

FLLAC EDUCATIONAL COLLABORATIVE
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

FLLAC EDUCATIONAL COLLABORATIVE

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INDEPENDENT AUDITORS' REPORT

To the Executive Board of Directors
FLLAC Educational Collaborative
Shirley, MA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of FLLAC Educational Collaborative (the Collaborative), as of and for the year ended June 30, 2018, 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

The Collaborative's 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.

Auditors' Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of FLLAC Educational Collaborative as of June 30, 2018, and the respective changes in financial position and cash flows thereof 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 and budgetary comparison information on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Collaborative's basic financial statements. The Schedule of Revenue and Expenses - Budget and Actual for the year ended June 30, 2018 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Schedule of Revenue and Expenses - Budget and Actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Audit Report

The financial statements of FLLAC Educational Collaborative for the year ended June 30, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on December 14, 2017.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018, on our consideration of the 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 the Collaborative's internal control over financial reporting and compliance.

Spinelli CPA, PC

Worcester, MA
December 6, 2018

FLLAC EDUCATIONAL COLLABORATIVE

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the FLLAC Educational Collaborative's financial performance provides an overview of its financial activities for the fiscal years ended June 30, 2018 and 2017. This information should be read in conjunction with the Collaborative's financial statements.

The Collaborative

The Collaborative is a regional public multi-service agency authorized by State statute to develop, manage and provide services to local educational agencies. More specifically, the Collaborative creates programs and provides services for children with a wide range of special education needs. Pursuant to the provisions of Massachusetts General Laws, Chapter 40, Section 4E as most recently amended, the Collaborative is an Agreement entered into in 1975 by the school committees of Fitchburg, Leominster and Clinton acting for and on behalf of their respective cities, towns or regional school districts. This agreement has been reaffirmed over time adding Lunenburg, Gardner, West Boylston, Winchendon, the Ayer Shirley Regional School District, the Quabbin Regional School District and the Ashburnham/Westminster Regional School Districts as members. It was last reaffirmed and modified in 2017, adding the North Middlesex Regional School District.

Financial Highlights

- The assets of the Collaborative exceeded its liabilities by \$1,914,110 and \$1,534,246, at June 30, 2018 and 2017, respectively.
- The Collaborative's net assets increased by \$379,864 and \$173,167 for the years ended June 30, 2018 and 2017, respectively.
- No provision was made in the budget to reflect non-cash activities, such as depreciation and amortization. Depreciation and amortization was \$18,561 and \$0 for the years ended June 30, 2018 and 2017, respectively.

Using This Annual Report

This annual report consists of a series of financial statements. In accordance with *Governmental Accounting Standards Board* Statement No. 34 Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments (GASB No. 34), FLLAC Educational Collaborative is considered a special purpose governmental entity. All of the financial activity of the Collaborative is recorded in the general fund. In accordance with GASB No. 34 the Collaborative issues a Statement of Net Assets and a Statement of Revenue and Expenses and a Statement of Cash Flows. These statements provide information about the financial activities of FLLAC Educational Collaborative as a whole.

FLLAC EDUCATIONAL COLLABORATIVE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Collaborative's basic financial statements. The Collaborative's basic financial statements comprise four components: 1) statements of net assets, 2) statements of revenue and expenses, 3) statements of cash flows, and 4) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The **statements of net assets** presents information on all of the Collaborative's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Collaborative is improving or deteriorating.

The **statements of revenues and expenses** presents information showing how the Collaborative's net assets changed during the most recent fiscal year and prior fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The **statements of cash flows** presents changes in cash resulting from operating, financing, and investing activities. These statements present cash receipts and cash disbursements information, without consideration of either the earnings event, when an obligation arises, or depreciation of capital assets.

The three financial statements can be found on pages 10 through 12 of this report.

The **notes to the basic financial statements** provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found beginning on page 13 of this report.

Financial Analysis

As noted earlier, over time net assets may serve as a useful indicator of an organization's financial position. The Collaborative's assets exceeded liabilities by \$1,914,110 and \$1,534,246 at June 30, 2018 and 2017, respectively.

FLLAC EDUCATIONAL COLLABORATIVE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis (continued)

Collaborative's Net Assets

| Description | <u>2018</u> | <u>2017</u> |
|-------------------|---------------------|---------------------|
| Total Assets | \$ 2,783,575 | \$ 2,235,476 |
| Total Liabilities | <u>869,465</u> | <u>701,230</u> |
| Total Net Assets | <u>\$ 1,914,110</u> | <u>\$ 1,534,246</u> |

Key elements of the governmental activities which increased the Collaborative's net assets are as follows:

Collaborative's Changes in Net Assets

| Description | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Program Revenue: | | |
| Tuitions, Fees, Grants and Other Operating Revenue | \$ 8,993,302 | \$ 8,307,077 |
| Other Revenue | <u>1,238</u> | <u>627</u> |
| Total Revenue | <u>8,994,540</u> | <u>8,307,704</u> |
| Expenses: | | |
| Educational Services and Operations | <u>8,614,676</u> | <u>8,134,537</u> |
| Total Expenses | <u>8,614,676</u> | <u>8,134,537</u> |
| Increase in Net Assets | <u>379,864</u> | <u>173,167</u> |
| Net Assets, Beginning of Year | <u>1,534,246</u> | <u>1,361,079</u> |
| Net Assets, End of Year | <u>\$ 1,914,110</u> | <u>\$ 1,534,246</u> |

FLLAC EDUCATIONAL COLLABORATIVE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis (continued)

At June 30, 2018 and 2017, the net assets of \$1,914,110 and \$1,534,246 were unrestricted. As a measure of liquidity, it may be useful to compare unrestricted net assets to total expenditures and transfers for the current year. Unrestricted net assets represents 22.2% of total expenditures for the year ended June 30, 2018 and 18.9% for the year ended June 30, 2017. There were no transfers.

Key factors in the change in net assets are as follows:

- Expenditures for operations, including transportation, payroll and pension-on-behalf payments were \$87,916 more than budgeted for the year ended June 30, 2018 and \$473,333 more than budgeted for the year ended June 30, 2017.
- Tuition and service fees revenues were \$251,846 more than budgeted for the year ended June 30, 2018 and \$345,484 less than budgeted for the year ended June 30, 2017. Total operating revenue was \$290,584 more than budgeted for the year ended June 30, 2018 and 299,287 less than budgeted for the year ended June 30, 2017.

State payments-on-behalf of the teacher retirement program totaling \$1,504,461 and \$1,538,924 were made directly by the Commonwealth for the benefit of Collaborative teachers for the years ended June 30, 2018 and 2017, respectively.

Budgetary Highlights

The approved budget of the Collaborative for the 2018 fiscal year end anticipated revenue of approximately \$7.2 million. The budget anticipated that, with full use of services, there would be an overall increase in net assets of approximately \$1,300. The actual result was an increase in net assets of approximately \$380,000 due in large part to the increased number of non-member tuitions. The net assets for the fiscal year end 2018 are \$1,914,110. The collaborative has exceeded the 25% cap on our fund balance (603 CMR 507.07(9)), as a result the Board will have to identify a plan to address how to use the funds in excess of the cap. The surplus calculation on Note 9 shows that the amount of funds exceeding the cap is \$136,556. The tuition structure for the fiscal year end 2018 budget was based on enrollment projections consistent with recent use trends and increase in tuition prices, but did not accurately estimate the increase in nonmember services, which accounted for close to \$250,000 in additional revenue. Nonmember enrollment ranged from 29% of students in the ASD/DD Program, 42% in the Caldwell Program and 12% in the Elementary EDBD Program.

FLLAC EDUCATIONAL COLLABORATIVE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

DESE Required Information

Under Massachusetts General Law and its regulations pertaining to Collaborative's, FLLAC Educational Collaborative must disclose certain information. For the year ended June 30, 2018, refer to the following information:

1. The Collaborative did not enter into any transactions with related for-profit or non-profit organizations.
2. The Collaborative leases office and classroom space as described in Footnote 7 of the Financial Statements.
3. The names, duties and total compensation of the five most highly compensated employees are disclosed below:

| Employee Name | Position | Total Compensation |
|----------------|------------------------------|--------------------|
| Richard Murphy | Executive Director | \$ 135,237 |
| Gary MacCallum | Principal | \$ 103,908 |
| Jean Sauer | Teacher/Consultant | \$ 97,734 |
| Julie Bragg | Program Supervisor/Counselor | \$ 95,297 |
| Megan Ritter | Program Supervisor/Counselor | \$ 93,100 |

4. The Collaborative expended the following amounts on administration and overhead:

The total amount expended on administration and overhead for fiscal year 2018 was \$640,891. This amount was for payroll and payroll related, administration and occupancy, the detail of which is reported as administrative expenses on the Statements of Revenue and Expenses.

5. The Collaborative did not hold any accounts that may be spent at the discretion of another person or entity.
6. The Collaborative did not expend any funds on services for individuals age 22 or older.
7. The Collaborative makes all information from audits available publicly online through their individual website.

FLLAC EDUCATIONAL COLLABORATIVE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Requests for Information

This financial report is designed to provide the reader with a general overview of finances and to show the accountability for the funds received. If you have questions about this report or need additional financial information, contact the business office of the FLLAC Educational Collaborative, 2 Shaker Road D215, Shirley, Massachusetts, 01464.

FLLAC EDUCATIONAL COLLABORATIVE
STATEMENTS OF NET ASSETS
JUNE 30, 2018 AND 2017

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|---------------------|---------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 2,198,289 | \$ 1,772,836 |
| Accounts Receivable | 394,579 | 411,456 |
| Prepaid Expenses and Deposits | 134,883 | 40,519 |
| | <u>2,727,751</u> | <u>2,224,811</u> |
| Total Current Assets | <u>2,727,751</u> | <u>2,224,811</u> |
| FIXED ASSETS, NET | <u>55,824</u> | <u>10,665</u> |
| TOTAL ASSETS | <u>2,783,575</u> | <u>2,235,476</u> |
| CURRENT LIABILITIES | | |
| Accounts Payable | 130,344 | 44,100 |
| Accrued Expenses | 638,208 | 568,165 |
| Deferred Revenue | 100,913 | 88,965 |
| | <u>869,465</u> | <u>701,230</u> |
| Total Current Liabilities | <u>869,465</u> | <u>701,230</u> |
| NET ASSETS | | |
| Unrestricted | <u>1,914,110</u> | <u>1,534,246</u> |
| TOTAL NET ASSETS | <u>\$ 1,914,110</u> | <u>\$ 1,534,246</u> |

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**FLLAC EDUCATIONAL COLLABORATIVE
STATEMENTS OF REVENUE AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

| | <u>2018</u> | <u>2017</u> |
|--|----------------------------|----------------------------|
| OPERATING REVENUES | | |
| Tuition and Service Fees | \$ 7,360,546 | \$ 6,636,301 |
| Pension-on-Behalf Payments | 1,504,461 | 1,538,924 |
| Virtual Learning Consortium | 90,795 | 86,175 |
| Assessments | 37,500 | 32,500 |
| Grants and Contributions | - | 13,177 |
| Other Revenue | 1,238 | 520 |
| | <u>8,994,540</u> | <u>8,307,597</u> |
| Total Operating Revenue | | |
| OPERATING EXPENSES | | |
| Program Expenses: | | |
| Payroll, Benefits and Contractors | 5,739,231 | 5,412,146 |
| Pension-on-Behalf Payments | 1,504,461 | 1,538,924 |
| Occupancy | 305,130 | 268,680 |
| Instruction and Transportation | 230,284 | 146,518 |
| Virtual Learning Consortium | 117,660 | 84,500 |
| Administration | 77,019 | 50,780 |
| | <u>7,973,785</u> | <u>7,501,548</u> |
| Total Program Expenses | | |
| Administrative Expenses: | | |
| Payroll, Benefits and Contractors | 486,376 | 477,192 |
| Administration | 118,471 | 118,812 |
| Occupancy | 36,044 | 36,985 |
| | <u>640,891</u> | <u>632,989</u> |
| Total Administrative Expenses | | |
| Total Operating Expenses | <u>8,614,676</u> | <u>8,134,537</u> |
| Operating Income | <u>379,864</u> | <u>173,060</u> |
| Other Income: | | |
| Interest Income | - | 107 |
| CHANGES IN NET ASSETS | 379,864 | 173,167 |
| NET ASSETS, BEGINNING OF THE YEAR | <u>1,534,246</u> | <u>1,361,079</u> |
| NET ASSETS, END OF THE YEAR | <u><u>\$ 1,914,110</u></u> | <u><u>\$ 1,534,246</u></u> |

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**FLLAC EDUCATIONAL COLLABORATIVE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

| | <u>2018</u> | <u>2017</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from Tuitions and Service Fees | \$ 7,389,372 | \$ 6,645,491 |
| Received from Virtual Learning Consortium | 90,795 | 86,175 |
| Received from Grants and Contributions | - | 13,177 |
| Received from Assessments | 37,500 | 32,500 |
| Received from Other Revenue | 1,238 | 520 |
| Paid to Employees and Professional Contractors for Services | (6,155,564) | (5,856,008) |
| Paid to Suppliers for Goods and Services | (874,168) | (659,793) |
| | <u>489,173</u> | <u>262,062</u> |
| Net Cash Provided by Operating Activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Paid for purchase of fixed assets | (63,720) | - |
| Interest Income | - | 107 |
| | <u>(63,720)</u> | <u>107</u> |
| Net Cash Provided by (Used in) Investing Activities | | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 425,453 | 262,169 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>1,772,836</u> | <u>1,510,667</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 2,198,289</u></u> | <u><u>\$ 1,772,836</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating Income | \$ 379,864 | \$ 173,060 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 10,665 | - |
| Amortization | 7,896 | - |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | 16,877 | (63,322) |
| Prepaid Expenses and Deposits | (94,364) | 60,866 |
| Accounts Payable | 86,244 | 14,844 |
| Accrued Expenses | 70,043 | 20,153 |
| Deferred Revenue | 11,948 | 56,461 |
| | <u>11,948</u> | <u>56,461</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 489,173</u></u> | <u><u>\$ 262,062</u></u> |
| NON-CASH TRANSACTIONS | | |
| Pension-on-Behalf Payments Made by the Commonwealth of Massachusetts | <u><u>\$ 1,504,461</u></u> | <u><u>\$ 1,538,924</u></u> |

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**FLLAC EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - FLLAC Educational Collaborative (the Collaborative), is an association of school committees formed for the purpose of conducting education programs and services to complement and strengthen the school programs of member school committees and increase educational opportunities for children. The Collaborative provides pre-school, elementary and secondary education for students ages 3 to 21 with significant disabilities. The Collaborative is governed by an Executive Board of Directors comprised of Superintendents or their designees from each member school committee. For financial reporting purposes, the Collaborative is a stand-alone entity, not a component unit of another entity and there are no component units included in its financial statements. The Collaborative was formed by agreement on November 11, 1975. The agreement is changed from time to time to accommodate member changes and the most recent modification was in 2017.

Basis of Accounting - The accompanying basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, change in net assets (or cost recovery), financial position and cash flows. Revenues are recognized when earned, and expenses are recognized when incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial Statement Presentation - The Collaborative presents information regarding its financial position and activities according to three classifications of net assets described as follows:

Unrestricted - All resources over which the Collaborative has discretionary control. The Executive Board of Directors of the Collaborative may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income and appreciation may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments and relevant state law.

At June 30, 2018 and 2017, all net assets are unrestricted.

Cash and Cash Equivalents - For purposes of reporting cash flows, the Collaborative considers cash on hand, cash on deposit, money market funds and certificates of deposits with a maturity of three months or less to be cash equivalents.

**FLLAC EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable - Accounts receivable consists primarily of tuition due from Collaborative members. Management has determined that all amounts are collectible. As such, no allowance for uncollectible accounts is considered necessary.

Fixed Assets - Equipment and other fixed assets are capitalized when the initial cost is \$5,000 or greater and the estimated useful life is in excess of two years. Assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Deferred Revenue - Deferred revenue consists of funds received in advance for tuition and service credits for paid tuition not yet used.

Revenue and Expenses - The principal operating revenues of the Collaborative are tuitions, fees and assessments from Collaborative members. Tuition charges are based on the enrollments from their respective communities. Operating expenses for the Collaborative include the cost of employees and contractors, occupancy, instruction and transportation, administration and pension-on-behalf payments.

Income Tax Status - The Collaborative is a governmental organization recognized by the Internal Revenue Service as an organization described in Section 501(c)(3) and is exempt from federal and state income taxes and is not liable to file a report on its income. Accordingly, no provision for income taxes is made in the financial statements.

Use of Estimates - The preparation 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 and disclosures. Accordingly, actual results could differ from those estimates.

Budgetary Information - The annual budget for the Collaborative is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The Schedule of Revenues and Expenses - Budget and Actual does not include the Collaborative's pension-on-behalf amounts in revenue or expenses.

**FLLAC EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 - FIXED ASSETS, NET

Fixed Assets, Net consists of the following as of June 30, 2018 and 2017:

| | <u>Estimated Useful Lives</u> | <u>2018</u> | <u>2017</u> |
|---|--|--------------------|--------------------|
| Vehicles | 5 years | \$ 53,327 | \$ 53,327 |
| Leasehold Improvements | 5 years | 39,439 | - |
| Deposits on Equipment | -- | 24,281 | - |
| | | 117,047 | 53,327 |
| Less: Accumulated Amortization and Depreciation | | 61,223 | 42,662 |
| | | Equipment, Net | |
| | | <u>\$ 55,824</u> | <u>\$ 10,665</u> |

Depreciation and Amortization expense for the years ended June 30, 2018 and 2017 was \$18,561 and \$0, respectively.

NOTE 3 - LINE OF CREDIT

At June 30, 2018 and 2017, the Collaborative had a \$350,000 line of credit with a bank. The credit line is on a revolving basis, payable on demand, and secured by all assets of the Collaborative. The interest rate is variable, with floor rate of 4.75%. At June 30, 2018, the effective rate was 5.50%. There were no outstanding amounts on this line at June 30, 2018 and 2017.

NOTE 4 - MASSACHUSETTS TEACHERS' AND STATE EMPLOYEES' RETIREE SYSTEMS

Plan Descriptions - The Collaborative's employees participate in the Massachusetts Teachers' (MTRS) or State Employee' Retirement System (MSERS), a statewide cost-sharing multi-employer defined benefit plans public employee retirement systems (PERS) covering all employees of local school districts within the Commonwealth of Massachusetts. The retirement systems issue publicly available annual reports that includes financial statements and required supplementary information, which may be obtained by writing to Public Employee Retirement Administration Commission (PERAC), 5 Middlesex Avenue, Suite 304, Somerville, Massachusetts, 02145.

**FLLAC EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 - MASSACHUSETTS TEACHERS' AND STATE EMPLOYEES' RETIREE SYSTEMS
(Continued)

Benefits Provided - MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

**FLLAC EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 - MASSACHUSETTS TEACHERS' AND STATE EMPLOYEES' RETIREE SYSTEMS
(Continued)

Contributions - Member contributions for MSERS vary depending on the most recent date of membership:

| <u>Hire Date</u> | <u>Percent of Compensation</u> |
|-------------------------|---|
| Prior to 1975 | 5% of regular compensation |
| 1975 to 1983 | 7% of regular compensation |
| 1984 to 6/30/1996 | 8% of regular compensation |
| 7/1/1996 to Present | 9% of regular compensation except for State Police which is 12% of regular compensation |
| 1979 to Present | An additional 2% of regular compensation in excess of \$30,000 |

Educational Collaboratives contribute amounts equal to the normal cost of employees' benefits participating in MSERS at a rate established by Public Employees' Retirement Administration Commission (PERAC), currently 5.6% of covered payroll. Legally, the Collaboratives are only responsible for contributing the annual normal cost of their employees' benefits (i.e. the present value of the benefits earned by those employees in any given year) and are not legally responsible for the past service cost attributable to those employees or previously retired employees of the Collaboratives. The Commonwealth as a nonemployer is legally responsible for the entire past service cost related to the Collaboratives and therefore has a 100% special funding situation. During fiscal year 2018 and 2017, the Collaborative's contributions on behalf of employees totaled \$96,502 and \$81,979, respectively.

Member contributions for MTRS vary depending on the most recent date of membership:

| <u>Hire Date</u> | <u>Percent of Compensation</u> |
|-------------------------|---|
| Prior to 1975 | 5% of regular compensation |
| 1975 to 1983 | 7% of regular compensation |
| 1984 to 6/30/1996 | 8% of regular compensation |
| 7/1/1996 to Present | 9% of regular compensation |
| 7/1/2001 to Present | 11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000) |
| 1979 to Present | An additional 2% of regular compensation in excess of \$30,000 |

**FLLAC EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 - MASSACHUSETTS TEACHERS' AND STATE EMPLOYEES' RETIREE SYSTEMS
(Continued)

The Commonwealth is a nonemployer contributor in MTRS and is required by statute to make all actuarially determined employer contributions on behalf of the member employers participating in MTRS. Therefore, the Collaborative is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in both MSERS and MTRS. Since the employers do not contribute directly to each system beyond the MSERS annual normal cost, there is no net pension liability to recognize by the Collaborative. However, the notes to the financial statements must disclose the portion of the nonemployer contributing entities' share of the collective net pension liability that is associated with the Collaborative. In addition, the Collaborative must recognize its portion of the collective pension expense as both a revenue and pension expense.

The nonemployer contributing entities' share of the collective net pension liability that is associated with the Collaborative was measured as of June 30, 2017 and was \$3,288,014 and \$3,697,382 under MSERS and MTRS, respectively. In fiscal 2018 and 2017, the Collaborative recognized revenue and related expense of \$425,446 and \$513,486, respectively, for its portion of the collective pension expense under MSERS. In fiscal 2018 and 2017, the Collaborative recognized revenue and related expense of \$1,079,015 and \$1,025,438, respectively, for its portion of the collective pension expense under MTRS.

NOTE 5 - LIABILITY FOR COMPENSATED ABSENCES

Teachers will be credited with fifteen paid sick days per year. Unused sick leave will accumulate to an unlimited amount carried forward from year to year. Teacher Assistants and Therapy Assistants will be credited with nine paid sick days per year effective after thirty working days. Unused sick leave will accumulate to a maximum of ninety days. Prior to thirty working days, assistants will be credited with one day paid sick leave. Sick time is charged to operations when taken by the employees of the Collaborative.

The Executive Director is allowed to carry over five days of vacation to the following year. Vacation pay is charged to operations when taken by the employees. The liability for unused vacation pay at June 30, 2018 and 2017 was approximately \$2,245 and \$2,900, respectively.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Collaborative rents classroom space from member municipalities at several locations using a one year Space Use Agreement. Rent expense for these locations was \$212,417 and \$172,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE 7 - CONTINGENCIES

In the normal course of operations, the Collaborative may be subject to certain claims and litigations. In the opinion of management, the outcome of any such matters will not have a material effect on the financial position of the Collaborative.

**FLLAC EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 8 - COMMITMENTS

The Collaborative leases office space under an operating lease which expires in July 2019. Lease payments were \$31,979 and \$26,487 for the years ended June 30, 2018 and 2017, respectively.

The Collaborative leases classroom space from member municipalities, which are considered related parties, under operating leases which expire at various times through June, 2019. Lease expense was \$212,417 and \$172,000 for the years ended June 30, 2017 and 2018, respectively.

The Collaborative leases certain office equipment and a vehicle under operating leases which expire at various times through 2022. Lease payments were \$18,640 and \$13,117 during the years ended June 30, 2018 and 2017, respectively.

Minimum future lease payments under these leases due over the remainder of the lease terms are as follows:

| | | |
|--------------------------|----|---------|
| Year ended June 30, 2019 | \$ | 214,688 |
| 2020 | \$ | 138,526 |
| 2021 | \$ | 128,229 |
| 2022 | \$ | 125,153 |
| 2023 | \$ | 20,747 |

NOTE 9 - SURPLUS CAP

The following is the calculation for the cumulative surplus as of June 30, 2018 which exceeds the 25% surplus.

| <u>Cumulative Surplus Calculation FY18</u> | | <u>Values</u> | <u>Page(s) In Financial Statements</u> |
|---|-----------|---------------------|--|
| Voted Cumulative Surplus as of 6/30/17 | (A) | \$ 1,534,246 | pg. 11 |
| Amount of (A) used to support the FY18 Budget | (B1) | - | |
| Amount of (A) returned to member districts | (B2) | - | |
| Unexpended FY18 General Funds | (C) | <u>379,864</u> | pg. 11 |
| Cumulative surplus as of 6/30/18 | (D) | <u>1,914,110</u> | pg. 11 |
| FY18 Total General Fund Expenditure | (E) | 7,110,215 | pg. 11 |
| FY18 Cumulative Surplus Percentage | (D) / (E) | <u>27%</u> | |
| 25% Surplus | (F) | <u>\$ 1,777,554</u> | |
| Excess over 25% Surplus Cap | (F) - (D) | <u>\$ (136,556)</u> | |

**FLLAC EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 10 - SUBSEQUENT EVENTS

The Collaborative has evaluated the financial statement impact of subsequent events occurring through December 6, 2018, the date the financial statements were available to be issued. The management of the Collaborative is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

FLLAC EDUCATIONAL COLLABORATIVE
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

**FLLAC EDUCATIONAL COLLABORATIVE
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
(UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

| | <u>Approved Budget</u> | <u>Actual Amounts</u> | <u>Variance Favorable (Unfavorable)</u> |
|-----------------------------------|-----------------------------------|----------------------------------|--|
| OPERATING REVENUE | | | |
| Tuitions and Service Fees | \$ 7,199,495 | \$ 7,451,341 | \$ 251,846 |
| Assessments | - | 37,500 | 37,500 |
| Other Revenue | - | 1,238 | 1,238 |
| | <u>7,199,495</u> | <u>7,490,079</u> | <u>290,584</u> |
| Total Revenue | <u>7,199,495</u> | <u>7,490,079</u> | <u>290,584</u> |
| OPERATING EXPENSES | | | |
| Payroll, Benefits and Contractors | 6,512,569 | 6,343,267 | 169,302 |
| Occupancy | 425,390 | 341,174 | 84,216 |
| Instruction and Transportation | 99,725 | 230,284 | (130,559) |
| Administration | 160,447 | 195,490 | (35,043) |
| | <u>7,198,131</u> | <u>7,110,215</u> | <u>87,916</u> |
| Total Expenditures | <u>7,198,131</u> | <u>7,110,215</u> | <u>87,916</u> |
| OPERATING INCOME | <u><u>\$ 1,364</u></u> | <u><u>\$ 379,864</u></u> | <u><u>\$ 378,500</u></u> |

See Independent Auditors' Report on Required Supplementary Information.



**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 Executive Board of Directors
FLLAC Educational Collaborative
Shirley, MA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of FLLAC Educational Collaborative (the Collaborative), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements, and have issued our report thereon dated December 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Collaborative's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies as items 2018-1 and 2018-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

FLLAC Educational Collaborative's Response to Findings

The Collaborative's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Collaborative's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Spinelli CPA, PC

Worcester, MA
December 6, 2018

**FLLAC EDUCATIONAL COLLABORATIVE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

CURRENT YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2018-1

Causes of Condition: Continued from prior year, evidence to verify that controls over deposits and disbursements are in place are not clearly identifiable. Specifically, we found missing approvals on invoices that do not require purchase orders, missing purchase order forms when required, and missing second approvals for purchases over \$500.

Recommendation: We urge the Collaborative to utilize a stamp on all invoices, deposit slips, reports, and other source documents to document where the approvers can clearly initial when transactions are being processed and approved.

Response: Management agrees with the recommendation and will implement during fiscal 2019.

Finding 2018-2

Causes of Condition: Reconciliation and closing processes over prepaid assets and accrued liability accounts do not appear to be consistent.

Recommendation: We recommend that a closing process be implemented that requires all of the balance sheet accounts be reconciled to supporting statements and subsidiary ledgers. Additionally, that management perform a thorough and detailed review of the financial statements and supporting schedules.

Response: Management agrees with the recommendation and will implement during fiscal 2019.

PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2017-1 Still open see finding 2018-1.

Finding 2017-2 Partially implemented in 2018 see finding 2018-2.

Finding 2017-3 Implemented in 2018.