

SEEM Collaborative

Financial Statements
and Supplementary Information

June 30, 2014

SEEM Collaborative

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FRITZ DEGUGLIELMO LLC
*CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
SEEM Collaborative
Stoneham, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of SEEM Collaborative (a collaborative organized under the Laws of the Commonwealth of Massachusetts), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, revenues and functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SEEM Collaborative, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited SEEM Collaborative's 2013 financial statements, and our report dated November 12, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized

comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and Schedule of Funding Progress – Other Post-Employment Healthcare Benefits on pages 3–4 and 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SEEM Collaborative’s basic financial statements. The accompanying budgetary comparison information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison information on page 18 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014, on our consideration of SEEM Collaborative’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SEEM Collaborative’s internal control over financial reporting and compliance.



Certified Public Accountants

Newburyport, Massachusetts

November 13, 2014

SEEM Collaborative

Management's Discussion and Analysis

June 30, 2014

Our discussion and analysis of SEEM Collaborative's ("The Collaborative") financial performance provides an overview of the Collaborative's financial activities for the fiscal year ended June 30, 2014 with comparative information from the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the financial statements that begin on page 5.

This financial report consists of several financial statements:

Statement of Net Position – The Statement of Net Position provides a presentation of the Collaborative's assets and liabilities, as well as remaining net position, as of the date of the financial statements. The purpose of the Statement of Net Position is to present a fiscal snapshot of the Collaborative to the readers of the financial statements and includes year-end information concerning current and noncurrent assets, current and noncurrent liabilities, and net position and deferred inflows and outflows, if any.

Statement of Revenues, Expenses and Changes in Net Position – The Statement of Revenues, Expenses and Changes in Net Position presents the results of the operations of the Collaborative, providing information of the revenue sources and related expenses during the year. This statement helps users to determine whether the Collaborative had sufficient revenues to cover expenses during the year and its net increase or decrease in net position based on current year operations.

Statement of Revenues and Functional Expenses – The Statement of Revenues and Functional Expenses identifies revenues and expenses incurred during the year by functional classification and provides additional detail of expenses. This statement helps users to determine what the Collaborative is spending its resources on.

Statement of Cash Flows – The Statement of Cash Flows provides information on the cash receipts and cash disbursements during the year and the changes in working capital components. This statement is an important tool in assisting users in assessing the Collaborative's cash flow sources and uses. This statement also assists users in assessing the Collaborative's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Notes to the Financial Statements – The Notes to the Financial Statements provide additional information that is essential to a full understanding of the information provided in the Collaborative's financial statements.

FINANCIAL HIGHLIGHTS

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|--------------------|--------------------|--------------------|
| ASSETS | | | |
| Total Current Assets | \$8,039,676 | \$7,992,956 | \$7,180,084 |
| Total Non-current Assets | <u>226,874</u> | <u>241,481</u> | <u>143,499</u> |
| Total Assets | <u>\$8,266,550</u> | <u>\$8,234,437</u> | <u>\$7,323,583</u> |
| LIABILITIES | | | |
| Total Current Liabilities | \$2,857,449 | \$3,285,661 | \$2,562,266 |
| Total Non-current Liabilities | <u>3,910,683</u> | <u>3,092,146</u> | <u>2,334,043</u> |
| Total Liabilities | <u>\$6,768,132</u> | <u>\$6,377,807</u> | <u>\$4,896,309</u> |
| Board designated – unrestricted | \$ 466,100 | \$ 444,475 | \$ 444,475 |
| Net position – unrestricted | 805,444 | 1,170,674 | 1,839,300 |
| Invested in capital assets, net of related debt | <u>226,874</u> | <u>241,481</u> | <u>143,499</u> |
| Total Net Position | <u>\$1,498,418</u> | <u>\$1,856,630</u> | <u>\$2,427,274</u> |

SEEM Collaborative's net position decreased by approximately \$358,000 and \$571,000 in fiscal 2014 and 2013, respectively. During fiscal 2014 and 2013, SEEM Collaborative recorded increases in net retirement health benefit obligations required by GASB 45 of \$818,537 and \$758,103, respectively. Changes in net position before these increases were approximately \$460,000 and \$187,000 in fiscal 2014 and 2013, respectively. The surplus in fiscal 2014 was a result of revenues exceeding expenses during the year. The Collaborative closed all accounts held for municipalities in fiscal 2014 and recorded no deferred revenues as of June 30, 2014.

SEEM Collaborative

Management's Discussion and Analysis

June 30, 2014

FINANCIAL HIGHLIGHTS – *Continued*

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|---------------------|
| Operating Revenues | \$25,664,870 | \$24,463,683 | \$22,918,643 |
| Operating Expenses | <u>25,206,988</u> | <u>24,279,070</u> | <u>23,088,695</u> |
| Change in operating net position | 457,882 | 184,613 | (170,052) |
| Non-operating Revenues | <u>2,443</u> | <u>2,846</u> | <u>5,260</u> |
| Change in net position, before increase in net retirement health benefit obligation | 460,325 | 187,459 | (164,792) |
| Increase in net retirement health benefit obligation | (818,537) | (758,103) | (536,849) |
| Total net position – beginning, as adjusted | <u>1,856,630</u> | <u>2,427,274</u> | <u>3,128,915</u> |
| Total net position – ending | <u>\$ 1,498,418</u> | <u>\$ 1,856,630</u> | <u>\$ 2,427,274</u> |

During the years ended June 30, 2014 and 2013, operating revenues increased by approximately \$1,201,000 and \$1,545,000, respectively. The increase in fiscal 2014 revenues was primarily from additional tuition and program services revenues of approximately \$960,000, additional other services revenue of approximately \$50,000, and additional transportation services of approximately \$165,000. The increase in fiscal 2013 revenues was primarily from additional tuition and program services revenues of approximately \$1,219,000, additional other services revenue of approximately \$175,000, and additional transportation services of approximately \$152,000. During the years ended June 30, 2014 and 2013, operating expenses increased approximately \$928,000 and \$1,190,000 respectively. The increases in expenses for the years ended June 30, 2014 and 2013 were primarily due to increases in personnel and transportation costs that correspond to increases in program and other service revenues.

Non-operating revenue decreased by approximately \$400 and \$2,400 for the years ended June 30, 2014 and 2013, respectively. The decrease in fiscal 2014 and 2013 was primarily due to less average funds held in interest bearing accounts.

BUDGETARY HIGHLIGHTS

The Collaborative's annual budget for fiscal 2014 was approved by its Board of Directors. For the fiscal year ended June 30, 2014, the Collaborative received revenues, excluding on-behalf payments by the Massachusetts Teachers' Retirement Board and transportation, of approximately \$17,827,000 compared to budgeted revenues of approximately \$17,097,000. The difference between actual revenues received and budgeted revenues is primarily due to significantly higher than expected student enrollments and increased tuitions and fees.

For the fiscal year ended June 30, 2014, the Collaborative incurred actual expenditures, excluding on-behalf payments by the Massachusetts Teachers' Retirement Board and transportation, of approximately \$17,600,000 compared to budgeted expenditures of approximately \$17,106,000. The difference between actual expenditures incurred and budgeted expenditures is primarily due to higher than expected personnel costs required to provide services to the additional students enrolled.

CAPITAL ASSET AND OBLIGATIONS

The Collaborative purchased approximately \$56,000 of capital assets for programs during fiscal 2014.

CONTACTING THE COLLABORATIVE

This financial report is designed to provide readers of the financial statement an overview of the Collaborative's financial activities. If you have any questions in regard to this report, please contact our finance department at (781) 279-1361.

SEEM Collaborative
Statement of Net Position
June 30, 2014
(with summarized financial information as of June 30, 2013)

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents - unrestricted | \$ 4,945,359 | \$ 4,625,742 |
| Cash and cash equivalents - designated | 466,100 | 444,475 |
| Accounts receivable, net | 2,588,288 | 2,602,299 |
| Prepaid expenses and other assets | 39,929 | 14,400 |
| Cash held for municipalities | <u>-</u> | <u>306,040</u> |
| Total Current Assets | <u>8,039,676</u> | <u>7,992,956</u> |
| Non-current Assets | | |
| Furniture, equipment and leasehold improvements, net | <u>226,874</u> | <u>241,481</u> |
| Total Non-current Assets | <u>226,874</u> | <u>241,481</u> |
| Total Assets | <u>\$ 8,266,550</u> | <u>\$ 8,234,437</u> |
| LIABILITIES AND NET POSITION | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 2,857,449 | \$ 2,873,063 |
| Deferred revenues | - | 106,558 |
| Member municipality accounts | <u>-</u> | <u>306,040</u> |
| Total Current Liabilities | <u>2,857,449</u> | <u>3,285,661</u> |
| Long Term Liabilities: | | |
| Net retirement health benefit obligation | <u>3,910,683</u> | <u>3,092,146</u> |
| Total Liabilities | <u>6,768,132</u> | <u>6,377,807</u> |
| Net Position | | |
| Operating-unrestricted | 1,271,544 | 1,615,149 |
| Invested in capital assets, net of related debt | <u>226,874</u> | <u>241,481</u> |
| Total Net Position | <u>1,498,418</u> | <u>1,856,630</u> |
| Total Liabilities and Net Position | <u>\$ 8,266,550</u> | <u>\$ 8,234,437</u> |

See accompanying notes to financial statements and independent auditor's report.

SEEM Collaborative
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2014
(with summarized financial information for the year ended June 30, 2013)

| | 2014 <u>Total</u> | 2013 <u>Total</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Massachusetts Teachers' Retirement Board | \$ 299,240 | \$ 273,968 |
| Services and other program revenues | 25,310,630 | 24,134,715 |
| Member fees | 55,000 | 55,000 |
| Total Operating Revenues | <u>25,664,870</u> | <u>24,463,683</u> |
| OPERATING EXPENSES | | |
| Program | 24,027,271 | 22,999,625 |
| Administrative | 1,179,717 | 1,279,445 |
| Total Operating Expenses | <u>25,206,988</u> | <u>24,279,070</u> |
| Change in Operating Net Position | <u>457,882</u> | <u>184,613</u> |
| NON-OPERATING REVENUES | | |
| Interest | 2,443 | 2,846 |
| Total Non-operating Revenues | <u>2,443</u> | <u>2,846</u> |
| Change in Net Position, before increase in net retirement health benefit obligation | 460,325 | 187,459 |
| Increase in net retirement health benefit obligation | <u>(818,537)</u> | <u>(758,103)</u> |
| Change in Net Position | (358,212) | (570,644) |
| Net Position – Beginning of Year | <u>1,856,630</u> | <u>2,427,274</u> |
| Net Position – End of Year | <u>\$ 1,498,418</u> | <u>\$ 1,856,630</u> |

See accompanying notes to financial statements and independent auditor's report.

SEEM Collaborative
Statement of Revenues and Functional Expenses
For the year ended June 30, 2014
(with summarized financial information for the year ended June 30, 2013)

| | SEEM Programs | Trans- portation | Other Services | Admin- istrative | 2014 Total | 2013 Total |
|--------------------------------------|----------------------|---------------------|-------------------|---------------------|----------------------|----------------------|
| Revenues | | | | | | |
| Services and other program revenues | \$ 16,974,307 | \$ 7,541,124 | \$ 795,199 | \$ - | \$ 25,310,630 | \$ 24,134,715 |
| Membership fees | - | - | - | 55,000 | 55,000 | 55,000 |
| Mass. Teachers' Retirement | 299,240 | - | - | - | 299,240 | 273,968 |
| Interest | - | - | - | 2,443 | 2,443 | 2,846 |
| | <u>\$ 17,273,547</u> | <u>\$ 7,541,124</u> | <u>\$ 795,199</u> | <u>\$ 57,443</u> | <u>\$ 25,667,313</u> | <u>\$ 24,466,529</u> |
| Expenses | | | | | | |
| Payroll and related benefits | \$ 13,583,570 | \$ - | \$ 769,160 | \$ 881,979 | \$ 15,234,709 | \$ 14,407,684 |
| Professional services | 110,737 | - | 7,125 | 74,356 | 192,218 | 242,575 |
| Rent and utilities | 1,053,208 | - | 19,916 | 88,429 | 1,161,553 | 1,114,090 |
| Maintenance | 321,915 | - | - | 23 | 321,938 | 257,504 |
| Supplies | 360,779 | - | 12,450 | 28,572 | 401,801 | 523,988 |
| Insurance | 74,630 | - | 4,334 | 54,991 | 133,955 | 126,781 |
| Transportation | - | 7,307,402 | - | - | 7,307,402 | 7,159,633 |
| Food service | 108,190 | - | - | - | 108,190 | 120,140 |
| Travel, field trips, and conferences | 90,447 | - | 20,890 | 4,808 | 116,145 | 119,576 |
| Telephone and internet | 24,079 | - | 4,848 | 24,049 | 52,976 | 42,629 |
| Training | 27,096 | - | 41,361 | 6,102 | 74,559 | 71,539 |
| Miscellaneous | 16,251 | - | 175 | 14,738 | 31,164 | 35,253 |
| Depreciation | 68,708 | - | - | 1,670 | 70,378 | 57,678 |
| | <u>\$ 15,839,610</u> | <u>\$ 7,307,402</u> | <u>\$ 880,259</u> | <u>\$ 1,179,717</u> | <u>\$ 25,206,988</u> | <u>\$ 24,279,070</u> |

See accompanying notes to financial statements and independent auditor's report.

SEEM Collaborative
Statement of Cash Flows
For the year ended June 30, 2014

| | |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from members and others | \$ 25,273,083 |
| Payments to suppliers and others | (12,183,794) |
| Payments to employees | <u>(12,694,719)</u> |
| Cash provided by operating activities | <u>394,570</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Receipts from interest | 2,443 |
| Purchase of capital assets | <u>(55,771)</u> |
| Cash used in investing activities | <u>(53,328)</u> |
| Net increase in cash and cash equivalents | 341,242 |
| Cash and cash equivalents at beginning of year | <u>5,070,217</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 5,411,459</u></u> |
| Supplemental Data: | |
| Interest paid | <u>\$ -</u> |
| Taxes paid | <u><u>\$ -</u></u> |
| Reconciliation of change in operating net position to net cash provided by operating activities: | |
| Operating Activities | |
| Change in operating net position | \$ 457,882 |
| Adjustments to reconcile change in operating net position to net cash provided by operating activities: | |
| Depreciation | 70,378 |
| Change in working capital | |
| Accounts receivable | 14,011 |
| Prepaid expenses and other assets | (25,529) |
| Accounts payable and other liabilities | (15,614) |
| Deferred revenues | <u>(106,558)</u> |
| Cash provided by operating activities | <u><u>\$ 394,570</u></u> |

See accompanying notes to financial statements and independent auditor's report.

SEEM Collaborative

Notes to Financial Statements

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

SEEM Collaborative was created by agreement pursuant to the provisions of Section 4E of Chapter 40, as Amended by Chapter 797 of the Acts of 1974 and by Chapter 43 of the Acts of 2012 by the following school committees: Lynnfield, Melrose, North Reading, Reading, Saugus, Stoneham, Wakefield, Wilmington, Woburn, and Winchester. The purpose of the agreement is to provide special programs and services for school children under the members' jurisdiction. The Collaborative also provides services to non-member districts as services are requested.

The Collaborative's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments and governmental entities through its pronouncements (Statements and Interpretations). Governments and governmental entities are also required to follow pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

The Governmental Accounting Standards Board allows governmental not-for-profits that reported using the AICPA not-for-profit model to report under GASB Statement No. 34 as a special purpose government engaged only in business type activities. As such, the basic financial statements of the Collaborative are reported on the same basis as an enterprise fund, which is a proprietary fund in fund financial statements. The Collaborative does not have any funds other than the enterprise fund, and it is not a proprietary fund that is part of a government wide financial statement. As such, the notations "enterprise fund" and "proprietary fund" do not appear on the Collaborative's financial statements.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Collaborative's financial statements for the year ended June 30, 2013, from which the summarized information was derived. Certain reclassifications have been made to the summarized information to be consistent with the presentation in the audited financial statements as of June 30, 2014.

Measurement Focus and Basis of Accounting

These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Cash, Cash Equivalents

For financial statement purposes, the Collaborative considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Revenues and Expenses

Revenues consist primarily of billings to member municipalities or other cities and towns for providing programs and services. Expenses include educational costs, administrative expenses and depreciation on capital assets.

SEEM Collaborative

Notes to Financial Statements

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounts Receivable

Accounts receivable consist of tuition and other services billed but not received as of June 30, 2014. At June 30, 2014, accounts receivable consisted of:

| | |
|---------------------------|---------------------|
| Services – SEEM programs | \$ 1,268,561 |
| Services - transportation | <u>1,319,727</u> |
| | <u>\$ 2,588,288</u> |

Deferred Revenue

Revenue is recognized when earned, however funds received that are not earned as of year-end are recorded as deferred revenue in the financial statements.

Member Municipality Accounts

Member accounts are an accumulation of various transactions by certain members whereby amounts are held in trust for use by the specific municipalities for special needs programs. The Collaborative closed all accounts held for municipalities in fiscal 2014.

Property and Equipment

Furniture and equipment are capitalized where the Collaborative maintains possession of the assets and expects future benefits to exceed one year. The assets are stated at cost less accumulated depreciation computed on the straight-line method. The useful lives are estimated to be five to ten years for equipment and five years for leasehold improvements. The Collaborative capitalizes assets purchased in excess of \$5,000.

Property and equipment is as follows:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|-------------------|-------------------|
| Office furniture and equipment | \$ 242,637 | \$ 241,995 |
| Vehicles | 182,310 | 127,181 |
| Leasehold improvements | <u>396,161</u> | <u>396,161</u> |
| | 821,108 | 765,337 |
| Accumulated depreciation | <u>(594,234)</u> | <u>(523,856)</u> |
| Property and equipment, net | <u>\$ 226,874</u> | <u>\$ 241,481</u> |

Depreciation expense for the year ended June 30, 2014 was \$70,378.

Net Position

Net position is displayed in three components:

- 1) Invested in Capital Assets – This account consists of capital assets, including restricted capital assets, net of accumulated depreciation that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted – This account consists of assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- 3) Unrestricted – All other net assets that do not meet the definition of “invested in capital assets” or “restricted”. Revenues are reported as increases in unrestricted unless use of the related assets is limited by donor-imposed restrictions and/or time restrictions. Revenues are reported as unrestricted if the donor-imposed restrictions are met in the same reporting period. Expenses are reported as decreases in unrestricted.

SEEM Collaborative

Notes to Financial Statements

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of Estimates

Management used estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Contributions

The Collaborative reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net position is reclassified to unrestricted net position and reported in the statement of activities as net position released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Functional Allocation of Expenses

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

Subsequent Events

Subsequent events have been evaluated through November 13, 2014, which is the date the financial statements were available to be issued.

NOTE B – LEASE OBLIGATIONS

Operating Leases

The Collaborative has leases for office space and classroom space in the various locations. With the exception of the Collaborative's administrative office, all space is leased from certain member districts' cities and towns. The leases have varying expiration dates through fiscal 2019.

The minimum future rental commitments under the above operating leases are as follows:

| | <u>Year Ending June 30</u> |
|------|----------------------------|
| 2015 | \$ 873,584 |
| 2016 | 115,849 |
| 2017 | 86,289 |
| 2018 | 86,289 |
| 2019 | <u>43,145</u> |
| | <u>\$1,205,156</u> |

Leases with member districts include:

- Town of Wakefield, School Facility – Yeuell School, 7/1/13-6/30/14, renewed for 1 additional year as of 7/1/14.
- Town of Stoneham, School Facility – Central School, 7/1/11-6/30/15.
- Town of Melrose, School Facilities – Ripley School and Beebe School, 8/1/11-7/31/15.
- Town of North Reading, Classroom Space – North Reading Middle, 9/1/13-7/31/14, renewed for 1 additional year as of 7/1/14.

The Collaborative also leases equipment, which consists principally of the leasing of copiers under operating leases that expire over the next two years.

SEEM Collaborative

Notes to Financial Statements

June 30, 2014

NOTE B – LEASE OBLIGATIONS – *(continued)*

The following is a schedule by year of future minimum rental payments required under operating leases for equipment that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2014.

| | <u>Year Ending June 30</u> |
|-------------------|----------------------------|
| 2015 | \$ 41,082 |
| 2016 | 41,082 |
| 2017 | 27,388 |
| 2018 & thereafter | <u>-</u> |
| | <u>\$109,552</u> |

NOTE C – CONCENTRATION OF CREDIT RISK

From time to time the Collaborative maintained bank account balances in a bank in excess of the federally insured limits. However, the bank has additional insurance provided by the Share Insurance Fund in the event of a loss in excess of the FDIC insured limit of \$250,000.

NOTE D – EMPLOYEES’ RETIREMENT PLANS

The Collaborative’s employees participate in the Massachusetts Teachers’ or State Retirement Plan, statewide multiple-employer public employee retirement systems covering all employees of local school districts within the Commonwealth of Massachusetts. These retirement systems are cost sharing public employee retirement systems with one exception; all risks and costs are not shared by the Collaborative but are the liability of the Commonwealth of Massachusetts. These systems are funded primarily through state and employee contributions, and the Collaborative has no legal obligation for paying benefits.

All employees who are employed for one-half or more of the standard workload at a comparable rate of pay are eligible to participate in either the Massachusetts Teachers’ or State Retirement Plan. Participants have a vested right to retirement benefits at age 55 (age 60 for those joining the system after April 2, 2012), with at least 10 years of service, or at any age with at least 20 years of service, if they do not withdraw deposits. The Commonwealth of Massachusetts contributes a percentage of the employee’s gross earnings except for those Collaborative employees being paid from and participating in federally funded programs. The employees contribute a percentage of their gross earnings, based on the date of entry into the plan. These funds are withheld by the Collaborative and transmitted to the Commonwealth. The Collaborative contributes 5.6% of the gross salaries to the Massachusetts State Retirement Plan for those employees not covered under the Massachusetts Teachers Retirement plan or OBRA plan.

In fiscal 2014, the Massachusetts Teachers’ Retirement Board contributed \$299,240 in pension benefits on behalf of teachers in the Collaborative, which have been recognized in these financial statements in accordance with GASB Statement No. 24, “Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.”

NOTE E – RETIREMENT HEALTH BENEFITS

The Collaborative follows the provisions of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.”

SEEM Collaborative

Notes to Financial Statements

June 30, 2014

NOTE E – RETIREMENT HEALTH BENEFITS (*continued*)

Description

The Collaborative offers various medical insurance offerings through Tufts Health Plan to eligible employees. An employee shall become eligible to retire under this plan upon meeting the following conditions:

- i. Completion of 10 years of continuous service at the Collaborative
- ii. Attainment of age 55 as an active member.
- iii. Enrollment in health insurance for the year prior to termination

The plan is administered by the Collaborative and the Collaborative shares in 70% of premiums for Medical insurance.

Funding Policy

The contribution requirements of plan members and the Collaborative are established and may be amended through policy changes enacted by the Collaborative’s board of directors. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2014 fiscal year, total expected Collaborative premiums plus implicit costs for the retiree medical program are \$126,673.

Annual OPEB Cost and Net OPEB Obligation

The Collaborative’s annual other postemployment benefit (“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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the Collaborative’s annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the Collaborative’s net OPEB obligation to the plan:

| | |
|--|--------------------|
| Annual Required Contribution (estimated) | \$864,060 |
| Interest on net OPEB obligation (estimated) | 123,686 |
| Adjustment to annual required contribution (estimated) | (171,941) |
| Amortization of Actuarial (Gains)/Losses | <u>129,405</u> |
| Annual OPEB cost (expense) | 945,210 |
| Contributions Made (expected) | <u>126,673</u> |
| Increase in net OPEB obligation | 818,537 |
| Net OPEB Obligation-beginning of year | <u>3,092,146</u> |
| Net OPEB Obligation-end of year | <u>\$3,910,683</u> |

The Collaborative’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2014 fiscal year and two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Expected Employer Payments | Net OPEB Obligation |
|-------------------|------------------|----------------------------|---------------------|
| 6/30/12 | \$657,365 | \$120,516 | \$536,849 |
| 6/30/13 | \$863,977 | \$105,874 | \$758,103 |
| 6/30/14 (est.) | \$945,210 | \$126,673 | \$818,537 |
| 6/30/15 (est.) | \$1,028,514 | \$138,171 | \$890,343 |

SEEM Collaborative

Notes to Financial Statements

June 30, 2014

NOTE E – RETIREMENT HEALTH BENEFITS (*continued*)

Funding Status and Funding Progress

As of July 1, 2012, the most recent valuation date, the plan was 7.67% funded. The estimated actuarial liability for benefits as of June 30, 2014 was \$6,772,485, and the estimated actuarial value of assets was \$462,254, resulting in an estimated unfunded actuarial accrued liability (UAAL) of \$6,310,231. The estimated covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2014 was \$11,238,437, and the ratio of the UAAL to the covered payroll was 56.15%.

Actuarial valuations of an ongoing plan involve 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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Effect of 1% Change in Healthcare Trend Rates

In the event that healthcare trend rates were 1% higher than forecast and employee contributions were to increase at the forecast rates, the Actuarial Accrued Liability as of July 1, 2012, the most recent valuation date, would increase to \$7,808,447 or by 34.8% and the corresponding Normal Cost would increase to \$972,675 or by 60.6%. If such healthcare trend rates were 1% less than forecast and employee contributions were to increase at the forecast rate, the Actuarial Accrued Liability as of July 1, 2012, the most recent valuation date, would decrease to \$4,097,715 or by 29.3% and the corresponding Normal Cost would decrease to \$413,468 or by 31.7%.

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 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.

Actuarial Cost Method:
Investment Rate of Return:
Healthcare Trend Rates:

Projected Unit Credit
4.00% per annum

| Year | Medical | Dental |
|---------|---------|--------|
| FY 2008 | 11.0% | 8.0% |
| FY 2009 | 10.0% | 7.5% |
| FY 2010 | 9.0% | 7.0% |
| FY 2011 | 8.0% | 6.5% |
| FY 2012 | 7.0% | 6.0% |
| FY 2013 | 6.0% | 5.5% |
| FY 2014 | 5.0% | 5.0% |
| FY 2015 | 5.0% | 5.0% |

SEEM Collaborative

Notes to Financial Statements

June 30, 2014

NOTE E – RETIREMENT HEALTH BENEFITS *(continued)*

General Inflation Assumption: 2.50% per annum
Annual Compensation Increases: 3.00% per annum
Actuarial Value of Assets: Market Value
Amortization of UAAL: Amortized as level dollar amount over 30 years at transition
Remaining Amortization Period: 26 years at July 1, 2012

Impact of Section 9A1/2 of M.G.L. Section 32B

For employees who retire on or after January 1, 2011, whenever a retired employee or beneficiary receives a healthcare premium contribution from a government unit in a case where a portion of the retiree’s creditable service is attributable to service in 1 or more other governmental units, the first governmental unit shall be reimbursed in full, in accordance with this paragraph, by the other governmental units for the portion of the premium contributions that corresponds to the percentage of the retiree’s creditable service that is attributable to each governmental unit. The other governmental units shall be charged based on their own contribution rate or the contribution rate of the first employer, whichever is lower.

For purposes of the valuation the Collaborative has not attempted to value the impact of prior governmental service at other entities in the State of Massachusetts for current employees of the SEEM Collaborative nor has the Collaborative attempted to value the impact of prior SEEM Collaborative employees currently working at other governmental entities in the State of Massachusetts.

Recognition of OPEB trust assets

The State of Massachusetts has recently passed legislation allowing municipal entities to establish a trust for Other Than Postemployment Benefits (“OPEB”) under M.G.L. Chapter 32B, Section 20 for purposes of accumulating assets to prefund the liabilities under GASB Statement No. 45. The Collaborative has not established an irrevocable trust for the purposes of prefunding liabilities under GASB Statement No. 45.

NOTE F – BOARD DESIGNATED FUNDS

As of June 30, 2014, the Board of Directors of the Collaborative has designated \$466,100 for retiree health benefits described in Note E.

NOTE G – DISCLOSURES REQUIRED UNDER MASSACHUSETTS GENERAL LAW c.40 § 4E

The five highest paid employees of the Collaborative during fiscal 2014 were as follows:

| Name | Title | Fiscal 2014 Salary |
|-------------------|------------------------------------|---------------------------|
| Catherine Lawson | Executive Director | \$143,273 |
| Gregory Zammuto | Director of Finance and Operations | \$115,054 |
| Ryan Snyder | Supervisor of Behavioral Services | \$102,082 |
| Margery Lerner | Applied Behavior Analyst | \$ 99,935 |
| David Farwell | Program Director | \$ 96,790 |
| Jennifer Thornton | Principal | \$ 96,790 |

All employees listed above were employed by the Collaborative under 12 month contracts.

SEEM Collaborative

Notes to Financial Statements

June 30, 2014

NOTE G – DISCLOSURES REQUIRED UNDER MASSACHUSETTS GENERAL LAW c.40 § 4E - *continued*

The duties of the individuals listed above include:

Executive Director - The executive director is the professional leader of the Collaborative and as such shall be responsible for all matters of decision and administration which come within the scope as executive officer.

Director of Finance and Operations - Ensures the Collaborative's overall financial integrity, stability and best practices in all financial management operations.

Supervisor of Behavioral Services - Provide leadership, supervision and oversight of the consultative BCBA department and the Program based BCBA staff

Applied Behavior Analyst - Provide services for students who present with a wide range of intellectual and emotional disabilities as part of the consultative BCBA department.

Program Principal/Director - Assumes full administrative responsibilities for the operation, maintenance, and climate of their school or program.

Over 21 Program

The Collaborative does not provide services to individuals over age 21.

Administrative Costs

Total administrative costs incurred by the Collaborative totaled \$1,179,717 for the year ended June 30, 2014. Administrative expenses include all costs that cannot be directly or reasonably applied to a program of the Collaborative. Administrative expenses include salaries, related benefits and payroll taxes, associated with the Collaborative's administrative office (i.e., Executive Director, finance staff, human resources, etc.), as well as other costs associated with maintaining that office (i.e. occupancy, supplies, etc.). The Collaborative directly applies salaries, where appropriate, to its programs and allocates related employee benefits and taxes to those programs. Occupancy, supplies, maintenance and any other cost that can be directly applied, or reasonably allocated, are reported under program expense.

Accounts Held on Behalf of Others

During fiscal 2014, the Collaborative returned or used all balances held for member municipalities. As of June 30, 2014, the Collaborative does not hold any accounts on behalf of others.

Related Party Transactions

Leases of space from member districts are described in Note B to the financial statements.

Real Property Transactions

Transactions or contracts related to the purchase, sale, rental, or lease of real property are described in Notes A and B to the financial statements.

SEEM Collaborative
 Required Supplementary Information
 June 30, 2014

Schedule of Funding Progress - Other Post-Employment Healthcare Benefits

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|--------------------------|---------------------------|-----------------------------|--------------------------------------|--------------|-----------------|--------------------------------|
| 7/1/2009 | \$0 | \$4,302,971 | \$4,302,971 | 0.0% | \$7,685,000 | 55.99% |
| 7/1/2010 | \$0 | \$4,998,126 | \$4,998,126 | 0.0% | \$8,754,240 | 57.09% |
| 7/1/2011 | \$0 | \$5,551,610 | \$5,551,610 | 0.0% | \$9,017,000 | 61.57% |
| 7/1/2012 | \$444,475 | \$5,794,670 | \$5,350,195 | 7.7% | \$10,911,104 | 49.00% |
| 7/1/2013 (est.) | \$462,254 | \$6,772,485 | \$6,310,231 | 6.8% | \$11,238,437 | 56.15% |
| 7/1/2014 (est.) | \$480,744 | \$7,836,828 | \$7,356,084 | 6.1% | \$11,575,590 | 63.55% |

See independent auditor's report.

SEEM Collaborative
Statement of Revenues and Expenses
Budget and Actual
For the year ended June 30, 2014

| | Final Budget | Actual Amounts | Variance with Final Budget Favorable (Unfavorable) |
|---|-------------------|---------------------|---|
| Revenues and Other Support: | | | |
| Services and other program revenues - SEEM Programs | \$ 17,036,725 | \$ 17,769,506 | \$ 732,781 |
| Services and other program revenues -Transportation | 6,900,000 | 7,541,124 | 641,124 |
| Member fees | 55,000 | 55,000 | - |
| Interest | 5,000 | 2,443 | (2,557) |
| Massachusetts Teachers' Retirement Board | - | 299,240 | 299,240 |
| | <u>23,996,725</u> | <u>25,667,313</u> | <u>1,670,588</u> |
| Expenses: | | | |
| Payroll and related expenses | 14,730,441 | 14,935,469 | (205,028) |
| Administration | 394,382 | 297,738 | 96,644 |
| Transportation | 6,690,000 | 7,307,402 | (617,402) |
| All other expenses | 1,981,263 | 2,367,139 | (385,876) |
| Increase in net retirement health benefit obligation | - | 818,537 | (818,537) |
| Massachusetts Teachers' Retirement Board | - | 299,240 | (299,240) |
| | <u>23,796,086</u> | <u>26,025,525</u> | <u>(2,229,439)</u> |
| Excess (deficit) of revenue over expenses | <u>\$ 200,639</u> | <u>\$ (358,212)</u> | <u>\$ (558,851)</u> |

See independent auditor's report.



FRITZ DEGUGLIELMO LLC
*CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
SEEM Collaborative
Stoneham, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of SEEM Collaborative (a collaborative organized under the Laws of the Commonwealth of Massachusetts), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, revenues and functional expense, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SEEM Collaborative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SEEM Collaborative's internal control. Accordingly, we do not express an opinion on the effectiveness of SEEM Collaborative's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SEEM Collaborative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Newburyport, Massachusetts

November 13, 2014