

SHORE EDUCATIONAL COLLABORATIVE
CHELSEA, MASSACHUSETTS
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Shore Educational Collaborative
Chelsea, Massachusetts

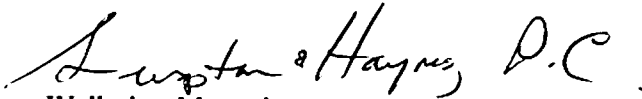
We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, and the major fund of Shore Educational Collaborative (the "Collaborative"), as of and for the year ended June 30, 2012, which collectively comprise the Collaborative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Collaborative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, and the major fund of Shore Educational Collaborative as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages 3 through 11 and 41 through 43 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.

A handwritten signature in cursive script that reads "Supton & Haynes, P.C.".

Wellesley, Massachusetts

December 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Shore Educational Collaborative (the "Collaborative"), we offer readers of the Collaborative's financial statements this narrative overview and analysis of the financial activities of the Collaborative for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with our financial statements found on pages 12 to 40.

A. FINANCIAL HIGHLIGHTS

The assets of the Collaborative exceeded its liabilities at the close of the fiscal year ended June 30, 2012 by \$1,599,307 (net assets). Of this amount, \$66,045 represents unrestricted net assets, which may be used to meet the Collaborative's ongoing obligations to its clients and creditors.

The Collaborative's total net assets decreased by \$85,802 because of a higher than expected contribution to an other postemployment benefits (OPEB) plan for retiree health insurance.

At the close of the fiscal year ended June 30, 2012, the Collaborative's governmental funds reported combined ending fund balances of \$(20,703), a decrease of \$81,083 in comparison with the prior year.

The unassigned fund balance for the general fund was \$(1,295,756) or 7.3 percent of the total general fund expenditures. This represents a \$96,022 decrease from the prior fiscal year. The unassigned fund balance is available for spending at the Collaborative's discretion.

At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$(440,548), or approximately 2.5 percent of total general fund expenditures.

The Collaborative's total outstanding long-term debt (which includes current portion) decreased by \$246,912 during the current fiscal year. This was primarily due to regularly scheduled pay downs of principal on the note and bonds payable outstanding during the current fiscal year.

B. 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 consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Collaborative's finances in a manner similar to a private sector business.

B. OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The statement 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 or decreases in net assets may serve as a useful indicator of whether the financial position of the Collaborative is improving or deteriorating.

The statement of activities presents information showing how the Collaborative's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the 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 (e.g., uncollected income and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the Collaborative that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Collaborative include the adult day program, student services, professional development, client workshop, fiscal agent services, Medicaid municipal billing services, and general and administrative. Presently, the Collaborative does not have any business-type activities.

The government-wide financial statements include not only the Collaborative itself (known as the primary government), but also a legally separate entity known as the Shore Educational Collaborative Foundation, Inc. ("the Foundation") for which the Collaborative is financially accountable. Financial information for the Foundation is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found immediately following this discussion and analysis on pages 12-13 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Collaborative, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Collaborative can be divided into three categories - governmental funds, proprietary funds, and fiduciary funds. Presently, the Collaborative only has governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Collaborative's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Collaborative's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

B. OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The Collaborative maintains one governmental fund - the general fund. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund

The Collaborative adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found immediately following the government-wide financial statements on pages 14-15.

Proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Collaborative does not have any proprietary funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the Collaborative. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Collaborative's own programs. The Collaborative does not have any fiduciary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statement can be found on pages 18-40 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information including the budgetary comparison statement as well as concerning the Collaborative's progress in funding its obligation to provide other postemployment benefits to its employees. Required supplementary information can be found on pages 41-43 of this report.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the Collaborative's financial position. In the case of the Collaborative, assets exceeded liabilities by \$1,599,307 at June 30, 2012.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following is a summary of the Collaborative's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

Shore Educational Collaborative's Net Assets
As of June 30, 2012 and June 30, 2011

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 3,022,306	\$ 3,873,849
Capital assets	<u>11,575,369</u>	<u>11,822,550</u>
Total assets	14,597,675	15,696,399
Long-term liabilities outstanding	9,797,508	10,055,253
Other liabilities	<u>3,200,860</u>	<u>3,956,037</u>
Total liabilities	12,998,368	14,011,290
Net assets:		
Invested in capital assets, net of related debt	1,232,595	1,233,757
Restricted	300,667	299,774
Unrestricted	<u>66,045</u>	<u>151,578</u>
Total net assets	<u>\$ 1,599,307</u>	<u>\$ 1,685,109</u>

By far, the largest portion of the Collaborative's net assets, \$1,232,595 (77.1 percent), reflects its investment in capital assets (e.g., land, buildings and improvements, furniture, equipment, leasehold improvements, logo development costs, and construction in progress), less any related outstanding debt that was used to acquire those assets. The Collaborative uses these capital assets to provide a variety of services to its clients; consequently, these assets are not available for future spending. Although the Collaborative's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Collaborative's net assets, \$300,667 (18.8 percent), represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$66,045 (4.1 percent) may be used to meet the Collaborative's ongoing obligations to its clients and creditors.

At the end of the current fiscal year, the Collaborative is able to report positive balances in all reported categories of net assets. The same situation held true for the prior fiscal year.

However, the Collaborative's overall net assets decreased \$85,802 from the prior fiscal year. The reasons for this overall decrease are discussed in the following section for governmental activities.

The governmental activities total liabilities decreased \$1,012,922 due to the repayment of the line of credit and principal pay downs on the note and bonds payable. The governmental activities current and other assets decreased by \$851,543, primarily due to a decrease in cash and cash equivalents due to no amounts being drawn on the line of credit at year end, whereas in the prior year an amount had been withdrawn on the line of credit which increased cash and cash equivalents.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental activities. The key elements of the changes in the Collaborative's net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

Shore Educational Collaborative's
Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and June 30, 2011

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 13,102,583	\$12,776,009
Operating grants and contributions	2,940,438	2,850,118
Capital grants and contributions	95,228	216,358
General revenues:		
Other income	55,517	75,930
Interest income	1,178	3,590
Overhead income	1,379,432	1,430,833
Loss on disposal of capital assets	(6,395)	-
Rental income	<u>15,784</u>	<u>14,550</u>
Total revenues	<u>17,583,765</u>	<u>17,367,388</u>
Expenses:		
Adult day program	7,407,117	7,475,244
Student services	7,120,462	7,620,754
Professional development	600,620	479,533
Client workshop	51,794	59,913
Fiscal agent services	217,800	222,392
Medicaid municipal billing services	172,489	180,910
General and administrative	<u>2,099,285</u>	<u>2,027,222</u>
Total expenses	<u>17,669,567</u>	<u>18,065,968</u>
Decrease in net assets	(85,802)	(698,580)
Net assets - beginning	<u>1,685,109</u>	<u>2,383,689</u>
Net assets - ending	<u>\$ 1,599,307</u>	<u>\$ 1,685,109</u>

Governmental activities decreased the Collaborative's net assets by \$85,802. Total governmental activities revenues increased \$216,377 (1.2 percent) from the prior year. The major reasons for this increase are as follows: operating grants and contributions increased \$90,320 or 3.2 percent due to an expanded engagement with cost reimbursement contracts awarded by the Massachusetts Department of Elementary and Secondary Education (DESE). In addition, charges for services increased \$326,574 or 2.6 percent due to a tuition increase implemented in fiscal year 2012 and an increasing adult day program enrollment. This increase was offset partially by a \$121,130 decrease (52.0 percent) in capital grants and contributions due to a smaller capital grant given by the Massachusetts Department of Developmental Services during the current fiscal year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The Collaborative's total governmental activities expenses for the year ended June 30, 2012 decreased by \$396,401 or 2.2 percent from the prior year. Two of the activities reported spending growth from the prior year, led by professional development which accounted for \$121,087 or 62.7 percent of total spending growth. This was due to current employees transferring into the division along with the accompanying personnel costs due to implementation of new program initiatives. The activity with the second largest spending growth was general and administrative which accounted for \$72,063 or 37.3 percent of total spending growth. This was due to the Collaborative's investment in upgraded and enhanced information technology infrastructure.

Five of the activities reported decreases in spending from the prior year, led by student services which accounted for \$500,292 or 84.9 percent of the spending decrease. This was due to a reduction in employees and a spending freeze on certain line items. The activity with the second largest spending decrease was the adult day program which accounted for \$68,127 or 11.6 percent of the total spending decrease. This was due to a reduction in employees and line item spending.

Governmental activities decreased the Collaborative's net assets by \$85,802 or 5.1 percent during fiscal 2012. The key elements of this decrease can be explained as a higher than expected contribution to the retiree health insurance plan.

D. FINANCIAL ANALYSIS OF THE COLLABORATIVE'S FUND STATEMENTS

As noted earlier, the Collaborative uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Collaborative's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Collaborative's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Collaborative's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Collaborative itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Collaborative's Board of Directors.

At the end of the current fiscal year, the Collaborative's governmental funds reported combined ending fund balances of \$(20,703), a decrease of \$81,083 in comparison with the prior year. Of the total ending fund balance, \$300,667 is restricted due to external limitations on its use, such as by the intention of grantors, donors, or trustees. A total of \$119,178 of fund balance is considered unspendable because it has been used for prepaid expenses. A total of \$855,208 has been committed for particular purposes such as dayhab adult program expansion, future programs, building, sick bank, construction of capital assets, professional development, the adult day program, fringe benefits, and other purposes. The remaining \$(1,295,756) constitutes unassigned fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the Collaborative. At the end of the current fiscal year, unassigned fund balance of the general fund was \$(1,295,756), while the total fund balance was \$(20,703). As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 7.3 percent of total general fund expenditures, while total fund balance represents 0.1 percent of that same amount.

D. FINANCIAL ANALYSIS OF THE COLLABORATIVE'S FUND STATEMENTS (Continued)

During the current fiscal year, the fund balance of the Collaborative's general fund decreased by \$81,083. Revenues totaling \$17,590,160, increased by \$222,772, while expenditures totaling \$17,671,243 decreased by \$582,510. Key factors in these changes were implementation of a two percent student services tuition increase, a reduction in personnel and other line item costs, and an increasing adult day program enrollment.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget. The Collaborative did have an amended budget for the year ended June 30, 2012. Key elements of this amended budget included a reduction in personnel across the Collaborative along with either a cut or freeze on certain budget line items.

Final budget compared to actual results. Budgetary revenues were \$879,666 lower than the actual revenues. The most significant differences between budgeted revenues and actual revenues were as follows:

<u>Revenue source</u>	<u>Budgeted Revenues</u>	<u>Actual Revenues</u>	<u>Difference</u>
Educational program fees	\$ 9,235,645	\$9,771,279	\$ 535,634
Other income	599,625	931,524	331,899

The increases in the above revenue sources were caused by a tuition increase in student services and recognizing increased revenue from on-behalf payments made to retired Collaborative employees by the Massachusetts Teachers' Retirement System (MTRS) and the Massachusetts' State Employees Retirement System (SERS).

Budgetary expenditures were \$1,314,283 lower than actual expenditures. The most significant differences between budgeted expenditures and actual expenditures were as follows:

<u>Expenditures</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Difference</u>
Salaries	\$ 9,681,039	\$10,007,781	\$ (326,742)
Employee benefits	1,684,408	2,412,555	(728,147)
Rent	1,168,500	680,632	487,868
Debt service	16,250	795,863	(779,613)
Capital outlay	109,790	228,627	(118,837)

These differences were caused by rehiring some employees impacted by the reduction in personnel due to increases in enrollment, recognizing the cost of on-behalf payments to MTRS and SERS, and unexpected capital grants awarded by the Massachusetts Department of Developmental Services (DDS).

Overall, the budgetary change in net assets was \$434,617 higher than the actual results due to the reasons explained above from higher expenditures than had been budgeted.

F. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The Collaborative's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$11,575,369 (net of accumulated depreciation). This investment in capital assets includes land, building, building improvements, furniture, equipment, logo development costs, and leasehold improvements. The total decrease in the Collaborative's investment in capital assets for the current fiscal year was \$247,181 or 2.1 percent.

Major capital asset events during the current fiscal year included the purchase of new computers for the student services division and the Chelsea adult day program, sensory equipment for adult day program clients, and a photocopier for the student services division.

Shore Educational Collaborative Schedule of Capital Assets (net of accumulated depreciation)		
	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 184,971	\$ 185,078
Furniture and equipment	511,741	479,018
Logo development costs	7,889	9,222
Building	5,098,896	5,249,048
Land	1,157,580	1,157,580
Building improvements	<u>4,614,292</u>	<u>4,742,604</u>
Total	<u>\$11,575,369</u>	<u>\$11,822,550</u>

Additional information on the Collaborative's capital assets can be found in Note H on page 30 of this report.

Long-term debt. At June 30, 2012, the Collaborative had total long-term debt outstanding of \$10,055,251. The total debt is backed by the full faith and credit of the Collaborative for which the Collaborative is liable in the unlikely event of default.

Shore Educational Collaborative Schedule of Outstanding Long-Term Debt		
	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Bonds payable	\$ 10,005,816	\$ 10,202,764
Note payable	<u>49,435</u>	<u>99,399</u>
Total Outstanding Long-Term Debt	<u>\$ 10,055,251</u>	<u>\$ 10,302,163</u>

The Collaborative's total debt decreased by \$246,912 or 2.4 percent during the current fiscal year. The reason for the decrease was the principal payments that were made on the bonds and note payable.

Additional information on long-term debt can be found in Notes J and N to the financial statements.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors currently affect the Collaborative and were considered in developing the 2012-2013 fiscal year budget.

- No funding increases in the adult day program contracts with the potential for funding cuts in fiscal year 2013 and 2014.
- Continuing increases in employee benefits, including a ten percent increase in health insurance premiums.
- Price increases in supplies and services consumed by the Collaborative.
- Increasing facility and maintenance costs, including electrical and gas prices.
- Implementation of a tuition increase for fiscal year 2013.

During the current fiscal year, the fund balance in the general fund decreased by \$81,083 to \$(20,703). Included in this total amount are \$119,178 in prepaid expenses reported as nonspendable, \$300,667 in funds restricted for the Giving Tree and capital projects, and \$855,208 in funds committed by the Board. These items are reappropriated in the budget for 2012-2013. It is anticipated that the use of unassigned fund balance will be significantly replenished at year end due to increases in revenue for fiscal year 2013.

All of these factors were considered in preparing the Collaborative's budget for the 2013 fiscal year. Amendments are expected to be completed during the year that will be presented to the Board of Directors for approval.

H. 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:

Shore Educational Collaborative
100 Revere Beach Parkway
Chelsea, Massachusetts 02150

SHORE EDUCATIONAL COLLABORATIVE

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Primary Government	
	Governmental Activities	Component Unit
ASSETS		
Cash and cash equivalents	\$ 529,540	\$ 29,490
Accounts receivable	1,956,173	-
Other receivables	30,000	-
Prepaid expenses	119,178	-
Restricted cash	287,523	-
Capital assets, not being depreciated	1,157,580	-
Capital assets, net of accumulated depreciation	10,417,789	-
Bond issuance costs, net of accumulated amortization	99,892	-
TOTAL ASSETS	14,597,675	29,490
LIABILITIES		
Accounts payable	284,322	-
Accrued salaries and fringe benefits	1,450,299	-
Accrued expenses	356,140	30,000
Deferred revenue	515	-
Due to member communities	851,841	-
Noncurrent note payable:		
Due within one year	49,435	-
Due in more than one year	-	-
Noncurrent bonds payable:		
Due within one year	208,308	-
Due in more than one year	9,797,508	-
TOTAL LIABILITIES	12,998,368	30,000
NET ASSETS		
Investment in capital assets, net of related debt	1,232,595	-
Restricted for:		
Giving Tree Fund	13,144	-
Capital projects	287,523	-
Unrestricted	66,045	(510)
TOTAL NET ASSETS	\$ 1,599,307	\$ (510)

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

SHORE EDUCATIONAL COLLABORATIVE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	PROGRAM REVENUES			Total	Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary Government:						
Governmental activities:						
Adult day program	\$ 7,407,117	\$ 5,366,992	\$ 2,176,532	\$ 95,228	\$ 231,635	\$ -
Student services	7,120,462	7,229,210	-	-	108,748	-
Professional development	600,620	252,780	2,885	-	(344,955)	-
Client workshop	51,794	1,014	-	-	(50,780)	-
Fiscal agent services	217,800	41,346	168,871	-	(7,583)	-
Medicaid municipal billing services	172,489	159,991	-	-	(12,498)	-
General and administrative	2,099,285	51,250	592,150	-	(1,455,885)	-
TOTAL PRIMARY GOVERNMENT	\$ 17,669,567	\$ 13,102,583	\$ 2,940,438	\$ 95,228	(1,531,318)	-
Component unit:						
Shore Educational Collaborative Foundation, Inc.	\$ 50	\$ -	\$ 2,185	\$ -	-	2,135
TOTAL COMPONENT UNIT	\$ 50	\$ -	\$ 2,185	\$ -	-	2,135
General revenues:						
Other income					55,517	-
Interest income					1,178	-
Overhead income					1,379,432	-
Loss on disposal of capital assets					(6,395)	-
Rental income					15,784	-
TOTAL GENERAL REVENUES					1,445,516	-
Change in net assets					(85,802)	2,135
Net assets - beginning					1,685,109	(2,645)
NET ASSETS - ENDING					\$ 1,599,307	\$ (510)

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

SHORE EDUCATIONAL COLLABORATIVE

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2012

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 529,540
Accounts receivable	1,956,173
Other receivables	30,000
Prepaid expenses	119,178
Restricted cash	<u>287,523</u>
TOTAL ASSETS	\$ 2,922,414
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 284,322
Accrued salaries and fringe benefits	1,450,299
Accrued expenses	356,140
Due to member communities	851,841
Deferred revenue	<u>515</u>
TOTAL LIABILITIES	2,943,117
Fund balances:	
Nonspendable:	
Prepaid expenses	119,178
Restricted for:	
Giving Tree Fund	13,144
Capital projects	287,523
Committed to:	
Dayhab adult program expansion	15,736
Future programs	111,687
Building	110,604
Sick bank	30,000
Construction of capital assets	287,523
Professional development	8,172
Adult day program	59,086
Fringe benefits	191,642
Other purposes	40,758
Unassigned	<u>(1,295,756)</u>
TOTAL FUND BALANCES	(20,703)
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,922,414

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

SHORE EDUCATIONAL COLLABORATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>
REVENUES	
Educational program fees	\$ 9,771,279
Medicaid income	5,346,756
Medicaid municipal billing services	159,991
Administrative overhead income	1,379,432
Other income	931,524
Interest income	<u>1,178</u>
TOTAL REVENUES	17,590,160
EXPENDITURES	
Salaries	10,007,781
Employee benefits	2,412,555
Payroll taxes	689,307
Advertising	4,649
Professional fees and contract services	489,109
Supplies	98,570
Telephone	61,087
Postage	8,427
Rent	680,632
Staff training	17,893
Rental of equipment	3,350
Transportation	67,639
Printing and publications	17,879
Food	51,469
Repairs and maintenance	223,530
Utilities	260,273
Insurance	62,174
Client recreation	11,822
Miscellaneous	82,882
Administrative overhead charges	1,379,432
Debt service	795,863
Capital outlay	228,627
Bad debt	<u>16,293</u>
TOTAL EXPENDITURES	<u>17,671,243</u>
NET CHANGE IN FUND BALANCES	(81,083)
Fund balances - beginning	<u>60,380</u>
FUND BALANCES - ENDING	\$ <u>(20,703)</u>

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

SHORE EDUCATIONAL COLLABORATIVE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total fund balances - total governmental funds \$ (20,703)

Amounts reported for governmental activities
in the statement of net assets are different because:

Capital assets used in governmental activities are
not current financial resources and, therefore, are
not reported in the governmental funds balance sheet 11,575,369

Long-term liabilities, including notes and bonds payable,
are not due and payable in the current period and,
therefore, are not reported in the governmental funds
balance sheet (9,955,359)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 1,599,307

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

SHORE EDUCATIONAL COLLABORATIVE

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

FOR THE YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$ (81,083)

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

Governmental funds report capital outlays as
expenditures. However, in the government-wide
statement of activities, the cost of these assets is
allocated over their estimated useful lives and
reported as depreciation expense. This is the
amount by which capital outlays were less
than depreciation expense in the current period (240,786)

The net effect of various miscellaneous transactions involving
capital assets (i.e. sales and disposals) is to decrease net assets (6,395)

The issuance of long-term debt (e.g. bonds, notes) provides
current financial resources to governmental funds, while the
repayment of the principal of long-term debt consumes the
current financial resources of governmental funds. Neither
transaction, however, has any effect on net assets. Also,
governmental funds report the effect of issuance costs when
debt is first issued, whereas these amounts are deferred
and amortized in the government-wide statement of activities.
This amount is the net effect of these differences in the treatment
of long-term debt and related items 795,863

Some expenses reported in the government-wide statement of activities
do not require the use of current financial resources and,
therefore, are not reported as expenditures in the governmental
funds (553,401)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (85,802)

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

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Shore Educational Collaborative (the "Collaborative") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Collaborative are described below.

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by intergovernmental revenues and other nonexchange transactions, are reported from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Reporting Entity

The Collaborative is an unincorporated, wholly-owned instrumentality of the Commonwealth of Massachusetts that provides a variety of educational programs and services. The Collaborative also provides professional development programs, consultation and billing services for the member school districts. The member school communities of the Collaborative include: Chelsea, Everett, Malden, Medford, Revere, Saugus, and Winthrop. Somerville, Cambridge, Boston, Waltham, and Northeast Regional Vocational Center hold adjunct membership status. The Collaborative provides educational programs for children and adults with varying levels of disabilities. Funding for the children's programs is through school department tuition, and funding for the adult programs is through contracts with the Commonwealth of Massachusetts' Department of Developmental Services. Substantially all of the Collaborative's revenues are derived from these member communities and the Commonwealth of Massachusetts.

The accompanying financial statements present the operations of the Collaborative, the primary government, as well as its discretely presented component unit, a legally separate organization for which the Collaborative is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the Collaborative but is included because the Collaborative is financially accountable for and is able to impose its will on the organization. Unless otherwise indicated, the notes to the financial statements pertain only to the Collaborative because certain disclosures of the component unit are not significant relative to the Collaborative.

Discretely Presented Component Unit

The following component unit is discretely presented in the government-wide financial statements because of the nature and/or significance of its relationship with the Collaborative. The component unit described below is considered a major component unit.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Unit (Continued)

Shore Educational Collaborative Foundation, Inc. (the "Foundation") - a non-profit organization, was established in 2004 to augment, support and advance the work of the Collaborative. The Foundation is classified as a public charity exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is governed by a Board that is composed of many of the same members as the Collaborative's Board. All activities and budgets of the Foundation are approved by the Board of Directors of the Foundation. The Foundation does not issue a separate audited financial statement.

Basic Financial Statements

The basic financial statements include both government-wide financial statements (based on the Collaborative as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. Presently, the Collaborative does not have any business-type activities. In the government-wide statement of net assets, the governmental activities are reflected on a full accrual economic basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Depreciation expense is allocated to functions/programs of the primary government. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Collaborative.

A separate financial statement is provided for the governmental fund. The major governmental fund is reported in a separate column in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Collaborative considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Revenue from grants and donations is recognized when all eligibility requirements have been satisfied and they are measurable and available. Revenues not considered to be available are recorded as deferred revenue.

Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources. Allocations of cost are not recognized in governmental funds.

The Collaborative reports the following major governmental fund:

The general fund is the Collaborative's primary operating fund. It accounts for all financial resources of the Collaborative.

Private sector standards of accounting and financial reporting issued prior to November 30, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues.

When fund balance resources are available for a specific purpose in more than one classification, it is the Collaborative's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

The Foundation, shown as a discretely presented component unit, does not meet the definition of a governmental organization and is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 the revenues and expenditures/expenses during the fiscal year. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit at financial institutions, and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted Cash

Restricted cash includes the remaining cash, originally drawn from bond proceeds, available to complete capital projects (see Note N).

Accounts Receivable

The Collaborative carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis the Collaborative evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. At June 30, 2012, no allowance for doubtful accounts was considered necessary.

Inventories

The amount of inventories is not material to the government-wide and fund financial statements of the Collaborative and therefore is recorded as expenditures at the time of purchase.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid expenses is recorded as expenditures/expenses when consumed rather than when purchased. Prepaid expenses include prepaids as well as security deposits.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Collaborative as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Capital assets purchased, acquired or developed are carried at historical cost or estimated historical cost if historical cost is not available. Contributed capital assets are recorded at fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed. Any significant construction commitments are encumbered at year end.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of governmental activities is expensed as incurred.

Land and construction in progress are not depreciated. The other capital assets of the Collaborative are depreciated using the straight-line method over the following estimated useful lives:

Building	39 years
Furniture and equipment	5-10 years
Leasehold improvements	4-9 years
Logo costs	15 years
Building improvements	39 years

Long-Term Obligations and Related Costs

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. The unamortized portion is presented in the government-wide statement of net assets.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets

Net assets are comprised of the various net earnings (losses) from operating and nonoperating revenues, expenses, operating transfers, and contributed capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of those assets. Debt related to unspent proceeds or other restricted cash at year end is not included in the calculation of the amount invested in capital assets, net of related debt. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. Restricted net assets are based on the same criteria used to report restricted governmental fund balances. Unrestricted net assets consist of all other net assets not included in the above categories.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used. Classifications are hierarchical and are based primarily on the extent to which the Collaborative is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. The Collaborative's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned.

The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form - such as inventory or prepaid expenses or (b) are legally or contractually required to be maintained intact - such as a trust that must be retained in perpetuity. The Collaborative has classified prepaid expenses as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year. The Collaborative currently has no amounts that are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Collaborative has classified the Giving Tree Fund as restricted due to a donor restricting the use of these funds to the adult day program and the restricted cash as restricted due to the creditor requiring this to be used for capital projects.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Collaborative's Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation. The Collaborative has various amounts that have been committed by the Board of Directors for various purposes.
- Assigned: This classification includes amounts that are constrained by the Collaborative's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Collaborative's Board of Directors or through the Collaborative's Board of Directors delegating this responsibility to the Collaborative's senior management through the budgetary process. The Collaborative had no assigned funds at June 30, 2012.
- Unassigned: Unassigned fund balance is the residual classification for the general fund. This classification represents the general fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the general fund.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

The Collaborative would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Other Postemployment Benefits

In addition to providing pension benefits (see Note L), the Collaborative provides health coverage for all employees retiring from the Collaborative after June 30, 2007. The Collaborative will contribute 50% to the cost of the coverage while the employee is responsible for the other 50%. The Collaborative recognizes its share of the cost of providing such benefits in the periods in which the related services are received by the Collaborative. For the year ended June 30, 2012, the expenditures totaled \$350,562. The Collaborative obtained this amount based on an actuarial valuation of its obligations for postemployment health benefits. The actuarial assumptions included a 5.5% rate of return on investments (net of investment expenses) and an inflationary rate of 8.5% for fiscal years 2012 through 2020 and 2.5% for fiscal years 2021 and beyond. There are currently no funds being separately invested to fund this liability.

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet." The details of this \$11,575,369 are as follows:

Leasehold improvements	\$ 373,228
Less: Accumulated amortization-leasehold improvements	(188,257)
Furniture and equipment	1,169,196
Less: Accumulated depreciation-furniture and equipment	(657,455)
Logo development costs	20,000
Less: Accumulated amortization-logo development costs	(12,111)
Building	5,855,910
Less: Accumulated depreciation-building	(757,014)
Land	1,157,580
Building improvements	5,210,364
Less: Accumulated depreciation-building improvements	<u>(596,072)</u>
Net adjustment to increase total fund balances - total governmental funds to arrive at net assets of governmental activities	<u>\$11,575,369</u>

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

The final element of that reconciliation explains that "long-term liabilities, including notes and bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet". The details of this \$9,955,359 difference are as follows:

Bonds payable due within one year	\$ 208,308
Bonds payable due in more than one year	9,797,508
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(99,892)
Note payable due within one year	<u>49,435</u>
Net adjustment to reduce total fund balances - total governmental funds to arrive at net assets of governmental activities	<u>\$ 9,955,359</u>

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were less than depreciation expense in the current period." The details of this \$240,786 difference are as follows:

Capital outlay	\$ 228,627
Depreciation expense	<u>(469,413)</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u>\$ (240,786)</u>

Another element of the reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e. sales and disposals) is to decrease net assets." This \$6,395 difference is the result of the loss on disposal of capital assets. In the statement of activities, only the loss on the disposal of capital assets is reported. However, in the governmental funds, the proceeds (in this case \$-0-) increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets disposed.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

Another element of the reconciliation states that "the issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this \$795,863 difference are as follows:

Principal and interest repayments:	
Note payable	\$ 56,110
Bonds payable	<u>739,753</u>
Net adjustment to increase net change in fund balances – total governmental funds to arrive at change in net assets of governmental activities	 <u>\$ 795,863</u>

Another element of the reconciliation states that "certain expenses reported in the government-wide statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds". The details of the \$553,401 difference are as follows:

Interest expense	\$ 548,951
Amortization of issuance costs	<u>4,450</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	 <u>\$ 553,401</u>

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE C - BUDGETS AND BUDGETARY ACCOUNTING

Budgetary Information

The Board follows procedures established by State statutes in establishing budget balances for governmental funds as described below:

- Budgets are prepared and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law.
- Appropriations are controlled at the object level (e.g. salaries, purchased services, and capital outlay) within each functional activity (e.g. adult day program and student services) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report. This object level is the legal level of budgetary control.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services (i.e. purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executor contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.
- The Collaborative's primary funding sources are state grants which have grant periods that may be longer than twelve months.
- Because of the Collaborative's dependency on state and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding.
- The Collaborative's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ending June 30.

During the fiscal year ended June 30, 2012, certain budget amendments were required due to the fact that educational program fees in the student services division were lower than anticipated due to a lower enrollment. The general fund revenues were reduced by \$1,677,060 with most of the reduction in the educational program fees of \$1,281,300. The general fund expenditures were also reduced by \$1,927,165 with most of the reduction in salaries of \$1,137,317, employee benefits of \$121,261, and payroll taxes of \$80,203. This reduction led to lay-offs of employees throughout the Collaborative in November 2011.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE C - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Excess of Expenditures over Appropriations

For the year ended June 30, 2012, expenditures in the general fund exceeded appropriations by \$1,314,283 due to a higher than expected cost for retiree health insurance, re-hiring of some of the laid off employees, and additional capital outlay related to the new Woburn location than had been anticipated. Available fund balance was able to provide for the excess expenditures with the remaining amount being decreased from the subsequent year's budget.

NOTE D - CASH AND CASH EQUIVALENTS AND DEPOSITS

The deposits of the Collaborative consist of cash and cash equivalents and money market accounts.

Interest rate risk: Interest rate risk is the risk that interest rates will adversely affect the fair value of an investment. The Collaborative does not have a deposit policy for interest rate risk.

Credit risk: The Collaborative does not have a deposit policy for credit risk.

Concentration of credit risk: The Collaborative does not have a deposit policy for concentration of credit risk.

Custodial credit risk deposits: In the case of deposits, the risk is that in the event of a bank failure the Collaborative's deposits may not be returned to it. The Collaborative does not have a deposit policy for custodial credit risk. As of June 30, 2012, the Collaborative's bank balance was \$1,271,131 and \$287,550 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2012, the Foundation's bank balance was \$29,490 and \$-0- of that amount was exposed to custodial credit because all of it is insured by federal deposit insurance coverage.

NOTE E - ACCOUNTS RECEIVABLE

The majority of accounts receivable are due from the seven member communities and the Commonwealth of Massachusetts. These receivables and the remaining accounts receivable are considered to be fully collectible. As such, no allowance for uncollectible accounts receivable is recorded.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE E - ACCOUNTS RECEIVABLE (Continued)

Accounts receivable as of June 30, 2012 in the Collaborative's major fund, in the aggregate, are as follows:

	<u>General Fund</u>	<u>Percentage of Balance</u>
Accounts receivable, net:		
Member communities	\$ 543,495	27.8%
Adjunct member communities	79,813	4.1
Commonwealth of Massachusetts:		
Department of Elementary & Secondary Education	60,668	3.1
Massachusetts Commission for the Blind	1,742	0.1
Department of Health & Human Services	1,089,588	55.7
Department of Developmental Services	<u>129,050</u>	<u>6.6</u>
Total Commonwealth of Massachusetts	1,281,048	65.5
Other	<u>51,817</u>	<u>2.6</u>
Total accounts receivable, net	<u>\$1,956,173</u>	<u>100.0%</u>

NOTE F - OTHER RECEIVABLES

The other receivables consist of an amount due from the Foundation of \$30,000. This amount is expected to be collected upon the dissolution of the Foundation which is expected to occur during the fiscal year ended June 30, 2013. As such, no allowance for uncollectible other receivables is recorded.

NOTE G - ACCRUED EXPENSES

The Collaborative's accrued expenses as recorded in the governmental activities statement of net assets and in the governmental funds balance sheet consists of the following at June 30, 2012:

Accrued rent	\$ 206,708
Accrued legal and audit	28,100
Accrued payroll taxes	103,590
Accrued interest	<u>17,742</u>
Total accrued expenses	<u>\$ 356,140</u>

The Foundation's accrued expenses of \$30,000 consists of a payable to the Collaborative which will be repaid to the Collaborative upon dissolution of the Foundation during the fiscal year ended June 30, 2013.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE H - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,157,580	\$ -	\$ -	\$ 1,157,580
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	1,157,580	-	-	1,157,580
Capital assets, being depreciated:				
Leasehold improvements	528,738	39,146	(194,656)	373,228
Furniture and equipment	1,235,386	184,261	(250,451)	1,169,196
Logo development costs	20,000	-	-	20,000
Building	5,855,910	-	-	5,855,910
Building improvements	5,205,144	5,220	-	5,210,364
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	12,845,178	228,627	(445,107)	12,628,698
Less accumulated depreciation for:				
Leasehold improvements	(343,660)	(32,859)	188,262	(188,257)
Furniture and equipment	(756,368)	(151,537)	250,450	(657,455)
Logo development costs	(10,778)	(1,333)	-	(12,111)
Building	(606,862)	(150,152)	-	(757,014)
Building improvements	(462,540)	(133,532)	-	(596,072)
TOTAL ACCUMULATED DEPRECIATION	(2,180,208)	(469,413)	438,712	(2,210,909)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	10,664,970	(240,786)	(6,395)	10,417,789
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 11,822,550	\$ (240,786)	\$ (6,395)	\$ 11,575,369

Depreciation expense was charged to functions/programs of the governmental activities of the Collaborative as follows:

Governmental activities:	
Adult day program	\$ 88,461
Student services	189,217
Professional development	5,674
General and administrative	186,061
Total depreciation expense - governmental activities	\$ 469,413

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE I - DEMAND LINE OF CREDIT

The Collaborative has a \$750,000 secured line of credit with a bank to finance working capital. Under the line of credit, each loan will bear interest at the bank's prime interest rate plus 1%. At June 30, 2012 this rate was 3.75%. The line of credit is secured by a mortgage on land and building in Chelsea and secured by substantially all assets of the Collaborative. At June 30, 2011, the Collaborative had an outstanding balance on this line of \$500,000. This was paid back during the fiscal year ended June 30, 2012. The Collaborative then drew another \$500,000 on this line during the fiscal year ended June 30, 2012. However, the Collaborative paid this amount back by the end of the year and as a result, at June 30, 2012, \$-0- was outstanding on the line of credit. The bank will review the line annually with the next review occurring on December 31, 2012.

A summary of changes of the demand line of credit consists of the following at June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance June 30, 2012</u>
Demand line of credit	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>

NOTE J - NOTE PAYABLE

A summary of changes of note payable consists of the following at June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Maturities</u>	<u>Balance June 30, 2012</u>
Note payable to B&H Peabody Property, LLC in monthly installments of \$4,676 including interest at a rate of 8.0% through June 2013	<u>\$ 99,399</u>	<u>\$ -</u>	<u>\$ 49,964</u>	<u>\$ 49,435</u>

On June 1, 2006, the Collaborative entered into a \$300,000 note payable with JMS Realty Trust in order to finance leasehold improvements on a new building that the Collaborative was also leasing from JMS Realty Trust (see Note K). During the fiscal year ended June 30, 2007, JMS Realty was replaced with B&H Peabody Property, LLC. Equal monthly payments of principal and interest in the amount of \$4,676 commenced on June 1, 2006 and will continue through June 1, 2013.

The amount of aggregate annual principal and interest installments of note payable for each of the years succeeding June 30, 2012 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	<u>\$ 49,435</u>	<u>\$ 1,999</u>	<u>\$ 51,434</u>

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE J - NOTE PAYABLE (Continued)

The total interest incurred by the Collaborative during the current fiscal year related to the note payable was \$6,146. Interest expense was charged to functions/programs of the Collaborative as follows:

Governmental activities:

Adult day program

\$ 6,146

NOTE K - OPERATING LEASES

The Collaborative leases space for its classrooms from various member communities as a tenant-at-will for an annual amount of \$26,500.

In addition, the Collaborative leases space for its adult day program under three different leases. The first lease is for a building in Wakefield and began on December 1, 2004 and terminated on November 30, 2011. The Collaborative had the option to renew the lease for two additional five year terms but did not renew the lease. The annual payment for December 1, 2004 through November 30, 2005 was \$183,750. Starting on December 1, 2005, the annual lease amount increased \$5,250 a year until November 30, 2011. The Collaborative was responsible for paying all utilities, management, and real estate taxes.

The second lease was entered into on June 1, 2006 with JMS Realty Trust (replaced with B&H Peabody Property, LLC) for a building in Peabody. The lease term continues through May 2013 with an option to renew the lease for an additional five years. The annual payment for June 1, 2006 through May 31, 2007 was \$190,890. Starting June 1, 2007, the annual lease amount increased \$5,303 a year until May 31, 2013. The Collaborative is responsible for paying all utilities, management, and real estate taxes.

The third lease was entered into on January 24, 2011 with Northland Forbes Road LLC for a building in Woburn. The lease term commenced on March 1, 2011 and continues through November 30, 2021 with an option to renew the lease for an additional five years. The annual payment for March 1, 2011 through December 31, 2011 is \$183,320. Starting January 1, 2012, the annual lease amount increased \$10,000 a year until November 30, 2021. However, for the first twelve months of the lease, the monthly rent will be abated by \$13,749 per month. Due to this, the total cost of the lease will be recognized evenly over the lease term using the straight-line method. The Collaborative is responsible for paying all utilities, management and real estate taxes.

Total rent expense for all operating leases for the year ended June 30, 2012 was \$680,632. Included in this amount, rent expense for all tenancy-at-will leases for the year ended June 30, 2012 was \$26,500.

The Collaborative also has various leases for automobiles used in the adult day program and various leases for office equipment used in all programs. Total expense for these leases for the year ended June 30, 2012 was \$34,438.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE K - OPERATING LEASES (Continued)

The following is a schedule of future minimum rental payments required under the above operating leases:

Year ending June 30,

2013	\$ 476,922
2014	267,172
2015	269,142
2016	276,171
2017	279,646
2018-2022	<u>1,333,267</u>
Total minimum lease payments	<u>\$ 2,902,320</u>

NOTE L - RETIREMENT PLANS

The Collaborative participates in two contributory defined benefit plans. The first plan for teachers is the Massachusetts Teachers' Retirement System (MTRS) and is administered by the Commonwealth of Massachusetts' Teachers' Retirement Board. The second is the Massachusetts' State Employees Retirement System (SERS) for non-teachers and is administered by the Commonwealth of Massachusetts State Retirement Board. These plans cover substantially all employees. The net assets available for benefits for the Collaborative's employees are not separately distinguished from those of other participating organizations. These plans are both audited separately by other organizations. If additional information is required, the administrators of each plan can be contacted at One Ashburton Place, Boston, MA 02108.

Massachusetts General Laws establish uniform benefit and contribution requirements for both plans. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of an employee's highest three-year average annual rate of regular compensation. Benefit payments are based on a member's age, length of creditable service, and group classification. Employees become vested after ten years of creditable service. A superannuation retirement allowance may be received upon completion of twenty years of service or upon reaching the age of 55 with ten years of service.

For the MTRS plan, the Collaborative does not make any contributions. Employees hired after 2001 are required to contribute 11% of their salary while those hired prior to 2001 are required to contribute between 5-9% depending upon their date of hire. Besides the regular "service" retirement benefits listed above, the plan also provides disability retirement benefits (ordinary and accidental) and survivor and accidental death benefits (if an employee dies while still working). During the fiscal year ended June 30, 2012, the Commonwealth of Massachusetts made payments to retired Collaborative employees of \$211,942 which is recorded as an operating grant and contribution and a corresponding expense on the statement of activities and as other income and a corresponding expenditure on the statement of revenues, expenditures and changes in fund balances.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE L - RETIREMENT PLANS (Continued)

For the SERS plan, the Collaborative contributes 7.8% of each eligible employee's salary on their behalf. Employees are required to contribute between 8-9% (depending upon their date of hire) on their first \$30,000 of salary and then an additional 2% for every dollar over \$30,000. During the fiscal year ended June 30, 2012, the Commonwealth of Massachusetts made payments to retired Collaborative employees of \$380,208 which is recorded as an operating grant and contribution and a corresponding expense on the statement of activities and as other income and a corresponding expenditure on the statement of revenues, expenditures and changes in fund balances.

The following is a listing of the last four years of contributions to the state retirement plans by the Collaborative:

2012	\$ 492,754
2011	517,860
2010	498,097
2009	486,398

NOTE M - RELATED PARTY TRANSACTIONS

In fiscal year 2004, a related not-for-profit organization, Shore Educational Collaborative Foundation, Inc. ("the Foundation"), was established. This organization's board of directors has many of the same members as the Collaborative's. As a result, the Foundation has been included as a component unit on the statement of net assets and the statement of activities.

At June 30, 2012, the Collaborative has a receivable from the Foundation for \$30,000, which was used as start-up funds for the Foundation. This amount is included in other receivables on the statement of net assets and the balance sheet.

NOTE N - BONDS PAYABLE

A summary of changes of bonds payable consists of the following at June 30, 2012:

	Balance July 1, <u>2011</u>	<u>Additions</u>	<u>Maturities</u>	Balance June 30, <u>2012</u>
Building and land acquisition	\$ 9,107,696	\$ -	\$ 156,156	\$ 8,951,540
New roof and HVAC system	<u>1,095,068</u>	<u>-</u>	<u>40,792</u>	<u>1,054,276</u>
Total	<u>\$10,202,764</u>	<u>\$ -</u>	<u>\$ 196,948</u>	<u>\$10,005,816</u>

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE N - BONDS PAYABLE (Continued)

On June 11, 2007, the Collaborative entered into an agreement to participate in the Massachusetts Development Finance Agency Revenue Bonds Series 2007 to fund a building and land acquisition. The Collaborative's bond components total \$9,650,000. Interest on the bond was payable and commenced on July 11, 2007 and on the eleventh day of each month thereafter, at a rate of the sum of 1.623% plus 0.69 times one-month LIBOR. The initial rate was 5.3%. The Collaborative entered into a hedge agreement with TD Bank to effect a fixed interest rate on the bond of 5.77%. See Note O for information on the hedge. Principal payments on the bond are payable in monthly installments and commenced on July 11, 2007 and on the eleventh day of every month thereafter. The Collaborative capitalized \$95,550 of bond issuance costs in the statement of net assets which produced amortization expense for the year ended June 30, 2012 of \$3,185 for a total accumulated amortization expense of \$16,058 at June 30, 2012. These bond issuance costs were expensed in the general fund statement of revenues, expenditures and changes in fund balances in fiscal year 2007.

Bond proceeds of \$154,917 were withheld at closing to fund future capital projects. This amount is included in restricted cash on the statement of net assets and the balance sheet.

On August 15, 2008, the Collaborative entered into an agreement to participate in the Massachusetts Development Finance Agency Revenue Bonds Series 2008 to fund a new roof and HVAC system. The Collaborative's bond components total \$1,200,000. Interest on the bond was payable and commenced on September 15, 2008 and on the fifteenth day of each month thereafter, at a rate of the sum of 1.623% plus 0.69 times one-month LIBOR. The initial rate was 3.325%. The Collaborative entered into a hedge agreement with TD Bank to effect a fixed interest rate on the bond of 5.15%. See Note O for information on the hedge. Principal payments on the bond are payable in monthly installments and commenced on September 15, 2008 and on the fifteenth day of every month thereafter. The Collaborative capitalized \$25,302 of bond issuance costs in the statement of net assets which produced amortization expense for the year ended June 30, 2012 of \$1,265, for a total accumulated amortization of \$4,902 at June 30, 2012. These bond issuance costs were expensed in the general fund statement of revenues, expenditures and changes in fund balances in fiscal year 2009.

As of June 30, 2012, \$132,606 has not been used to fund the new roof and HVAC system. This amount is included in restricted cash on the statement of net assets and the balance sheet.

The bonds are secured by a first mortgage on land and building in Chelsea and secured by substantially all assets of the Collaborative. In addition, the Collaborative has assigned the right, title, and interest in any leases and rents on the property to the bond holders. The bonds described above are subject to covenants that restrict the Collaborative's ability to incur additional debt or pledge or lien or dispose of any of its assets. See Note S for a violation of these covenants at June 30, 2012. If there is a default in one bond, then there is a default in both bonds.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE N - BONDS PAYABLE (Continued)

The amount of aggregate annual principal and interest installments of bonds payable for each of the years succeeding June 30, 2012 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 208,308	\$ 308,957	\$ 517,265
2014	220,346	301,769	522,115
2015	233,072	294,171	527,243
2016	246,526	286,139	532,665
2017	260,772	297,016	557,788
2018-2022	1,547,996	2,319,130	3,867,126
2023-2027	2,050,130	1,815,464	3,865,594
2028-2032	2,308,186	1,186,102	3,494,288
2033-2037	<u>2,930,480</u>	<u>449,138</u>	<u>3,379,618</u>
	<u>\$10,005,816</u>	<u>\$ 7,257,886</u>	<u>\$17,263,702</u>

The total interest incurred by the Collaborative during the current fiscal year related to the bonds payable was \$542,805. Interest expense was charged to functions/programs of the Collaborative as follows:

Governmental activities:	
Adult day program	\$ 104,064
Student services	353,820
Professional development	10,406
General and administrative	<u>74,515</u>
	<u>\$ 542,805</u>

NOTE O - CASH FLOW HEDGES

On June 8, 2007, the Collaborative signed a hedge agreement with TD Bank. The hedge is an interest rate swap agreement which was entered into primarily to modify the Collaborative's risk of interest rate changes with respect to the bond payable for the building and land acquisition (see Note N). Under the agreement, the Collaborative will pay a fixed interest rate of 5.77% to TD Bank and TD Bank will make payments as directed in the bond payable at the floating rate of 0.69 of the one-month LIBOR plus 1.623%. The agreement ends on June 11, 2017. Payments under the hedge will be reflected as adjustments to interest expense in the statement of activities and as adjustments to debt service in the statement of revenues, expenditures and changes in fund balance.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE O - CASH FLOW HEDGES (Continued)

On July 28, 2008, the Collaborative amended the above agreement with TD Bank and signed an additional hedge agreement with TD Bank. The hedge is an interest rate swap agreement which was entered into primarily to modify the Collaborative's risk of interest rate changes with respect to the bond payable for the new roof and HVAC system (see Note N). Under the agreement, the Collaborative will pay a fixed interest rate of 5.15% to TD Bank and TD Bank will make payments as directed in the bond payable at the floating rate of 0.69 of the one-month LIBOR plus 1.623%. The agreement ends on August 15, 2018. Payments under the hedge will be reflected as adjustments to interest expense in the statement of activities and as adjustments to debt service in the statement of revenues, expenditures and changes in fund balance.

NOTE P - OTHER POSTEMPLOYMENT BENEFITS

The Collaborative provides other postemployment benefits ("OPEB") for its employees through a single-employer, defined benefit OPEB plan which is administered by the Collaborative.

Plan Description

The Collaborative's Retiree Health Insurance Plan (the "Plan") provides postemployment health care benefits to eligible retired Collaborative employees through the Collaborative's group health insurance plan, which covers both active and retired members. The Plan provides coverage for 50% of the cost of the benefits and the employee is responsible for the other 50%. Employees as well as their spouses are covered by the Plan. The employee must retire directly from the Collaborative with an immediate pension payable from one of the two public retirement systems as described in Note L. The employee also must have had at least ten years of service with the Collaborative and have been covered under one of the Collaborative's medical plans for one year. The Plan does not issue a separate, publicly available report. The Collaborative has the authority to establish and amend benefit provisions of the plan.

During the fiscal year ended June 30, 2012, the Plan had nine retirees and three spouses of retirees receiving benefits. The Plan has a total of 171 active participants and dependents, of which 159 are not yet eligible to receive benefits.

Funding Policy

The contribution requirements of Plan members and the Collaborative are established and may be amended by the Collaborative's Board of Directors. The Collaborative funds this postemployment benefit on a pay-as-you go basis. During the year ended June 30, 2012, the Collaborative made \$17,472 in contributions to the Plan.

Plan members contribute nothing while active, but 50% of health premiums after retirement.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE P - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Collaborative's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For the fiscal year ended June 30, 2012, the Collaborative's annual OPEB cost was \$350,562. The following table shows the components of the Collaborative's annual OPEB cost for the year, the amount of the annual OPEB cost actually contributed to the plan, and changes in the Collaborative's net OPEB obligation for the year ended June 30, 2012:

Annual required contribution (ARC)	\$ 393,618
Interest on net OPEB obligation	51,464
Adjustment to the ARC	<u>(94,520)</u>
Annual OPEB cost	350,562
Contributions made	<u>(17,472)</u>
Increase in net OPEB obligation	333,090
Net OPEB obligation – beginning of year	<u>935,703</u>
Net OPEB obligation – end of year	<u>\$ 1,268,793</u>

The Collaborative's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and each of the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/12	\$ 350,562	\$ 17,472	4.98%	\$ 1,268,793
06/30/11	\$ 304,074	\$ 8,810	2.90%	\$ 935,703
06/30/10	\$ 238,325	\$ 6,069	2.55%	\$ 640,439

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,062,924
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,062,924</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00 %

The actuary did not use annual covered payroll in the actuarial valuation.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE P - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress (Continued)

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Although the valuation results are based on values which the Collaborative's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the frozen entry age actuarial cost method with allocation based on service was used. The actuarial assumptions included a 5.5% investment rate of return (discount rate) and an annual healthcare cost trend rate of 8.5%, graded down to 2.5% for the year beginning in 2020 and following years. The actuarial value of the plan assets was set at market value of investments as of the measurement date.

The plan's unfunded actuarial accrued liability (UAAL) as of 2008 is being amortized as a level percentage of projected payroll on a closed period of thirty years from 2008, and changes in the UAAL from 2011 through 2012 are amortized over the remaining portion of the thirty-year period. Future changes in the UAAL will be amortized on an open period of ten years from inception. The remaining amortization period at June 30, 2012 was twenty-six years.

NOTE Q - CONCENTRATIONS

At June 30, 2012, approximately 36.3% of the Collaborative's employees work under collective bargaining agreements. All of these employees are represented by unions whose existing agreements will expire on August 31, 2013. The Collaborative's other employees are not represented by a union.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE R - FIVE HIGHEST PAID EMPLOYEES

The following were the five highest paid employees at the Collaborative during the year ended June 30, 2012:

<u>Employee</u>	<u>Title</u>	<u>Gross Salary</u>	<u>Benefits</u>	<u>Total Compensation</u>
Jacki Clark	Executive Director	\$ 131,905	\$ 12,025	\$ 143,930
Robert Alconada	Director of Finance	\$ 106,290	\$ 5,116	\$ 111,406
Lori Maida	HR Administrator	\$ 84,669	\$ 11,235	\$ 95,904
Ruth Grube	PD Coordinator	\$ 77,353	\$ 14,318	\$ 91,671
Debra Puleo	Adult Coordinator	\$ 85,062	\$ 4,805	\$ 89,867

NOTE S - BOND COVENANT VIOLATION

As stated in Note N, the bonds are subject to certain covenants. One of the covenants is that the Collaborative must maintain an annual debt service coverage ratio of 1.2 to 1.0. At June 30, 2012, the Collaborative did not meet this covenant. As a result, the Collaborative was in default of the bonds agreement. When the Collaborative is in default of the bonds agreement, TD Bank shall have all the rights and remedies of a secured party under the Uniform Commercial Code of Massachusetts including without limitation, the right to take possession of the collateral by entering upon any premises on which the collateral may be situated and remove the same therefrom. In addition, the principal amount of the bonds together with accrued interest may be declared due and payable. On December 7, 2012, TD Bank expressly waived this event of default for the measurement period as calculated June 30, 2012. In addition, on the same date, TD Bank approved a modification to the calculation of the future annual debt service coverage ratio. Beginning with the twelve month measurement period ending June 30, 2013, the Collaborative must maintain an annual debt service coverage ratio of 1.15 to 1.0.

NOTE T - SUBSEQUENT EVENTS

On July 16, 2012, the Collaborative signed an amendment to the lease with B&H Peabody Property, LLC for a building in Peabody. Under the amended lease, the lease has been extended for an additional seven years through May 31, 2020. From August 1, 2012 to February 28, 2013, the monthly rent will be completely abated. Then, from March 1, 2013 through May 31, 2013, the monthly lease payment will be \$18,559. Starting June 1, 2013, the annual lease amount will be \$228,008 and will increase \$5,303 a year until May 31, 2020. Due to the first seven months of abated rent, the total cost of the lease will be recognized evenly over the lease term using the straight-line method. The Collaborative is also responsible for paying all operating costs, insurance, utilities, and real estate taxes.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE T - SUBSEQUENT EVENTS (Continued)

The following is a revised schedule of future minimum rental payments required under the operating leases:

Year ending June 30,

2013	\$ 366,011
2014	495,622
2015	502,894
2016	515,225
2017	524,003
2018-2022	<u>2,076,059</u>
Total minimum lease payments	<u>\$ 4,479,814</u>

Subsequent to year end, management of the Collaborative has requested that the Board of the Foundation vote to dissolve the Foundation during the fiscal year ending June 30, 2013. No meetings have yet been held to vote on this dissolution.

Management has evaluated the impact of all other subsequent events including the issuance of the waiver as disclosed in Note S above on the Collaborative through December 7, 2012, the date the financial statements were available to be issued, and has determined that there were no other subsequent events requiring adjustment or disclosure in the financial statements.

SHORE EDUCATIONAL COLLABORATIVE

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final</u> <u>Budget-Positive</u> <u>(Negative)</u>
Revenues:				
Educational program fees	\$ 10,516,945	\$ 9,235,645	\$ 9,771,279	\$ 535,634
Medicaid income	5,534,851	5,280,248	5,346,756	66,508
Medicaid municipal billing services	225,000	225,000	159,991	(65,009)
Administrative overhead income	1,530,913	1,368,976	1,379,432	10,456
Other income	576,845	599,625	931,524	331,899
Interest income	3,000	1,000	1,178	178
TOTAL REVENUES	18,387,554	16,710,494	17,590,160	879,666
Expenditures:				
Salaries	10,818,356	9,681,039	10,007,781	(326,742)
Employee benefits	1,805,669	1,684,408	2,412,555	(728,147)
Payroll taxes	758,758	678,555	689,307	(10,752)
Advertising	9,650	6,150	4,649	1,501
Professional fees and contract services	622,525	461,125	489,109	(27,984)
Supplies	187,600	149,100	98,570	50,530
Telephone	62,300	62,300	61,087	1,213
Postage	11,950	11,950	8,427	3,523
Rent	1,168,500	1,168,500	680,632	487,868
Staff training	28,250	15,000	17,893	(2,893)
Rental of equipment	5,500	5,500	3,350	2,150
Transportation	70,660	67,160	67,639	(479)
Printing and publications	19,500	19,500	17,879	1,621
Food	67,040	67,040	51,469	15,571
Repairs and maintenance	359,600	315,750	223,530	92,220
Utilities	305,925	304,300	260,273	44,027
Insurance	85,729	77,767	62,174	15,593
Client recreation	20,500	14,000	11,822	2,178
Miscellaneous	75,800	72,800	82,882	(10,082)
Administrative overhead charges	1,530,913	1,368,976	1,379,432	(10,456)
Debt service	16,250	16,250	795,863	(779,613)
Capital outlay	253,150	109,790	228,627	(118,837)
Bad debt	-	-	16,293	(16,293)
TOTAL EXPENDITURES	18,284,125	16,356,960	17,671,243	(1,314,283)
NET CHANGE IN FUND BALANCES	103,429	353,534	(81,083)	(434,617)
Fund balances - beginning	60,380	60,380	60,380	-
FUND BALANCES - ENDING	\$ 163,809	\$ 413,914	\$ (20,703)	\$ (434,617)

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE

SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH INSURANCE PLAN

JUNE 30, 2012

<u>Actuarial Valuation Date, July 1,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>
2009 OPEB	\$ -	\$ 1,525,982	\$ 1,525,982	0.00%
2010 OPEB	\$ -	\$ 1,760,182	\$ 1,760,182	0.00%
2011 OPEB	\$ -	\$ 2,062,924	\$ 2,062,924	0.00%

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2012

NOTE A - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The budget is amended by the Board of Directors. All annual appropriations lapse at fiscal year end.

All divisions submit requests for budgets to the Director of Finance and Operations so that a budget may be prepared. The budget is prepared by fund, function, and program type, and includes information on the prior and current year budgets. The proposed budget is submitted to the Board of Directors for approval each year. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the program level.

B. Excess of expenditures over appropriations

For the year ended June 30, 2012, expenditures exceeded appropriations by \$434,617.

C. Reconciliation of net change in fund balance - general fund to net change in fund balances - budgetary basis:

Net change in fund balances - general fund	\$ (81,083)
Debt service difference	779,613
Capital outlay difference	118,837
Revenue excess	(879,666)
Expenses excess	<u>415,833</u>
Net change in fund balances – budgetary basis	<u>\$ 353,534</u>