

**LOWELL CATHOLIC HIGH SCHOOL, INC.**

Financial Statements

For the Years Ended June 30, 2015 and 2014

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Lowell Catholic High School, Inc. (the School), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the financial statements.

**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**

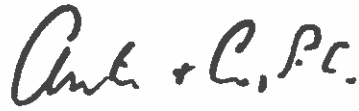
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Anstiss & Co., P.C.  
Lowell, Massachusetts  
December 1, 2015

**Lowell Catholic High School, Inc.**  
**Statements of Financial Position**  
**June 30, 2015 and 2014**

	<b>Assets</b>	
	<b>2015</b>	<b>2014</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 722,399	\$ 584,751
Investments	516,332	516,926
Accounts receivable, net	162,891	165,904
Promises to give	298,206	-
Inventory	207,999	257,206
Prepaid expenses and other current assets	65,288	58,644
Prepaid financing costs	35,835	42,884
Property, equipment, and improvements, net	5,817,542	5,975,539
Beneficial interest in assets held by GLCF	359,519	372,012
Total assets	<b>\$ 8,186,011</b>	<b>\$ 7,973,866</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 102,317	\$ 73,551
Accrued payroll and payroll taxes	256,227	213,761
Deferred revenue	1,050,661	936,109
Note payable	41,181	58,676
Accumulated unrealized loss on interest rate swap agreement	156,067	166,816
Bond payable	3,425,404	3,527,990
Total liabilities	5,031,857	4,976,903
<b>Net Assets:</b>		
Unrestricted	2,586,677	2,607,520
Temporarily restricted	193,807	15,773
Permanently restricted	373,670	373,670
Total net assets	3,154,154	2,996,963
Total liabilities and net assets	<b>\$ 8,186,011</b>	<b>\$ 7,973,866</b>

The accompanying notes are an integral part of these financial statements.

Lowell Catholic High School, Inc.  
Statements of Activities and Changes in Net Assets  
For the Years Ended June 30, 2015 and 2014

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenues and Support</b>								
Tuition and fees - gross	\$ 4,939,910	\$ -	\$ -	\$ 4,939,910	\$ 4,594,919	\$ -	\$ -	\$ 4,594,919
Less: discounts and scholarships assistance	723,297	-	-	723,297	781,434	-	-	781,434
Tuition and fees - net	4,216,613	-	-	4,216,613	3,813,485	-	-	3,813,485
Contributions	512,906	11,311	-	524,217	415,583	20,685	-	436,268
Capital campaign contributions	47,131	321,903	-	369,034	-	-	-	-
Auxiliary services and other revenue	140,299	-	-	140,299	132,994	-	-	132,994
Facility rentals	25,105	-	-	25,105	35,183	-	-	35,183
Net unrealized and realized (loss) gain on investments	(2,515)	-	-	(2,515)	38,323	-	-	38,323
Dividend and interest income, net	5,389	-	-	5,389	19,731	-	-	19,731
Net assets released from restrictions	164,194	(164,194)	-	-	21,364	(21,364)	-	-
Total revenues and support	5,109,122	169,020	-	5,278,142	4,476,663	(679)	-	4,475,984
<b>Operating Expenses</b>								
Program services:								
Salaries and fringe benefits	2,021,949	-	-	2,021,949	1,880,150	-	-	1,880,150
Instruction and student activities	340,161	-	-	340,161	326,055	-	-	326,055
Other expenses	63,502	-	-	63,502	53,724	-	-	53,724
Total program services	2,425,612	-	-	2,425,612	2,259,929	-	-	2,259,929
Supporting services:								
Salaries and fringe benefits	1,351,629	-	-	1,351,629	1,100,705	-	-	1,100,705
Facility operations	443,421	-	-	443,421	374,354	-	-	374,354
Depreciation and amortization	240,845	-	-	240,845	248,005	-	-	248,005
Interest expense	150,262	-	-	150,262	156,629	-	-	156,629
Fundraising expenses	86,143	-	-	86,143	110,360	-	-	110,360
Capital campaign fund raising expenses	106,414	-	-	106,414	-	-	-	-
Auxiliary services expenses	221,389	-	-	221,389	147,144	-	-	147,144
General administration	57,734	-	-	57,734	51,388	-	-	51,388
Bad Debt Expense	11,179	-	-	11,179	-	-	-	-
Total support services	2,669,016	-	-	2,669,016	2,188,585	-	-	2,188,585
Total expenses	5,094,628	-	-	5,094,628	4,448,514	-	-	4,448,514
Change in net assets from operations	14,494	169,020	-	183,514	28,149	(679)	-	27,470
<b>Non-Operating Revenue and Expenses</b>								
Fringe benefits paid into frozen pension plan	(66,298)	-	-	(66,298)	(66,298)	-	-	(66,298)
Net unrealized and realized gain (loss) on investments	(3,046)	17	313	(2,716)	6,644	2,113	37,821	46,578
GLFC and other distributions, net	19,817	-	-	19,817	7,221	-	-	7,221
Dividend and interest income, net	3,128	8,997	-	12,125	3,303	-	-	3,303
Other reclassifications	313	-	(313)	-	37,821	-	(37,821)	-
Unrealized gain (loss) on interest rate swap agreement	10,749	-	-	10,749	3,971	-	-	3,971
Change in net assets from non-operating revenue and expenses	(35,337)	9,014	-	(26,323)	(7,338)	2,113	-	(5,225)
Increase (decrease) in net assets	(20,843)	178,034	-	157,191	20,811	1,434	-	22,245
Net assets at beginning of year	2,607,520	15,773	373,670	2,996,963	2,586,709	14,339	373,670	2,974,718
Net assets at end of year	\$ 2,586,677	\$ 193,807	\$ 373,670	\$ 3,154,154	\$ 2,607,520	\$ 15,773	\$ 373,670	\$ 2,996,963

The accompanying notes are an integral part of these financial statements.

**Lowell Catholic High School, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 157,191	\$ 22,245
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized loss (gain) on investments	5,231	(84,901)
Bad debt	11,179	-
Depreciation and amortization	240,845	248,005
Unrealized gain on interest rate swap agreement	(10,749)	(3,971)
Change in assets and liabilities:		
Increase in accounts receivable	(8,166)	(53,413)
Increase in promises to give	(298,206)	-
Decrease (increase) in inventory and prepaid expenses	42,563	(119,934)
Increase (decrease) in accounts payable and accrued expenses	28,766	(4,209)
Increase (decrease) in accrued payroll and payroll taxes	42,466	(13,443)
Increase in deferred revenue	114,552	182,487
Net cash provided by operating activities	<u>325,672</u>	<u>172,866</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments - net	(9,381)	(30,233)
Transfers from GLCF	17,237	16,560
Purchase of property, equipment and improvements	(75,799)	(90,266)
Net cash used in investing activities	<u>(67,943)</u>	<u>(103,939)</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on bond payable	(102,586)	(98,284)
Principal payments on note payable	(17,495)	(16,734)
Net cash used in financing activities	<u>(120,081)</u>	<u>(115,018)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	137,648	(46,091)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>584,751</u>	<u>630,842</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 722,399</u>	<u>\$ 584,751</u>
<b>Supplemental information:</b>		
Cash paid during the year for interest:	<u>\$ 150,262</u>	<u>\$ 156,629</u>

The accompanying notes are an integral part of these financial statements.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**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. Subsequent to June 30, 2009 the School became a Xaverian Brothers Sponsored School. While the School is tuition driven it has a substantial financial aid program. The School receives 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 and southern New Hampshire. The School's enrollment for the most recent five fiscal years ended 2015 through 2011 was 402, 399, 403, 381, and 371, respectively.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

***Cash and Cash Equivalents***

The School considers all highly liquid investments with remaining maturities of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents, which consist of time deposits, money market accounts, and certificates of deposits, are carried at cost, which approximates market value.

***Investments***

The School follows the provisions of ASC 958-320, *Investments—Debt and Equity Securities*, whereby investments in marketable securities with readily determinable fair values are reported at their fair market values in the statements of financial position. Investment income or loss (including unrealized and realized gains and losses on investments, interest and dividends) is included in the accompanying statements of unrestricted revenues and expenses and changes in net assets.

***Fair Value of Financial Instruments***

The School follows the provisions of ASC 820-10, *Fair Value Measurements and Disclosures*. ASC 820-10 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. ASC 820-10 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy.



**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Fair Value of Financial Instruments (continued)***

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

**Level 1** – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the School has the ability to access.

**Level 2** – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

**Level 3** – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

ASC 825-10, *Financial Instruments*, permits an entity to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis.

***Inventory***

Inventory consisting of text books, electronic notebooks, supplies, and uniforms are valued at the lower of cost or market, determined by the first-in first-out method.

***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 as follows:

Land	
Land improvements	15 years
Building and improvements	10 – 40 years
Furniture and equipment	5 – 20 years

Maintenance and repairs are charged to expense as incurred.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Revenues***

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets by fulfillment of the donor-stipulated purpose or by passage of the stipulated time period are reported as reclassifications between the applicable classes of net assets.

***Scholarships and Financial Aid***

Gross tuition and fees reflects the School's normal tuition rates for all students. Scholarships given on the basis of financial need are netted against gross tuition and fees to the extent they exceed incremental costs incurred.

***Deferred Revenue***

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

***Classification of Net Assets***

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restriction with ASC 958-205, *Financial Statements of Not-for-Profit Organizations*. Accordingly, net assets of the School and changes therein are classified and reported 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.

***Contributions and Promises to Give***

Annual giving and capital 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.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Contributions and Promises to Give (continued)***

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.

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.

***Advertising***

Advertising costs are expenses as they are incurred. During the fiscal years ended June 30, 2015 and 2014, advertising expenses totaled \$33,814 and \$37,226, respectively.

***Functional Allocation of Expenses***

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

***Income Taxes and Uncertain Tax Positions***

The School, incorporated under Chapter 180 of the Massachusetts General Laws as a tax exempt entity, has been granted tax-exempt status under Internal Revenue Code (IRC) Section 501(c)(3). Therefore, it is generally exempt from federal and state income taxes. Accordingly, no provision for income taxes has been provided for in the accompanying financial statements.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 2 – Summary of Significant Accounting Policies (continued)**

***Income Taxes and Uncertain Tax Positions (continued)***

Effective with the current year, the School is required by ASC 740-10, *Income Taxes*, to evaluate and disclose tax positions that could have an effect on the School's financial statements. Substantially all of the School's income, expenditures and activities relate to its exempt purpose. Therefore, management has determined that the School will continue to qualify as a tax exempt not-for-profit entity.

***Estimates***

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts or disclosures. Accordingly, actual results could differ from those estimates.

**Note 3 – Accounts Receivable**

The School extends limited credit to students under certain circumstances. Management reviews the collectability of the accounts on an ongoing basis. As of June 30, 2015 and 2014, no reserve for potentially uncollectable accounts was deemed necessary by management.

**Note 4 – Promises to Give**

The following table summarizes unconditional promises to give as of June 30, 2015:

Receivable in less than one year	\$ 53,882
Receivable in one to five years	<u>272,800</u>
Total unconditional promises to give	326,682
Less: discounts to new present value (4%)	<u>28,476</u>
Net promises to give	<u>\$298,206</u>

There was no allowance for uncollectable promises to give as of June 30, 2015.

The amount of promises to give represents the net amount of receivables that the School believes it will collect in future years. Each year, the collectability of the remaining receivable will be assessed and any potentially uncollectible amounts will be either written off or posted to the allowance for uncollectible promises to give. As a result, there may be circumstances that occur during future years that will affect the collectability of the above amounts.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 5 – Investments**

Investments (recorded at fair value) at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Investments:		
Mutual funds	\$ 505,879	\$ 497,474
Money market funds	<u>10,453</u>	<u>19,452</u>
Total	<u>\$ 516,332</u>	<u>\$ 516,926</u>

Investment income for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 17,514	\$ 23,034
Realized and unrealized gains (losses)	<u>(5,231)</u>	<u>84,901</u>
Total	<u>\$ 12,283</u>	<u>\$ 107,935</u>

Investment income is reported net of approximately \$12,100 and \$11,200 of investment fees for the years ended June 30, 2015 and 2014, respectively.

**Note 6 – Property, Equipment and Improvements**

At June 30, 2015 and 2014, the balance in property, equipment and improvements was composed of the following:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 1,165,746	\$ 1,165,746
Buildings and improvements	6,237,087	6,206,982
Furniture and equipment	783,320	759,896
Undepreciated building costs deferred	<u>22,270</u>	<u>-</u>
Total	8,208,423	8,132,624
Less: Accumulated depreciation	<u>(2,390,881)</u>	<u>(2,157,085)</u>
Net property, plant and equipment	<u>\$ 5,817,542</u>	<u>\$ 5,975,539</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$239,517 and \$240,956, respectively.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 7 – Beneficial Interest in Assets held by GLCF**

The School has established an irrevocable agency endowment fund for its benefit at the Greater Lowell Community Foundation, Inc. (GLCF). The fund agreement grants a variance power to the GLCF that allows for modification of the agreement by GLCF in certain limited circumstances. The fund provides for distributions of earnings to the School to be used for scholarships and tuition aid. In accordance with ASC 958-605-15, *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 value of the fund at June 30, 2015 and 2014 was \$359,519 and \$372,012, respectively. Net earnings of the fund (including realized and unrealized gains and losses, interest and dividend income and administration fees) amounting to \$412 and \$49,882 have been included in investment income for the years ended June 30, 2015 and 2014, respectively.

**Note 8 – 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, amended August 2010, provides for escalating principal payments, from September 13, 2010 to July 13, 2020, ranging from \$7,255 to \$10,633 per month. A balloon payment is required in the amount of \$2,831,251 on the amended maturity date, August 13, 2020. The bond provides for monthly interest payments based on 69% of the 30 day London International Bank Offered Rate "LIBOR" plus 300 basis points (.186 and .155% at June 30, 2015 and 2014, respectively). On August 16, 2010, the School entered into a variable-to-fixed interest rate swap agreement with BN (See Note 8). For the years ended June 30, 2015 and 2014, the outstanding balance of the bond was \$3,425,404 and \$3,527,990, respectively.

Future principal payments due under the obligation as of June 30, 2015 are as follows:

<u>Year End</u>	
2016	\$ 106,738
2017	111,674
2018	116,624
2019	121,724
2020	126,760
Thereafter	<u>2,841,884</u>
 Total	 <u>\$ 3,425,404</u>

The agreement requires that the School meet certain covenants. For the years ended June 30, 2015 and 2014, the School met the required covenants.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 9 – Interest Rate Swap Agreement**

On August 16, 2010 the School entered into a variable-to-fixed interest rate swap agreement with BN that terminates on July 13, 2020. Under the terms of the agreement the School agreed to pay a fixed interest rate of 4.22% for a period of 10 years to BN on the notional borrowings in return for a variable rate payment from BN equal to the variable rate due on the bond. The notional principal amount of the swap agreement at June 30, 2015 and 2014 was \$3,425,404 and \$3,527,990, respectively.

The interest rate swap agreement was entered into as a hedge of cash flow variability caused by changes in interest rates on variable rate Massachusetts Development Finance Agency Revenue Bonds. The differential interest required to be paid or that will be received under this agreement is accrued consistent with the terms of the agreement and is recognized in interest expense as accrued. Terms of the swap agreement require the differential interest to be paid or received monthly.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the statement of financial position. Accordingly, the negative value of the swap agreement of \$156,067 and \$166,816 at June 30, 2015 and 2014, respectively, is reported as a liability in the statements of financial position. The change in the carrying value of the swap agreement is reported in the statements of changes in net assets as a separate component. The value has been measured based on estimates of the amount needed to settle the agreement as calculated by the counterparty, BN, to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models.

Total interest expense of \$147,778 and \$146,730 has been reported as interest expense for the years ended June 30, 2015 and 2014, respectively. For the fiscal years ended June 30, 2015 and 2014, \$71,716 and \$73,775, respectively, of additional interest required to be paid under the swap agreement is included in the total interest expense amount.

**Note 10 – Notes Payable**

On August 30, 2012 the School negotiated a note to purchase two vehicles for a total of \$88,850. The note is secured by the two vehicles and is payable in 60 monthly installments of \$1,672 through August 29, 2017, with an effective interest rate of 4.75%.

Future principal payments due under the obligation as of June 30, 2015 are as follows:

<u>Year End</u>	
2016	\$ 18,520
2017	19,419
2018	<u>3,242</u>
	<u>\$ 41,181</u>

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 11 – Fair Value of Financial Instruments**

The School uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The following table presents the School's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30:

	2015			
Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Investments:				
Mutual funds	\$ 505,879	\$ 505,879	\$ -	\$ -
Money market funds	10,453	10,453	-	-
Beneficial interest in assets held by GLCF	359,519	-	-	359,519
Interest rate swap agreement	(156,067)	-	(156,067)	-
	<u>\$ 719,784</u>	<u>\$ 516,332</u>	<u>\$ (156,067)</u>	<u>\$ 359,519</u>
	2014			
Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Investments:				
Mutual funds	\$ 497,474	\$ 497,474	\$ -	\$ -
Money market funds	19,452	19,452	-	-
Beneficial interest in assets held by GLCF	372,012	-	-	372,012
Interest rate swap agreement	(166,816)	-	(166,816)	-
	<u>\$ 722,122</u>	<u>\$ 516,926</u>	<u>\$ (166,816)</u>	<u>\$ 372,012</u>



**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 11 – Fair Value of Financial Instruments (continued)**

Changes for investments with significant unobservable inputs under level 3 for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014
Beginning balance	\$ 372,012	\$ 338,690
Additions	4,332	-
Distributions / transfers	(17,237)	(16,560)
Gain (loss) on investments, net of investment fees	412	49,882
Ending balance	<u>\$ 359,519</u>	<u>\$ 372,012</u>

**Note 12 – Net Asset Restrictions**

Temporarily restricted net assets as of June 30, 2015 and 2014 were primarily restricted to use in the scholarship program and for promises to give that are time restricted as follows:

	2015	2014
Scholarship funds	\$ 15,688	\$ 15,773
Pledges – Time restricted	178,119	-
	<u>\$ 193,807</u>	<u>\$ 15,773</u>

Permanently restricted net assets as of June 30, 2015 and 2014 are those held in the endowment fund, its earnings are temporarily restricted to use in the scholarship program.

**Note 13 – Endowment Fund Activity**

The School's endowment consists of several individual board designated and donor-restricted funds established to support the educational programs conducted by the School.

The Board of Trustees of the School has interpreted the guidance related to treatment of *Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)*, and *Enacted Disclosures for All Endowment Funds* as requiring the preservation of the fair value of the original gift as of the gift date of any donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of the subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standards of prudence prescribed by UPMIFA.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 13 – Endowment Fund Activity (continued)**

In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- General economic conditions
- The possible effect of inflation and deflation
- The expected tax consequences, if any, of investment decisions
- The role that each investment or course of action plays within the overall investment portfolio of the fund
- The expected total return from income and appreciation of investments
- Other resources of the School
- The needs of the School and the fund to make distributions and to preserve capital
- An asset's special relationship or special value, if any, to the charitable purposes of the School
- The duration and preservation of the fund
- The investment policy of the School

As of June 30, 2015 and 2014, the School has received \$373,670 of donor restricted funds subject to the UPMIFA. Occasionally, the invested balance of a permanently restricted fund will drop below its "historic value". In these situations an entry is recorded on the financial statements to reflect a liability from the unrestricted net asset balance to the permanently restricted net asset balance in an amount necessary to restore the permanently restricted fund to its historic amount. This "liability" is not legally enforceable against the unrestricted net assets of the School.

Endowment net asset composition by fund type as of June 30:

	<u>2015</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor created funds	\$ (26,494)	\$ 193,807	\$ 373,670	\$ 540,983
Board created funds	221,115	-	-	221,115
Total	<u>\$ 194,621</u>	<u>\$ 193,807</u>	<u>\$ 373,670</u>	<u>\$ 762,098</u>
	<u>2014</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor created funds	\$ (18,016)	\$ 15,773	\$ 373,670	\$ 371,427
Board created funds	227,311	-	-	227,311
Total	<u>\$ 209,295</u>	<u>\$ 15,773</u>	<u>\$ 373,670</u>	<u>\$ 598,738</u>

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 13 – Endowment Fund Activity (continued)**

Changes in endowment net assets for the years ended June 30, 2015 and 2014:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2013	\$ 150,725	\$ 14,339	\$ 373,670	\$ 538,734
Investment return:				
Investment income	-	-	-	-
Appreciation/depreciation	22,324	2,113	37,821	62,258
Total investment return	22,324	2,113	37,821	62,258
Contributions	24,639	20,685	-	45,324
Appropriation of assets for expenditure	(13,555)	(21,364)	(12,659)	(47,578)
Other changes	25,162	-	(25,162)	-
Endowment net assets, June 30, 2014	209,295	15,773	373,670	598,738
Investment return:				
Investment income	-	8,997	-	8,997
Appreciation/depreciation	2,808	17	313	3,138
Total investment return	2,808	9,014	313	12,135
Contributions	4,379	333,214	-	337,593
Appropriation of assets for expenditure	(9,051)	(164,194)	(13,123)	(186,368)
Other changes	(12,810)	-	12,810	-
Endowment net assets, June 30, 2015	\$ 194,621	\$ 193,807	\$ 373,670	\$ 762,098

A substantial portion of the endowment assets are invested in an agency endowment agreement with the Greater Lowell Community Foundation (GLCF). Under the GLCF investment policy, 50-80% of endowment assets are invested in equities and 20-50% is invested in fixed income securities, cash and cash equivalents.

The School has not yet adopted a formal spending policy for its endowment funds. The earnings and appreciation of the donor restricted funds remain in temporarily restricted net assets until the Board appropriates for expenditure.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 14 – 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 15 – Operating Leases**

During October, 2010 the School entered into a lease agreement for certain office equipment that expires in October 2015, with principal monthly payments of \$1,365. Effective February 1, 2012, the monthly principal payment decreased to \$1,095 due to cancellation of the service portion of the lease agreement. Total rent expense incurred under this lease agreement was \$13,140 for both years ended June 30, 2015 and 2014, respectively.

During August, 2011, the School entered into an additional lease agreement for office equipment that expires in August, 2015, with monthly payments of \$205. Total rent expense incurred under this lease agreement was \$2,460 for both years ended June 30, 2015 and 2014, respectively.

The School also entered into a lease agreement for certain bus vehicles that expired in August 2014, with monthly payments of \$1,747. Rent expense incurred under this lease was \$3,494 and \$20,964 for the years ended June 30, 2015 and 2014, respectively.

The future minimum rental payments under these operating leases are as follows:

2015	\$ 15,600
2016	<u>3,695</u>
Total	<u>\$ 19,295</u>

**Note 16 – Employee Retirement Plans**

The School participates in a multiple-employer, noncontributory employee retirement income pension plan, (the Roman Catholic Archdiocese of Boston Pension Plan). The Plan files as a single employer plan and is not subject to ERISA. It was decided by the Archdiocese to freeze the pension plan as of December 31, 2011 which prohibited any new employee's entrance into the plan as of that date; rather individuals employed as of January 1, 2012 will be eligible to participate in the 401(k) plan. Individuals already in the pension plan prior to December 31, 2011 will continue to receive these benefits. The pension 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 Plan was 89.4% and 91.0% funded as of June 30, 2015 and 2014, respectively.

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 16 – Employee Retirement Plans (continued)**

The following is a summary of various Plan activities for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Employer contributions	\$ 66,300	\$ 66,300
Benefits paid	N/A	N/A
Net periodic benefit cost	-	-

Amounts recognized in the statement of financial position as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Investments	\$1,229,000	\$1,207,000
Benefit obligation	1,229,000	1,207,000
Funded status at year end	-	-

Information for Plan with an accumulated benefit obligation in excess of plan assets as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Projected benefit obligation	\$1,229,000	\$1,207,000
Accumulated benefit obligation	N/A	N/A
Fair value of plan assets	1,229,000	1,207,000

Plan weighted-average assumptions used to determine benefit obligations as of June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	6.50%	6.50%
Rate of compensation increase	4.00%	4.00%

Plan weighted-average assumptions used to determine net periodic cost for the years ending June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	6.50%	6.50%
Expected long-term return on plan assets	5.50%	5.50%
Rate of compensation increase	-	-

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 16 – Employee Retirement Plans (continued)**

The overall investment strategy of the Plan is that it invests in the Roman Catholic Archbishop of Boston Collective Investment Partnership (the Partnership). The Partnership invests in domestic securities which are valued by obtaining bid price quotations from independent pricing services. Investments in foreign securities are valued at the mean between bid and asked price. For those securities whose prices are not available through independent pricing services, bid price quotations are obtained by State Street Corporation (the Custodian) from principal market makers in those securities or at fair value as determined in good faith by management. Investments in private investment entities are recorded at fair value based on the net assets value per share as reported by such entities.

The fair value of pension plan assets at June 30, 2015 and 2014, by asset class are as follows:

		2015			
		Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:					
	Cash and cash equivalents	\$ 37,000	\$ 37,000	\$ -	\$ -
	Collective investment partnership	1,192,000	-	-	1,192,000
		<u>\$1,229,000</u>	<u>\$ 37,000</u>	<u>\$ -</u>	<u>\$1,192,000</u>
		2014			
		Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:					
	Cash and cash equivalents	\$ 12,000	\$ 12,000	\$ -	\$ -
	Collective investment partnership	1,195,000	-	-	1,195,000
		<u>\$1,207,000</u>	<u>\$ 12,200</u>	<u>\$ -</u>	<u>\$1,195,000</u>

**Lowell Catholic High School, Inc.**  
**Notes to Financial Statements**  
**June 30, 2015 and 2014**

**Note 16 – Employee Retirement Plans (continued)**

The School expects to contribute \$66,300 to its pension plan for the year ended June 30, 2015.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

2016	\$66,300
2017	66,300
2018	66,300
2019	66,300
2020	66,300

As of January 1, 2012, the School began participating in a qualified salary reduction 401(k) plan through the Archdiocese whereby employees may make contributions to the plan at their discretion. The School matches up to 2% of eligible employee contributions (eligible individuals must be employed by the School for at least one year). The School's contributions vest after five years of employment. The total contributions to the plan for the year ended June 30, 2015 and 2014 was \$31,860 and \$34,887, respectively, and is included in salaries and fringe benefits in the accompanying statement of functional expense.

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 17 – Related Party Activity**

Management has determined there were no related party transactions for the years ended June 30, 2015 and 2014, respectively.

**Note 18 – Concentration of Risk**

The School's financial instruments that potentially subject it to concentrations of credit risk consist of cash and cash equivalents, investments and accounts receivable. The School maintains its cash and cash equivalent accounts 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, 2015 and 2014**

**Note 19 – Subsequent Events**

ASC 855-10, *Subsequent Events*, defines further disclosure requirements for events that occur after the statement of financial position date but before financial statements are issued. In accordance with ASC 855-10, the School's management has evaluated events subsequent from June 30, 2015 through December 1, 2015, which is the issuance date of this report. There has been no material event noted during this period that would either impact the results reflected in this report or the School's results going forward.