

Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Estimates (Continued)

estimates and assumptions that affect certain reported amounts or disclosures. Accordingly, actual results could differ from those estimates.

Statement of Cash Flow

The School considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents. For the years ended June 30, 2008 and 2007 the School paid \$241,042 and \$224,991 of interest expense.

Investments

Investments are comprised of stock and mutual funds investing in debt and equity securities, which are carried at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Property, Equipment, Improvements and Depreciation

Property, equipment and improvements are carried at historical cost if purchased or at fair value if received by donation. It is the policy of the School to capitalize purchases over \$2,500. If unrestricted, proceeds from the sale of plant assets are transferred to operating net assets. If restricted, any proceeds are transferred to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Maintenance and repairs are charged to expense as incurred.

Contributions and Promises to Give

Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor.

Unconditional promises to give due in the next year are reflected as current pledges and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the discounted present value of their net realizable value, using interest rates applicable to the years in which the promises are received. The School records promises to give as temporarily restricted support, unless explicit donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended it to be used to support activities of the current period.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions and Promises to Give (Continued)

When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the purpose of the restriction is accomplished in the reporting period in which the support is recognized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations, are recorded at their fair values in the period received.

Tax Status

The School is exempt from federal and state income taxes under Section 501 (c) (3) of the Internal Revenue Code and Chapter 180 of Massachusetts general laws.

Note 3 - Concentration of Risk

The School's financial instruments that potentially subject it to concentrations of credit risk consist of cash, cash equivalents, investments and accounts receivable.

The School maintains its cash accounts, cash equivalents and investments in high quality financial institutions. At times, the amounts on deposit at any one institution may be in excess of insured limits. Accounts receivable are dispersed among the families of the School's students in the Lowell area.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2008 and 2007

Note 4 - Investments

The fair market value of investments at June 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Corporate stocks	\$ 17,363	\$ 10,465
Hypo Investments	<u>-</u>	<u>12,574</u>
Subtotal	17,363	23,039
Endowment - GLCF	<u>315,439</u>	<u>325,108</u>
Total	<u>\$ 332,802</u>	<u>\$ 348,147</u>

Investment income for the years ended June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 35,139	\$ 14,276
Realized and unrealized gains and (losses)	<u>(31,779)</u>	<u>15,985</u>
Total	<u>\$ 3,360</u>	<u>\$ 30,261</u>

Hypo Investments consists of a short-term investment with Hypo Real Estate Bank International. These funds were generated through the 2005 debt financing for the expansion of the School and are restricted for use in the expansion project. Corporate stocks consist of preferred stock with an original cost approximately equal to fair market value. Investment income is reported net of \$5,717 and \$3,132 of investment fees for the years ended June 30, 2008 and 2007, respectively.

Note 5 - GLCF Endowment Fund

The School has established an endowment fund for its benefit at the Greater Lowell Community Foundation, Inc. (GLCF). The fund provides for distributions of earnings to the School to be used for scholarships / tuition aid. In accordance with Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the fund has been reported as an asset of the School. The fair market value of the fund at June 30, 2008 and 2007 was \$315,439 and \$325,108, respectively. Net earnings (losses) of the fund (including realized and unrealized gains and losses, interest and dividend income and administration fees) amounting to (\$19,668) and \$20,108 have been included in Temporarily Restricted Investment Income for the years ended June 30, 2008 and 2007, respectively.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2008 and 2007

Note 6 – Property, Equipment, and Improvements

At June 30, 2008 and 2007, the balance in property, equipment and improvements was composed of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 1,145,500	\$ 1,145,500
Buildings and improvements	5,993,639	5,979,675
Furniture and equipment	305,382	295,281
	7,444,521	7,420,456
Total	(828,908)	(648,632)
Less: Accumulated Depreciation	\$ 6,615,613	\$ 6,771,824
Net property, plant and equipment		

Note 7 – Deferred Revenue

Revenue collected in advance for tuition for the upcoming school year is deferred and recorded as income when the services are rendered.

Note 8 – Net Assets

Temporarily restricted net assets as of June 30, 2008 and 2007 were primarily restricted to use in the scholarship program. Permanently restricted net assets as of June 30, 2008 and 2007 are those held in the endowment fund, its earnings are temporarily restricted to use in the scholarship program.

Note 9 – Tuition and Fees, Net

Tuition and fees for the year ended June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Tuition and fees – net of scholarships & discounts	\$ 2,291,865	\$ 1,940,617
Scholarship income -other	21,633	23,425
Scholarship support -Catholic Schools Foundation	163,607	191,270
	\$ 2,477,105	\$ 2,155,312
Total tuition and fees		

The School granted approximately \$233,000 and \$328,000 of scholarships and other discounts to qualified students for the years ended June 30, 2008 and 2007, respectively.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2008 and 2007

Note 10 - Auxiliary Services and Other Revenue

All income and related expenses of activities promoted by the School not directly associated with instructional services, investment of School funds, or fundraising activities are reported as auxiliary services. These include revenue from sporting events, bookstore activity, and other miscellaneous events.

Note 11 - Pension Plans

The School participates in a multi-employer, noncontributory employee income retirement plan (the Roman Catholic Archdiocese of Boston Pension Plan). The plan provides defined benefits to participants upon retirement. The amount of the School's annual contribution is actuarially determined and is accrued and funded annually. The charge to faculty and administration benefits expense and related contribution to the plan was \$60,108 and \$43,332 for the years ended June 30, 2008 and 2007, respectively.

The School also sponsors an Internal Revenue Service qualified code section 403 (b) salary reduction plan that eligible employees may contribute to. The School does not contribute to this plan.

Note 12- Bond Payable

On November 17, 2004 the School borrowed \$4,250,000 through a bond issued by the Massachusetts Development Finance Agency (MDFA). BankNorth Association (BN) is an additional party to the agreement as "Trustee" and "Purchaser" of the bond. The proceeds of the bond were restricted to use in the School's expansion project. The bond is secured by substantially all assets of the School.

The agreement provides for escalating principal payments, beginning March 11, 2007, from \$8,000 to \$20,137 per month. The School is required to prepay a portion of the bond as of July 1, 2010 in order to reduce the outstanding balance on that date to an amount not greater than \$3,600,000. Final maturity is on March 11, 2030. Future principal payments due under the obligation as of June 30, 2008 are as follows:

<u>Year End</u>	
2009	102,752
2010	1,090,044
2011	86,172
2012	90,656
Thereafter	2,746,162

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2008 and 2007

Note 12 – Bond Payable (Continued)

The bond provides for monthly interest payments based on 69% of the 30 day London International Bank Offered Rate "LIBOR" plus 1.83% (2.47% at June 30, 2008). On March 11, 2005 the School entered into a variable-to-fixed interest rate swap agreement with BN that terminates on March 11, 2010. Under the terms of the agreement the School agreed to pay a fixed interest rate of 5.2% to BN on \$3,250,000 of notional borrowings in return for a variable rate payment from BN equal to the variable rate due on the bond. Total interest expense of \$241,042 and \$224,991 has been reported as interest expense for the years ended June 30, 2008 and June 30, 2007.

During the current fiscal year, the School was in violation of the bond's debt service covenant. Management has instituted budgetary and oversight policies to monitor future covenant requirements. Subsequent to the current year end the School initiated negotiations to reissue the bond obligation in full. Management expects to complete this process in early 2009.