

**SOUTH COAST EDUCATIONAL
COLLABORATIVE**

BASIC FINANCIAL STATEMENTS
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2014

SOUTH COAST EDUCATIONAL COLLABORATIVE

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Business Advisors
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
South Coast Educational Collaborative
Swansea, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of South Coast Educational Collaborative as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Collaborative'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 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 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 of 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 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 respective financial position of South Coast Educational Collaborative as of June 30, 2014, and the respective changes in financial position, and the respective budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 5 and the budgetary comparison information on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014, on our consideration of South Coast Educational Collaborative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 South Coast Educational Collaborative's internal control over financial reporting and compliance.

Powento, Ratcliff, Rini + Co. P.C.

Franklin, Massachusetts
October 8, 2014

SOUTH COAST EDUCATIONAL COLLABORATIVE

MANAGEMENT'S DISCUSSION & ANALYSIS

YEAR ENDED JUNE 30, 2014

The following discussion and analysis of the South Coast Educational Collaborative's (the Collaborative) financial performance provides an overview of the Collaborative's financial activities for the fiscal year ended June 30, 2014 and summarized comparative information for 2013. Please read it in conjunction with the Collaborative's financial statements which begin on page 6.

THE COLLABORATIVE AS A WHOLE

The Collaborative provides educational programs and services, which primarily serve the low-incidence special needs of children and adults (aged three through twenty-two). In addition, the Collaborative provides professional development programs and services that enhance education improvement and leadership. Provision of services is confined to public school systems in the Southeastern Massachusetts and Rhode Island regions. The Collaborative is supported through tuitions and fees for clinical services from contracting municipalities. The Collaborative is governed by a six member Board of Directors consisting of one representative from each member district.

OVERVIEW OF THE FINANCIAL REPORTS

This discussion and analysis is intended to serve as an introduction to the Collaborative's financial reports, which consist of a series of financial statements and other information as follows:

- **Management's Discussion and Analysis** introduces the basis financial statements and provides and analytical overview of the Collaborative's financial activities.
- **Government-wide financial statements** consist of the Statement of Net Position and the Statement of Activities. These provide both short-term and long-term information about the Collaborative's overall financial status.
- **Fund basis financial statements** focus on individual parts of the Collaborative, reporting the Collaborative's operations in more detail than the government-wide statements. The *governmental funds statements* tell how basic services were financed in the short-term as well as what remains for future spending.
- **Notes to the financial statements** explain some of the information in the statements and provide more detailed data.
- **Supplementary information** includes both additional financial information which provides more detail support of the basis financial statements and information required by the Massachusetts Department of Elementary and Secondary Education.

Government-wide Statements

The government-wide statements (*statement of net position* and *statement of activities*) report information about the Collaborative as a whole using accounting methods similar to those used by private sector companies.

- The **Statement of Net Position** presents information on all of the Collaborative's assets and liabilities with the difference between the two reported as *net position*. It is one way of measuring the Collaborative's financial health or position.
- The **Statement of Activities** presents information showing how the Collaborative's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid.

Over time, increases or decreases in the Collaborative's net position is an indicator of whether its financial position is improving or deteriorating. The reader will also need to consider other non-financial factors such as changes in economic conditions when evaluating the overall financial health of the Collaborative.

SOUTH COAST EDUCATIONAL COLLABORATIVE

MANAGEMENT'S DISCUSSION & ANALYSIS

YEAR ENDED JUNE 30, 2014

OVERVIEW OF THE FINANCIAL REPORTS *(continued)*

Fund Financial statements

Funds are accounting devices used to keep track of specific sources of funding and spending in particular categories: governmental funds, proprietary funds, and fiduciary funds. Presently, the Collaborative has only governmental funds.

Governmental funds – The Collaborative's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Collaborative's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) is provided following the governmental funds statements that explains the relationship (or differences) between these two types of financial statement presentations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following summarized *Statement of Net Position* is for the fiscal year 2014 with comparative information from fiscal year 2013.

	June 30, 2014	June 30, 2013
Current assets, i.e. cash, accounts receivable and prepaid expenses	\$4,261,048	\$4,580,904
Capital assets	<u>1,139,034</u>	<u>1,125,519</u>
Total assets	<u>\$5,400,082</u>	<u>\$5,706,423</u>
Current liabilities, i.e. accounts payable, accrued expenses, debt, and unearned income	\$2,136,919	\$2,080,518
Non-current liabilities	<u>55,153</u>	<u>1,904</u>
Total liabilities	<u>\$2,192,072</u>	<u>\$2,082,422</u>
Net position:		
Invested in capital assets, net of related debt	\$1,067,964	\$1,116,215
Restricted	-	-
Unrestricted	<u>2,140,046</u>	<u>2,507,786</u>
Total net position	<u>\$3,208,010</u>	<u>\$3,624,001</u>

SOUTH COAST EDUCATIONAL COLLABORATIVE

MANAGEMENT'S DISCUSSION & ANALYSIS

YEAR ENDED JUNE 30, 2014

As indicated in the following summarized *Statement of Activities and Changes in Net Position*, net position decreased by \$415,991 during the current fiscal year. Revenues decreased due to a combination of a decrease in student enrollments and a decrease in demand for therapy services. Payroll and related costs increased by approximately four percent due to increases in pay rates and fringe benefit costs. These were partially offset by a decrease in staff positions during the year made to accommodate the decline in enrollments.

	Year ended June 30, 2014	Year ended June 30, 2013	% Change
Student services revenue	\$15,758,388	\$16,280,999	
Intergovernmental revenue	504,152	407,970	
Other income (including interest)	5,650	4,422	
Total revenue	<u>\$16,268,190</u>	<u>\$16,693,391</u>	-2.5%
Student services expense	14,210,258	13,973,842	
General and administrative expense	1,886,187	1,862,566	
Depreciation expense	83,584	82,625	
Intergovernmental expense	504,152	407,970	
Total operating expenses	<u>16,684,181</u>	<u>16,327,003</u>	+2.2%
Change in net position	<u>\$ (415,991)</u>	<u>\$ 366,388</u>	

GENERAL FUND BUDGETARY HIGHLIGHTS

The budget for fiscal year 2014 was based on the assumption that enrollments may decrease while related costs of service provision would continue to increase, i.e. pay rate increases due to contractual obligations and fringe benefit increases. Actual revenues were within one student tuition of budget and, therefore, reasonable. Actual expenditures were over budget by approximately \$315,000 due, primarily, to the following:

- Management engaged a consultant skilled in developing educational assessment software programs to customize programs to be used to assess and monitor student progress. This is a short-term investment aimed at producing long-term benefits, in terms of both quality of assessments and time efficiencies.
- Negotiations for administrative salary increases occurred during the fiscal year.
- Substitutions were added for two part-time administrative staff members who were unable to work due to illness.
- Hourly staff members worked more hours than anticipated due to increased reporting requirements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Collaborative's finances for all those with an interest in the Collaborative's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Office of the Collaborative.

SOUTH COAST EDUCATIONAL COLLABORATIVE

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities
CURRENT ASSETS:	
Cash and cash equivalents	\$2,216,417
Accounts receivable	1,811,018
Prepaid expenses	<u>233,613</u>
Total current assets	<u>4,261,048</u>
DEPRECIABLE CAPITAL ASSETS, net of accumulated depreciation	634,059
LAND	<u>504,975</u>
Total capital assets	<u>1,139,034</u>
Total assets	<u><u>\$5,400,082</u></u>
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	\$1,151,357
Current portion of long-term debt	15,917
Unearned revenue	<u>969,645</u>
Total current liabilities	<u>2,136,919</u>
LONG-TERM DEBT	<u>55,153</u>
	2,192,072
NET POSITION:	
Investment in capital assets, net of related debt	1,067,964
Unrestricted	<u>2,140,046</u>
Total net position	<u>3,208,010</u>
Total liabilities and net position	<u><u>\$5,400,082</u></u>

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

SOUTH COAST EDUCATIONAL COLLABORATIVE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

FUNCTIONS/PROGRAMS	Charges for Expenses	Program Revenue Charges for Services	Total
Governmental Activities:			
Student services	\$14,210,258	\$15,758,388	\$1,548,130
General and administrative	1,886,187	-	(1,886,187)
Depreciation	83,584	-	(83,584)
Intergovernmental revenue	<u>504,152</u>	<u>504,152</u>	<u>-</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$16,684,181</u>	<u>\$16,262,540</u>	<u>(421,641)</u>
General revenue:			
Interest			4,100
Other			<u>1,550</u>
Change in Net Position			<u>(415,991)</u>
NET POSITION, BEGINNING OF YEAR			<u>3,624,001</u>
NET POSITION, END OF YEAR			<u>\$3,208,010</u>

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

SOUTH COAST EDUCATIONAL COLLABORATIVE

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2014

ASSETS:

Cash and cash equivalents	\$2,216,417
Accounts receivable	1,811,018
Prepaid expenses	<u>233,613</u>

Total assets \$4,261,048

LIABILITIES:

Accounts payable and accrued expenses	\$ 923,512
Unearned revenue	<u>969,645</u>

Total liabilities 1,893,157

FUND BALANCES:

Nonspendable	233,613
Unassigned	<u>2,134,278</u>

Total fund balances 2,367,891

Total liabilities and fund balance \$4,261,048

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

SOUTH COAST EDUCATIONAL COLLABORATIVE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

REVENUES:	
Direct service and administrative	\$15,758,388
Intergovernmental revenue	504,152
Interest income	4,100
Other income	<u>1,550</u>
Total revenues	<u>16,268,190</u>
EXPENDITURES:	
Administrative expenses	1,856,215
Intergovernmental expense	504,152
Program expenses	14,212,415
Capital outlay, net of debt incurred	20,478
Debt Services:	
Debt principal	14,855
Debt interest	<u>2,157</u>
Total expenditures	<u>16,610,272</u>
Revenue over (under) expenditures	<u>(342,082)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>2,709,973</u>
FUND BALANCES, END OF YEAR	<u>\$ 2,367,891</u>

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

SOUTH COAST EDUCATIONAL COLLABORATIVE

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total fund balance, governmental funds	\$2,367,891
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	1,139,034
Certain liabilities are not typically due and payable in the current period and, therefore, are not reported in the governmental funds.	
Notes payable	(71,070)
Compensated absences	<u>(227,845)</u>
Net Position of Governmental Activities in the Statement of Net Position	<u>\$3,208,010</u>

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

SOUTH COAST EDUCATIONAL COLLABORATIVE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

Net changes in balances -governmental funds \$(342,082)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount gross capital outlays exceeded depreciation in the current period. 13,515

Governmental funds report debt service payments as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only the current year interest accrued on the debt as expense.

This is the amount of debt principal payments in the current period. 14,854

Governmental funds report capital outlays net of debt incurred because only the net amount is a use of current financial resources. In contrast, the Statement of Net Position reports capital assets at gross.

This is the amount of debt incurred to purchase capital assets in the current period. (76,620)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual (25,658)

\$(415,991)

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

SOUTH COAST EDUCATIONAL COLLABORATIVE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF THE GENERAL FUND - BUDGET AND ACTUAL - BUDGETARY BASIS

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts	Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES:			
Direct service and administrative	\$15,805,202	\$15,758,388	\$ (46,814)
Interest income	-	4,100	4,100
Other income	<u>-</u>	<u>1,550</u>	<u>1,550</u>
Total revenues	<u>15,805,202</u>	<u>15,764,038</u>	<u>(41,164)</u>
EXPENDITURES:			
Administrative expenses	1,702,078	1,856,215	(154,137)
Program expenses	14,088,715	14,212,415	(123,700)
Capital outlay	-	20,478	(20,478)
Debt service payments	<u>-</u>	<u>17,012</u>	<u>(17,012)</u>
Total expenditures	<u>15,790,793</u>	<u>16,106,120</u>	<u>(315,327)</u>
Revenue over (under) expenditures	<u>14,409</u>	<u>(342,082)</u>	<u>(356,491)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>2,709,973</u>	<u>2,709,973</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 2,724,382</u>	<u>\$ 2,367,891</u>	<u>\$ (356,491)</u>

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

SOUTH COAST EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(1) NATURE OF ORGANIZATION AND REPORTING ENTITY

(a) Organization

South Coast Educational Collaborative (the Collaborative) is a public education collaborative established under Massachusetts General Law Chapter 40, Section 4E. The collaborative provides educational programs and services, which primarily serve the low-incidence special needs of children and adults (aged three through twenty-two). In addition, the Collaborative provides professional development programs and services that enhance education improvement and leadership. The Collaborative is primarily supported through program tuitions and fees for clinical services from contracting municipalities. Provision of services is confined to public school systems in the Southeastern Massachusetts and Rhode Island regions.

(b) Reporting Entity

As required by accounting principles generally accepted in the United States of America (GAAP) and in accordance with the Governmental Accounting Standards Board, the accompanying financial statements present the South Coast Educational Collaborative and its component units. Component units are included in the reporting entity if their operational and financial relationships with the Collaborative are significant. Pursuant to these criteria, the Collaborative did not identify any component units requiring inclusion in the accompanying financial statements.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Collaborative's basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements report information on all activities of the Collaborative on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term obligations. The Collaborative's net position is reported in three parts: net investment in capital assets, restricted, and unrestricted. Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use. The Collaborative first utilizes restricted resources to finance qualifying activities.

Fund financial statements present governmental funds on a measurement basis focusing on sources, uses and balance of current financial resources on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The general fund is the Collaborative's primary operating fund. It accounts for all financial resources of the Collaborative. Fund balances within the general fund are classified using a hierarchy based primarily on the extent to which a government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

SOUTH COAST EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Presentation (Continued)

Following are the governmental fund classifications available to the Collaborative:

Non-spendable – includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact.

Restricted – amounts subject to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or due to constitutional provisions or enabling legislation.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

Assigned – amounts that are intended to be used for specific purposes but are not considered restricted or committed.

Unassigned – is the residual classification for the general fund. It represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund.

The Collaborative's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance.

(b) Cash and Cash Equivalents

The Collaborative considers all unrestricted highly- liquid investments with an initial maturity of three months or less to be cash equivalents.

(c) Accounts Receivable and Revenue

Trade accounts receivable consist of amounts due from municipalities for program services. As such, no allowance for doubtful accounts is deemed necessary.

Student services revenue consists of charges to districts for tuition, therapy and transportation services. Intergovernmental revenue consists of payments made to retired Collaborative employees by the Commonwealth of Massachusetts "on behalf" of the Collaborative. These payments are recorded as revenue and expenditures in the financial statements.

SOUTH COAST EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Capital Assets

Property and equipment are recorded at cost, if purchased or at fair market value at the date of donation. Capital assets with a cost or value greater than \$5,000 are capitalized. Depreciation is computed on the straight-line basis over the estimated useful life of the asset.

(e) Allocation of Costs

Directly identifiable costs are charged to student services or general and administrative functions as applicable. Costs related to more than one function are allocated based on criteria intended to associate the cost with whichever function benefits.

(f) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(g) Fair Value of Financial Instruments

The Collaborative's financial instruments, none of which are held for trading purposes, include cash and cash equivalents and accounts receivable. The Collaborative estimates that the fair value of all financial instruments at June 30, 2014 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying financial statements.

(h) Budgetary Control

The Board of Directors annually approves a budget based upon estimated enrollments for the year. Changes during the year based on actual numbers due to either enrollment fluctuations or unanticipated expenditures are presented to the Board for review through financial reports presenting budgeted to actual amounts.

The statement of Revenues, Expenditures and Changes in Fund Balance of the General Fund Budget and Actual – Budgetary Basis presents a comparison of budgetary data to actual results. The General Fund uses the same basis of accounting for both budgetary and actual amounts.

SOUTH COAST EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(Continued)

(3) CAPITAL ASSETS

Capital asset activity for the year ended fiscal year 2014 is as follows:

	Balance June 30, 2013	Additions	Balance June 30, 2014
Capital assets:			
Land	\$ 504,975	\$ -	\$ 504,975
Building & improvements	1,111,221	5,964	1,117,185
Leasehold improvements	498,594	7,040	505,634
Vehicles	<u>34,719</u>	<u>84,095</u>	<u>118,814</u>
Total capital assets	2,149,509	97,099	2,246,608
Less accumulated depreciation:			
Land	-	-	-
Building & improvements	559,320	60,675	619,995
Leasehold improvements	454,624	6,982	461,606
Vehicles	<u>10,046</u>	<u>15,927</u>	<u>25,973</u>
Total accumulated depreciation	<u>1,023,990</u>	<u>83,584</u>	<u>1,107,574</u>
Capital assets, net	<u>\$1,125,519</u>	<u>\$13,515</u>	<u>\$1,139,034</u>

Depreciation and amortization expense totaled \$83,584 and was not allocated to governmental functions. It appears unallocated on the statement of activities.

(4) RETIREMENT BENEFIT PLAN

Most employees of the Collaborative are covered by either the Massachusetts Teachers' Retirement System (MTRS) or the Commonwealth of Massachusetts Employee's Retirement System (CMERS) depending on their employment position.

Massachusetts Teachers' Retirement System (MTRS) -

MTRS is a cost sharing public teachers retirement system covering all persons employed in certified positions on at least a half-time basis. The Commonwealth is required to make actuarially determined contributions that maintain the financial integrity of the retirement system. In accordance with government accounting standards, the Collaborative is required to record such "on behalf payments" as revenue and expenditures in the financial statements. Payments made to retired Collaborative employees totaled \$504,152 for fiscal year ending June 30, 2014. Participants are required to contribute amounts ranging from 5% to 11% of their salary depending on plan entry date. Benefits vest after 10 years of qualified employment. Participants may receive retirement benefits at any age after 20 years of service, or at age 55 or over after 10 years of service.

SOUTH COAST EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(Continued)

(4) RETIREMENT BENEFIT PLAN (Continued)

Commonwealth of Massachusetts Employees' Retirement System (CMERS) – CMERS is a cost sharing public employees retirement system covering all persons employed in public positions (other than those participating in the MTRS above) on a full-time (37 ½ hours per week) basis. Participants are required to contribute amounts ranging from 5% to 11% of their gross earnings depending on plan entry date. The Collaborative's contribution rate was 5.6% of CMERS wages as of June 30, 2014 and totaled \$251,276 for the fiscal year then ended. This contribution is calculated per MGL 32, & 28(4)(c) as a reimbursement to the Massachusetts State Retirement Board (the Board) for its share of any retirement allowance or pension amounts paid by the Board during the preceding calendar year which were based on service to the Collaborative as determined by the plan actuary. Benefits vest after 10 years of employment. Participants may receive retirement benefits at any age after 20 years of service, or at age 55 or over after 10 years of service.

(5) COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

The Collaborative leases classroom and administrative space from various member and non-member school districts. Some of the arrangements are on a tenant-at-will basis and others are based on non-cancelable lease agreements with the district school committees ranging from 3 to 10 years. Included in these agreements are termination clauses providing for cancellation of the lease on the part of the school committee should the leased space become necessary for the school district's educational programs. The cancellation clauses include provisions for proper notice to the Collaborative. All lease agreements include annual renewal provisions.

Rent expense relating to all property leases totaled \$610,029 for fiscal year ending June 30, 2014.

The Collaborative also leases vehicles and office equipment under operating leases. Several of the vehicles under lease agreement were purchased during fiscal year 2014 through financing agreements with terms of 36 months and interest rates ranging from 5.71% to 6.31%. For consistency, the Collaborative continues to account for these small lease-purchases as lease payments. The annual obligation is included in the minimum future rental payment schedule below.

SOUTH COAST EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(Continued)

(5) COMMITMENTS AND CONTINGENCIES (Continued)

(a) Operating Leases (Continued)

Minimum future rental payments under all operating leases for each of the next five years and in the aggregate are:

Year Ending June 30,	Amount
2015	\$ 265,801
2016	250,574
2017	258,091
2018	265,834
2019	273,809
Thereafter	<u>282,023</u>
	<u>\$1,596,132</u>

(b) Employment Contract

The Collaborative has an employment contract with a key employee, which expires on June 30, 2016.

(6) ACCRUED SICK PAY BENEFITS

The Collaborative allows employees to accrue sick pay benefits from year to year. The maximum allowable accrued sick pay benefit is 130 days for eligible employees. In addition to illness, employees can use their accumulated sick time to receive a lump sum severance benefit, upon retirement or death. An employee who has worked 12 or more consecutive years for the Collaborative is eligible for the lump sum severance benefit. The benefit is equal to 35% of an employee's daily rate multiplied by the total sick days accumulated upon the day of retirement or death.

The maximum payment per employee is \$6,000 at June 30, 2014. As of June 30, 2014, the Collaborative had an estimated liability of \$227,845 relating to the lump sum benefit. This amount is included in accrued expenses in the Statement of Net Position.

(7) LINE OF CREDIT

The Collaborative has a \$1,000,000 line of credit. The obligation is secured by the Collaborative's accounts receivable and fixtures. The loan agreement contains certain restrictive covenants. Interest is payable at the National Prime Rate. The line of credit can be terminated at the discretion of the lender. No balance was outstanding at June 30, 2014.

SOUTH COAST EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(Continued)

(8) DEBT

Debt consists of the following at June 30, 2014:

	Balance June 30, 2013	Amounts Borrowed	Principal Payments	Balance June 30, 2014	Current Portion
Note payable secured by a vehicle, due in monthly installments of principle and interest of \$644.95. The note matures on September 21, 2014. The interest rate is 5.9%.	\$ 9,304	\$ -	\$ 7,388	\$ 1,916	\$ 1,916
Note payable secured by a vehicle, due in monthly installments of principle and interest of \$476.20. The note matures on January 14, 2019. The interest rate is 5.95%.	-	24,784	1,909	22,875	4,474
Note payable secured by two vehicles, due in monthly installments of principle and interest of \$984.47. The note matures on November 20, 2018. The interest rate is 5.45%.	<u>-</u>	<u>51,836</u>	<u>5,557</u>	<u>46,279</u>	<u>9,527</u>
	<u>\$ 9,304</u>	<u>\$76,620</u>	<u>\$14,854</u>	<u>\$71,070</u>	<u>\$15,917</u>

The debt is scheduled to mature as follows:

Year Ending June 30:	Principal	Interest	Total
2015	\$15,917	\$3,427	\$19,344
2016	14,807	2,722	17,529
2017	15,660	1,869	17,529
2018	16,562	967	17,529
2019	<u>8,124</u>	<u>132</u>	<u>8,256</u>
	<u>\$71,070</u>	<u>\$9,117</u>	<u>\$80,187</u>

Interest expense for the fiscal year totaled \$2,157.

(9) CONCENTRATIONS

(a) Cash and Cash Equivalents

Massachusetts General Law, Chapter 44, Sections 54 and 55 places certain limitations on the nature of deposits and investments available to the Collaborative. The law authorizes investments in FDIC insured banks and national banks, subject to certain limitations. In addition, it authorizes investments in obligations of the U.S. Treasury, agencies, instrumentalities, certificates of deposit, repurchase agreements, money market accounts, and the State Treasurer's Investment Pool.

SOUTH COAST EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(Continued)

(9) CONCENTRATIONS (Continued)

(a) Cash and Cash Equivalents (Continued)

The Collaborative maintains its funds in a combination of federally insured banks and the Massachusetts Municipal Depository Trust, an investment fund offered by the State Treasurer's office to agencies, authorities, commissions, boards, cities and towns and other public units within the Commonwealth.

Amounts invested in the Massachusetts Municipal Depository Trust totaled \$9,324 as of June 30, 2014. According to published investment policies and restrictions, although uninsured, the Trust will invest in only high quality and primarily short-term investments.

The Collaborative follows deposit and investment policies that limit the Collaborative's allowable deposits and investments and address the specific types of risk to which the Collaborative is exposed. The Collaborative maintains cash in public funds interest-bearing bank deposit accounts, at a highly rated financial institution. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2014, the Collaborative's cash balances in excess of FDIC limits totaled \$2,371,068. As a public funds account, deposits are collateralized by securities held by the financial institution.

(b) Employees

Approximately 92% of the Collaborative's employees are members of a collective bargaining union. The Collaborative's contract with the union was renegotiated during 2014 and will be in place until 2017.

(10) RETIREE HEALTH INSURANCE

Effective July 1, 1999, the Collaborative adopted a policy to offer health benefits to eligible retirees. This policy is at the sole discretion of the Board of Directors and, therefore, encompasses no liability on the part of the Collaborative.

(11) RELATED PARTY ACTIVITY

A staff member is related to a member of the Board of Directors. The staff member was hired in fiscal year 2012. The board member recused himself from the vote.

(12) SUBSEQUENT EVENTS

The Collaborative evaluated subsequent events through October 8, 2014, which is the date the financial statements were available to be issued.

SOUTH COAST EDUCATIONAL COLLABORATIVE

SUPPLEMENTARY INFORMATION
JUNE 30, 2014



**Business Advisors
Certified Public Accountants**

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors
South Coast Educational Collaborative
Swansea, Massachusetts

We have audited the financial statements of South Coast Educational Collaborative as of and for the year ended June 30, 2014, and have issued our report thereon dated October 8, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information contained in the Schedules of Disclosures Required by Chapter 43 of the Acts of 2012 of the Massachusetts General Laws is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Pavento, Ratcliffe, Renzi & Co. LLC

Franklin, Massachusetts
October 8, 2014

SOUTH COAST EDUCATIONAL COLLABORATIVE

DISCLOSURES REQUIRED BY CHAPTER 43 OF THE ACTS OF 2012 OF THE MASSACHUSETTS GENERAL LAWS

FOR THE YEAR ENDED JUNE 30, 2014

Transactions between the Collaborative and any related for-profit or non-profit organization:

None

Transaction or contracts related to the purchase, sale, rental or lease of real property:

Contracts for the lease of classroom space from member and non-member school districts at the following locations:

School District	Lease Term	FY 2014 Expense
Dighton/Rehoboth	Annual	\$ 80,000
Seekonk	7/1/2010 – 6/30/2020	260,175
Somerset	Annual	135,150
Somerset Berkley	7/1/2011 – 6/30/2014	40,000
Swansea	Annual	<u>94,704</u>
Total		<u>\$610,029</u>

The names, duties, and total compensation of the five most highly compensated employees:

David Heimbecker	Executive Director	\$160,966
Donna Cranshaw-Gabriel	Senior Leadership Team Member for Curriculum, Instruction, Special Education Programming, and Educational Consulting	\$108,361
Patricia Steele	Senior Leadership Team Member and Educational Consulting	\$106,236
Carolyn McKearney	Senior Leadership Team Member, Administrative Leadership at the North Seekonk School, and Educational Consulting	\$95,088
Francis Gallishaw Jr.	Senior Leadership Team Member and Coordinator of Continuous Professional Learning	\$94,000

The amounts expended on administration and overhead:

Administration and overhead \$1,969,771

Any accounts held by the Collaborative that may be spent at the discretion of another person or entity:

None

The amounts expended on services for individual age 22 and older:

None

SOUTH COAST EDUCATIONAL COLLABORATIVE

AUDITORS' REPORT PURSUANT TO GOVERNMENTAL

AUDITING STANDARDS

FOR THE YEAR ENDED JUNE 30, 2014



**Business Advisors
Certified Public Accountants**

**INDEPENDENT AUDITORS' 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 Directors
South Coast Educational Collaborative
Swansea, Massachusetts

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 South Coast Educational Collaborative which comprise the statement of financial position as of June 30, 2014, and the related statement of activities for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 8, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Coast Educational Collaborative'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Coast Educational Collaborative's internal control. Accordingly, we do not express an opinion on the effectiveness of South Coast Educational Collaborative'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 South Coast Educational Collaborative'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.

Pavento, Ratcliffe, Renzi & Co. LLC

Franklin, Massachusetts
October 8, 2014