

Southeastern Massachusetts Educational Collaborative

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Southeastern Massachusetts Educational Collaborative

Required Supplementary Information

Management Discussion and Analysis

June 30, 2013

Southeastern Massachusetts Educational Collaborative (SMEC) Management Discussion and Analysis is designed to a) assist the reader in focusing on significant financial issues, b) provide an overview of the Collaborative's financial activity, c) identify changes in the Collaborative's financial position (its ability to address the next and subsequent year challenges), d) identify any material deviations from the financial plan (approved budget) and e) identify individual fund issues or concerns.

Since the Management Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Collaborative's financial statements.

Highlights

Financial Highlights

- The Collaborative's tuition funding of \$2,353,496 was from member public school systems and other non-member public school systems in Southeastern Massachusetts.
- The Massachusetts Department of Developmental Services and Massachusetts Commission for the Blind continue their support of the Collaborative's S.A.I.L. (Supporting Adults for Inclusive Living) program through various service contracts totaling \$3,166,361 for the fiscal year. Two of these service contracts were reduced by \$24,324 in accordance with the Corrective Action Plan (CAP) finalized in November 2012 to repay the Commonwealth of Massachusetts for billing errors in 2009 and 2010. See Note 14 for more detail.
- MassHealth supports the Adult Day Health (ADH) Program by funding tuition based on consumer's attendance as well as reimbursing for transportation costs. Also, the Department of Elementary and Secondary Education reimburses food costs for this program. MassHealth payments totaled \$583,591 for tuition and transportation costs and the Department of Elementary and Secondary Education reimbursed the Collaborative \$37,287 for food costs during the fiscal year.
- The assets of the Collaborative exceeded its liabilities at the close of the fiscal year by \$333,166 (net position).

Collaborative Highlights

During Fiscal Year 2013, some of the Collaborative's highlights included:

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- The Collaborative was a partner beneficiary in the amount of \$1,500 from a grant issued to the New Bedford Public Schools to supplement its nursing program. Nursing supplies and Activities of Daily Living (ADL) training materials were purchased for the program.
- In May 2013, the Massachusetts Legislature’s Special Commission on Collaboratives studied and issued findings related to six issues raised as a result of the Collaborative Legislation passed in 2012. Highlights relative to the Collaborative included the authorization to continue to provide adult services to any collaborative that is currently under state contract to provide adult services and the allowance of any other Collaborative whose Board wishes to provide such services to do so if deemed qualified through the respective purchasing state agency.
- During fiscal year 2013, the Collaborative provided compensatory services through its S.A.I.L. program in accordance with the CAP on file with Operational Services Division (OSD) in the amount of \$24,324.
- In September 2012, the Collaborative began leasing a second classroom at Dartmouth High School to house a portion of its Transitional Services Program.
- In February 2013, the Collaborative’s S.A.I.L. program underwent a QUEST program quality audit and received a two year license, the highest level of re-licensure.
- In fiscal year 2013, the Collaborative changed health insurance carriers because of savings to employees at the Collaborative that the old insurance carrier could not offer. The estimated savings from switching insurance carriers was \$112,109.

Using This Annual Report

The following graphic is provided for your review.

MD&A	Management Discussion & Analysis	
Basic Financial Statements	Government-Wide Financial Statements Pages 14 & 15	Fund Financial Statements Pages 16 & 17
	Notes to Financial Statements (expanded/restricted) Pages 21-36	
Other Required Supplementary Information	Pages 37-40	

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The primary focus of local government's financial statements for the last 20 years (summarized fund type information) has been discarded. The new focus is on both – the Collaborative as a whole and the major individual funds. Both perspectives allow the user to address relevant questions, broaden a basis for comparison and enhance the Collaborative's accountability.

Basic Financial Statements

The financial statements include two types of financial statements that present different views of the Collaborative; the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the financial statements that explain some of the information on the financial statements and provide more detail.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the Collaborative's operations in a manner similar to a private sector business. The statements provide both short-term and long-term information about the Collaborative's financial position, which assists in assessing the Collaborative's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The statement of net position presents all of the government's assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in the Collaborative's net position 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. This statement also presents a comparison between direct expenses and program revenues for each function of the Collaborative.

Both of the above financial statements contain only governmental activities as the Collaborative only has such activities within its only fund. Therefore, the Collaborative only presents governmental activities.

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 local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Fund Financial Statements (Continued)

The fund financial statements usually focus on individual parts of the Collaborative reporting the Collaborative's operations. The Collaborative only has a governmental fund which is its general fund.

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, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the 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. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the Collaborative's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the Collaborative.

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 government's near-term financing decisions. Both the governmental funds balance sheet and the governmental Funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the pages immediately following the governmental funds financial statements.

The Collaborative presents one column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balance. The governmental funds financial statements can be found immediately following the government-wide statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide, fund financial statements and also the budget and actual statement. The notes to the financial statements can be found immediately following the statement of revenues and expenditures - budget and actual.

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Management Discussion and Analysis
June 30, 2013

Government-Wide Financial Analysis

	<u>Summary Statement of Net Position</u> <u>Governmental Activities</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Current and other assets	\$1,090,431	\$ 782,869
Capital assets, net of accumulated depreciation	<u>418,618</u>	<u>316,024</u>
<u>Total Assets</u>	<u>1,509,049</u>	<u>1,098,893</u>
Current liabilities	142,927	139,957
Noncurrent liabilities –		
Other post-employment benefits	1,008,346	482,223
Other	<u>24,610</u>	<u>17,196</u>
<u>Total Liabilities</u>	<u>1,175,883</u>	<u>639,376</u>
<u>Net Position</u>		
Net investment in capital assets	399,176	316,024
Restricted	55,500	55,500
Unrestricted	(121,510)	<u>87,993</u>
<u>Total Net Position</u>	<u>\$ 333,166</u>	<u>\$ 459,517</u>

Normal Impacts

There are six basic impacts of the statement of net position summary presentation.

Net Results of Activities - which will impact (increase/decrease) current assets and unrestricted net position.

Borrowing for Capital - which will increase current assets and long-term debt.

Spending of Borrowed Proceeds - which will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the net investment in capital assets.

Spending of Non-borrowed Current Assets on New Capital - which will a) reduce current assets and increase capital assets and b) will reduce unrestricted net position and increase the net investment in capital assets.

Principal Payment on Debt - which will a) reduce current assets and reduce long-term debt and b) reduce unrestricted net position and increase the net investment in capital assets.

Reduction of Capital Assets through Depreciation - which will reduce capital assets and the net investment in capital assets.

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 Management Discussion and Analysis
June 30, 2013

Government-Wide Financial Analysis (Continued)

Current Year Impacts

Net Position - The total net position of the Collaborative exceeded its liabilities for the year ended June 30, 2013 by \$333,166 (presented as “net position”) which included an Other Post-employment Benefits (OPEB) obligation, in the amount of \$1,008,346, as the result of adopting GASB 45 in the fiscal year 2012. Of this amount, \$(121,510) was reported as “unrestricted net position”. Unrestricted net position represents the amount available to be used to meet the Collaborative’s ongoing obligations to member towns and creditors.

The Collaborative’s total net position decreased by \$126,351 in fiscal year 2013. This decrease included the recognition of the noncurrent liability for Other Post-employment Benefits (OPEB) obligation in the amount of \$526,123. As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The components of the net position consist of unrestricted and reserved for building and building improvements.

The impact of fiscal year 2013 on Southeastern Massachusetts Educational Collaborative’s financial position was a reduction in net position of \$126,351 primarily due to the recognition of Other Post-employment Benefits (OPEB) obligation of \$526,123.

Summary Statement of Activities and Changes in Net Position

The following reflects the condensed statement of activities:

	<u>June 30, 2013</u> <u>Governmental</u> <u>Activities</u>	<u>June 30, 2012</u> <u>Governmental</u> <u>Activities</u>
<u>Revenues</u>		
<u>Program revenues:</u>		
Charges for services	\$3,845,211	\$3,454,121
Operating grants and contributions	176,094	1,700
<u>General revenues:</u>		
Tuitions	2,353,496	2,379,271
Miscellaneous	5,872	23,216
Investment income	794	288
<u>Total Revenues</u>	<u>6,381,467</u>	<u>5,858,596</u>
<u>Expenses</u>		
Administration	523,068	495,312
Instruction	1,613,731	1,714,081
Other school services	93,982	100,159
Operations/maintenance	25,412	31,874
Fixed charges	502,445	388,043

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 Management Discussion and Analysis
June 30, 2013

Government-Wide Financial Analysis (Continued)

Expenses (Continued)

Other postemployment benefits	526,123	482,223
Health services	1,301	2,396
Acquisition of equipment	2,618	2,201
Depreciation expense	41,681	22,543
Summer programs	73,301	91,160
Grants	1,919	1,700
S.A.I.L.	2,629,903	2,672,732
ADH	<u>472,334</u>	<u>482,085</u>
<u>Total Expenses</u>	<u>6,507,818</u>	<u>6,486,509</u>
Increase (Decrease) in Net Position	(<u>126,351</u>)	(<u>627,913</u>)
Net Position – beginning of year (as previously reported)	459,517	1,140,493
Prior Period Adjustment	_____ -	(<u>53,063</u>)
Net Position – beginning of year (as restated)	<u>459,517</u>	<u>1,087,430</u>
Net Position – end of year	\$ <u>333,166</u>	\$ <u>459,517</u>

Normal Impacts

There are five basic impacts on revenues and expenses as reflected below.

Revenues

Economic Condition - which can reflect a declining, stable or growing economic environment and has a substantial impact on program and general.

Changing Patterns in Grant Revenue (Both Recurring and Non-recurring) - certain recurring revenues may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year to year comparisons.

Expenses

Introduction of New Programs - within the functional expense categories individual programs may be added or deleted to meet changing community needs.

Increase in Authorized Personnel - changes in service demand may cause the Collaborative to increase/decrease authorized staffing. Staffing costs (salary and related benefits) represent approximately 70% of the Collaborative's operating costs.

Government-Wide Financial Analysis (Continued)

Salary Increases (Cost of Living, Merit and Market Adjustment) - the ability to attract and retain human and intellectual resources requires the Collaborative to strive to approach a competitive salary range position in the marketplace.

Current Year Impacts

Revenues

Major revenue sources of the governmental activities consist of charges for services and tuitions which represented approximately 62.24% and 38.51% of total 2013 revenues, respectively. Charges for services increased 11.32% for the year while tuitions decreased 1.08% for the year.

Expenses

During the current year total expenses were approximately the same as the previous year with the additional OPEB expense recognition. Lower health insurance costs, after switching to a new carrier in FY 2013, helped to keep expenses the same as the previous fiscal year. Payroll and related fringe benefits were also lower even though charges for services increased. The overall percentage change for the combined administrative expenses, instruction expenses and fixed charges was a decrease of 5.10% from the previous fiscal year.

As a result, net position decreased during the year by \$126,351 which was \$501,562 less than the previous year. This large difference in the change in net position between the two fiscal years is primarily due to the recognition of Other Postemployment Benefits (OPEB) obligation which began in fiscal year 2012.

Financial Analysis of the Government's Funds

As indicated earlier, all the Collaborative activities are accounted for in one fund, general fund using fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

As the Collaborative completed the year, its governmental funds reported a total fund balance of \$990,090. The fund balance increased \$289,650 from the last fiscal year.

In addition, cash decreased by \$144,584 and receivables increased by \$452,146, both related to each other. Cash decreased mainly because the Collaborative was due a higher amount of receivables at year end than in the previous fiscal year. Receivables were higher because of the timing of when payments were mailed from member and nonmember towns as well as when the state chose to electronically process payments. Also, liabilities increased by \$17,912. This increase was related to a higher amount of expenses accrued at year end than in the previous fiscal year because there was unexpended budget remaining that could be spent for fiscal year 2013.

Southeastern Massachusetts Educational Collaborative
Management Discussion and Analysis
June 30, 2013

General Fund Budgetary Highlights

The major differences between the original budget and the final budget were mostly related to payroll costs. Some of the payroll costs in this budget are difficult to forecast because of various factors related to the programs such as the changing needs of consumers and students as well as the unpredictability of employees. The schedule of budgetary information is provided on page 20.

Capital Assets and Debt Administration

The Collaborative's investment in capital assets includes an office building and security equipment totaling \$313,634 with accumulated depreciation totaling \$75,962 as well as vehicles costing \$256,926 with accumulated depreciation totaling \$75,980. The Collaborative's capitalization policy is to capitalize assets costing \$5,000 or greater with a useful life of 3 years or more. In fiscal year 2013, six vans and one car were purchased: van one had a cost of \$13,880 with accumulated depreciation totaling \$1,138, with related debt at the end of the fiscal year in the amount of \$9,876; van two had a cost of \$13,445 with accumulated depreciation totaling \$1,103, with related debt at the end of the fiscal year in the amount of \$9,566; van three had a cost of \$12,500 with accumulated depreciation totaling \$1,367; van four had a cost of \$24,100 with accumulated depreciation totaling \$3,201; van five had a cost of \$24,100 with accumulated depreciation totaling \$2,983; van six had a cost of \$24,100 with accumulated depreciation totaling \$2,588; and the one car had a cost of \$13,355 with accumulated depreciation totaling \$1,457. Therefore, net position in the net investment in capital assets is \$399,176 for the fiscal year.

Economic Factors and Next Year's Budget

The original Administrative budget for fiscal year 2014 was approved at the April 30, 2013 board meeting in the amount of \$590,056; the original Student Services budget for fiscal year 2014 was approved at the April 30, 2013 board meeting in the amount of \$2,497,487 of which \$200,000 was allocated as administrative costs; the original S.A.I.L. budget was approved at the May 30, 2013 board meeting in the amount of \$3,865,207 of which \$410,319 was allocated as administrative costs and \$26,532 as payments required under the Corrective Action Plan; and the original ADH budget was approved at the May 30, 2013 board meeting in the amount of \$577,302 of which \$51,255 was allocated as administrative costs.

Per Executive Order No. 536 which established Chapter 257 of the Acts of 2008 Provider and Consumer Advisory Council, "Chapter 257 was intended to establish payment rates that are reasonable and adequate to meet the costs which are incurred by efficiently and economically operated social service program providers and take into account factors, including, but not limited to the reasonable cost to providers of any existing or new governmental mandates, a cost adjustment factor to reflect changes in reasonable costs of goods and services of social service programs including those attributed to inflation, and geographic differences in wages, benefits, housing and real estate costs within the Commonwealth." On July 1, 2013, the Executive Office of Health and Human Services (EOHHS) enacted new rates under this Chapter for specific service classes per the

Economic Factors and Next Year's Budget (Continued)

Chapter 257 Implementation Plan, which substantially increased the Collaborative's rate under their Employment Support Contract to \$47.96 per hour for fiscal year 2014. Under this same Chapter, the Collaborative's rate for their Residential Contract is anticipated to increase in April of 2014.

In fiscal year 2013, the Collaborative provided approximately half of the amount due to the Commonwealth of Massachusetts, as compensatory services under the Corrective Action Plan (CAP) with the Department of Developmental Services (DDS). The remaining amount due is being repaid on a monthly basis by reducing two service contracts for the compensatory services provided in those months. The balance due will be paid in entirety by June 30, 2014. See Note 14 for more detail on the Corrective Action Plan.

Per the new requirements enacted as part of M.G.L. c. 40, § 4E, "An Act Relative to Improving Accountability and Oversight of Education Collaboratives," the Collaborative has revised their Articles of Agreement and is currently awaiting final approval from the Department of Elementary and Secondary Education.

Change in Accounting Principles/Restatement

The Collaborative implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position.

Requests for information

This financial report is designed to provide a general overview and seeks to demonstrate the Collaborative's accountability for the money it receives. Questions concerning any of the information provided in this report or a request for additional information should be addressed to Catherine S. Cooper, Executive Director at Southeastern Massachusetts Educational Collaborative (SMEC), 12 Welby Road, New Bedford, MA 02745.

BENOIT & McARDLE, P.C.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Southeastern Massachusetts
Educational Collaborative
New Bedford, Massachusetts

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities of Southeastern Massachusetts Educational Collaborative, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibility (Continued)

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

As is the practice with many governmental units in the Commonwealth of Massachusetts, the Collaborative follows certain accounting practices, which vary, from accounting principles generally accepted in the United States of America. As described in Note 3 to the financial statements, pension costs are provided on a pay as you go basis, instead of an actuarial basis as required by accounting principles generally accepted in the United States of America.

In our opinion, except for the effects, if any, of the departure and omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Southeastern Massachusetts Educational Collaborative, as of June 30, 2013, and the respective changes in financial position, and, the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 10 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 opinions on the financial statements that collectively comprise the Southeastern Massachusetts Educational Collaborative's basic financial statements. The accompanying Statement of Revenues and Expenditures – Budget and Actual is

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information (Continued)

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

The introductory and statistical sections have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2013, on our consideration of the Southeastern Massachusetts Educational Collaborative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Southeastern Massachusetts Educational Collaborative's internal control over financial reporting and compliance.

Other Reporting Requirements

The supplementary information included in Schedules A and B required for the Uniform Financial Statements and Independent Auditor's Report (UFR) is presented solely for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is a representation of Southeastern Massachusetts Educational Collaborative's management and 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 on it.

Benoit & McArdle, P.C.

Benoit & McArdle, P.C.
Certified Public Accountants

Marion, Massachusetts
November 18, 2013

Southeastern Massachusetts Educational Collaborative

Statement of Net Position

June 30, 2013

		<u>Governmental Activities</u>
<u>Assets</u>		
<u>Current Assets:</u>		
Cash		\$ 158,699
Receivables		931,732
<u>Total Current Assets</u>		<u>1,090,431</u>
<u>Non-current Assets:</u>		
<u>Capital Assets:</u>		
<u>Nondepreciable Assets:</u>		
Land		90,000
<u>Depreciable Assets:</u>		
Buildings	\$ 223,634	
Less accumulated depreciation	<u>(75,962)</u>	147,672
Vehicles	256,926	
Less accumulated depreciation	<u>(75,980)</u>	<u>180,946</u>
<u>Total Capital Assets</u>		<u>418,618</u>
<u>Total Assets</u>		<u>\$ 1,509,049</u>
<u>Liabilities</u>		
<u>Current Liabilities:</u>		
Accounts payable		\$ 100,341
Due to Commonwealth of Massachusetts		28,739
Current portion of long-term liabilities		13,847
<u>Total Current Liabilities</u>		<u>142,927</u>
<u>Long-term Liabilities:</u>		
Other postemployment benefits obligation		1,008,346
Compensated absences		12,554
Note payable		12,056
<u>Total Long-term Liabilities</u>		<u>1,032,956</u>
<u>Total Liabilities</u>		<u>1,175,883</u>
<u>Net Position</u>		
<u>Net Position:</u>		
Net investment in capital assets		399,176
Restricted		55,500
Unrestricted		<u>(121,510)</u>
<u>Total Net Position</u>		<u>\$ 333,166</u>

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

Southeastern Massachusetts Educational Collaborative

Statement of Activities

For the Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenues and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in Net Position</u>
			<u>Contributions</u>	<u>Governmental Activities</u>
<u>Governmental Activities</u>				
Administration	\$ 523,068	\$ 330,430	-	(192,638)
Instruction	1,613,731	31,365	-	(1,582,366)
Other school services	93,982	-	-	(93,982)
Operations/maintenance	25,412	-	-	(25,412)
Fixed charges	502,445	-	174,194	(328,251)
Other postemployment benefits	526,123	-	-	(526,123)
Health services	1,301	-	-	(1,301)
Acquisition of equipment	2,618	-	-	(2,618)
Depreciation expense	41,681	-	-	(41,681)
Summer programs	73,301	-	-	(73,301)
Grants	1,919	-	1,900	(19)
S.A.I.L.	2,628,695	2,862,538	-	233,843
S.A.I.L. - Interest on debt	1,208	-	-	(1,208)
ADH	471,732	620,878	-	149,146
ADH - Interest on debt	602	-	-	(602)
	<u>\$ 6,507,818</u>	<u>\$ 3,845,211</u>	<u>\$ 176,094</u>	<u>(2,486,513)</u>
 <u>General Revenues</u>				
				2,353,496
Tuitions				5,872
Miscellaneous				794
Investment income				<u>794</u>
				<u>2,360,162</u>
				<u>(126,351)</u>
				<u>459,517</u>
				<u>\$ 333,166</u>

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

Southeastern Massachusetts Educational Collaborative

Governmental Funds Balance Sheet

June 30, 2013

<u>Assets</u>	<u>General Fund</u>
<u>Cash</u>	\$ 158,699
<u>Accounts Receivable:</u>	
Member towns	307,386
Non-member towns	28,879
Commonwealth of Massachusetts	594,872
Self pays and miscellaneous	<u>595</u>
<u>Total Assets</u>	<u>\$ 1,090,431</u>
 <u>Liabilities</u> 	
<u>Liabilities:</u>	
Accounts payable	\$ 50,072
Accrued payroll	34,832
Payroll withholdings	<u>15,437</u>
<u>Total Liabilities</u>	<u>100,341</u>
 <u>Fund Balances</u> 	
<u>Fund Balances:</u>	
Assigned	
Sick leave	55,500
Unassigned	<u>934,590</u>
<u>Total Fund Balances</u>	<u>990,090</u>
 <u>Total Liabilities and Fund Balances</u>	 <u>\$ 1,090,431</u>

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

Southeastern Massachusetts Educational Collaborative

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2013

	<u>General Fund</u>
<u>Revenues</u>	
Tuition member	\$ 2,250,202
Tuition non-member	103,294
DDS revenue	3,038,089
MCB revenue	128,272
DESE revenue	37,287
MassHealth revenue	583,590
Intergovernmental revenue	174,194
Professional development	31,365
Consumer self pays	2,283
Grants	1,900
Investment income	794
Miscellaneous	5,873
<u>Total Revenues</u>	<u>6,357,143</u>
<u>Expenditures</u>	
Administration	521,250
Instruction	1,613,731
Other school services	93,982
Operations/maintenance	25,412
Fixed charges	502,445
Health services	1,301
Acquisition of equipment	15,118
Summer programs	73,301
Grants	1,919
S.A.I.L.	2,714,134
ADH	504,900
<u>Total Expenditures</u>	<u>6,067,493</u>
<u>Excess of Revenues Over Expenditures</u>	289,650
<u>Fund Balance – July 1, 2012</u>	<u>700,440</u>
<u>Fund Balance – June 30, 2013</u>	<u>\$ 990,090</u>

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

Southeastern Massachusetts Educational Collaborative

Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances
to the Statement of Net Position

For the Year Ended June 30, 2013

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

Total Governmental Fund Balances	\$ 990,090
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	\$ 570,560
Accumulated depreciation	<u>(151,942)</u>
	418,618
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the governmental funds.	
Other post employment benefits	(1,008,346)
Compensated absences	(12,554)
Due to Commonwealth of Massachusetts	(28,739)
Vehicle loan includes principal payments during the year	<u>(25,903)</u>
	<u>(1,075,542)</u>
<u>Net Position of Governmental Activities</u>	<u>\$ 333,166</u>

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

Southeastern Massachusetts Educational Collaborative

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2013

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

Net Change in Fund Balance - Total governmental funds:

Excess of revenue and other sources over expenditures and other uses	\$ 289,650
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Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays exceeded depreciation in the current period.

Capitalized vehicles	\$ 125,480	
Capitalized equipment	18,796	
Depreciation on fixed assets	<u>(41,681)</u>	
		102,595

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of principal of long-term debt
consumes the current financial resources of government funds. Neither
transaction has any effect on net position. This amount is the net effect of
these differences in the treatment of long-term debt and related amounts.

New vehicle loan	(27,325)	
Principal debt payments	12,347	
Commonwealth of Massachusetts payments	<u>24,324</u>	
		9,346

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

Other postemployment benefits	(526,123)	
Compensated absence	<u>(1,819)</u>	
		<u>(527,942)</u>

<u>Total Changes in Net Position of Governmental Activities</u>	<u>\$ (126,351)</u>
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The accompanying notes are an integral part of these financial statements.

Southeastern Massachusetts Educational Collaborative

Statement of Revenues and Expenditures

Budget and Actual

For the Year Ended June 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
	<u>Budget</u>	<u>Budget</u>		<u>Favorable</u>
				<u>(Unfavorable)</u>
<u>Revenues and Other Sources</u>				
Tuition member	\$ 2,310,844	\$ 2,310,844	\$ 2,250,202	\$ (60,642)
Tuition non-member	34,751	34,751	103,294	68,543
DDS revenue	3,043,607	3,043,607	3,038,089	(5,518)
MCB revenue	128,272	128,272	128,272	(0)
DESE revenue	27,888	27,888	37,287	9,399
MassHealth revenue	497,502	497,502	583,590	86,088
Intergovernmental revenue	-	-	174,194	174,194
Professional development	50,000	50,000	31,365	(18,635)
Consumer self pays	5,000	5,000	2,283	(2,717)
Grants	-	-	1,900	1,900
Investment income	-	-	794	794
Miscellaneous	31,000	31,000	5,873	(25,127)
	<u>6,128,864</u>	<u>6,128,864</u>	<u>6,357,143</u>	<u>228,279</u>
<u>Expenditures and Other Uses</u>				
Administration	473,554	547,124	521,250	25,874
Instruction	1,656,252	1,681,701	1,613,731	67,970
Other school services	91,650	104,150	93,982	10,168
Operations/maintenance	33,825	33,825	25,412	8,413
Fixed charges	404,375	364,875	328,251	36,624
Fixed charges - Intergovernmental	-	-	174,194	(174,194)
Health services	3,000	3,000	1,301	1,699
Acquisition of equipment	24,900	24,900	15,118	9,782
Summer programs	92,225	92,225	73,301	18,924
Grants	-	1,900	1,919	(19)
S.A.I.L.	2,803,701	2,849,874	2,714,134	135,740
ADH	481,418	511,781	504,900	6,881
	<u>6,064,900</u>	<u>6,215,355</u>	<u>6,067,493</u>	<u>147,862</u>
<u>Excess (Deficiency) of Revenue and</u>				
<u>Other Sources Over (Under) Expenditures</u>				
<u>and Other Uses</u>				
	<u>\$ 63,964</u>	(86,491)	<u>\$ 289,650</u>	<u>\$ 376,141</u>
<u>Budget Balancing Item</u>				
From 2013 unexpended cash balance		<u>86,491</u>		
		<u>\$ -</u>		

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

Southeastern Massachusetts Educational Collaborative

Notes to Financial Statements

June 30, 2013

Note 1 - Organization

Southeastern Massachusetts Educational Collaborative is a public educational collaborative formed under provisions of Massachusetts General Law Chapter 40, Section 4E. The Collaborative's primary purpose is to provide special education services to the public school systems of Acushnet, Dartmouth, Fairhaven, Marion, Mattapoisett, Rochester, Old Rochester Regional School District and New Bedford as well as other nonmember school systems.

Note 2 - Summary of Significant Accounting Policies

Reporting Entity

The Southeastern Massachusetts Educational Collaborative is the basic level of government which has fiscal accountability and control over certain planning concerns of its member towns. The Collaborative's members have the power to designate management and the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units, as defined in Governmental Accounting Standards Board Statement No.14, which are included in the Collaborative's reporting entity.

Use of Estimates in Preparation of Financial Statements

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and Statement of Activities) report information on all of the nonfiduciary activities of the Collaborative. Governmental activities, which are normally supported by assessments and intergovernmental revenues, should be reported separately from business type activities, which rely to a significant extent on fees and charges for support. The Collaborative reports only governmental activities as these activities represent all of the Collaborative's activity and are accounted for using the same basis of accounting.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly

Government-Wide and Fund Financial Statements (Continued)

identifiable with a specific function or segment. 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. Tuitions and other revenues not properly included among program revenues are reported instead as general revenues.

Governmental Funds Financial Statements

Separate financial statements are provided for Governmental Funds. The Collaborative has only one fund, the General Fund which is its primary operating fund. It accounts for all financial resources of the Collaborative.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resource 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. Tuitions are recognized as revenues in the year billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. Internal dedicated resources are reported as general revenues rather than program revenues. Likewise general revenues include tuitions.

Governmental funds 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 as soon thereafter to pay liabilities of the current period.

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences and judgments and claims, are recorded only when payment is mature and due.

Accounts Receivable/Revenue Recognition

Southeastern Massachusetts Educational Collaborative has various grants and contracts from state and other local funding sources. Under reimbursement type contracts, the revenue is stated at amounts equivalent to the program expenses incurred, but not in excess of contract amounts. Amounts to be received by the Collaborative are shown as receivables on the Statement of Net Position.

Capital Assets

Capital assets which include property, vehicles and equipment are reported in the government-wide financial statements.

Capital assets are defined by the Collaborative as assets with an initial, individual cost of more than \$5,000 and an estimated useful life as described below. Capital assets acquired in an unrestricted manner are carried at historical cost and depreciated using the straight-line method over their estimated useful lives. Depreciation is charged to expense. Capital assets acquired in accordance with grant or contract terms are expensed as a period cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized.

Property, vehicles and equipment are depreciated using the straight-line method over the following estimated useful lives as follows:

<u>Asset</u>	<u>Years</u>
Building	40
Vehicles	3-5
Equipment	5-7

Budgets and Budgetary Accounting

Southeastern Massachusetts Educational Collaborative follows these procedures in establishing the budgetary data in the financial statements:

- a) Formal budgeting integration is employed as a management control device during the year for the various programs. These budgets are adopted on a basis other than accounting principles generally accepted in the United States of America.
- b) All budgets including amendments are submitted by the Executive Director for approval at a formal meeting of the Board of Directors.
- c) Unused appropriations for all of the above annually budgeted items lapse at the end of the fiscal year.

Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the Collaborative. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust (“MMDT”).

Southeastern Massachusetts Educational Collaborative
 Notes to Financial Statements (Continued)
June 30, 2013

Deposits and Investments (Continued)

The following summary presents the amount of Collaborative deposits which are fully insured by the FDIC or collateralized with securities held by the financial institution (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Collaborative's name (Category 2) and those deposits which are not collateralized or insured by FDIC (Category 3) at June 30, 2013.

	<u>Category</u>			<u>Bank</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>
Bank Deposits	<u>\$450,324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$450,324</u>

Note 3 - Pension Plans

The Collaborative has two pension plans. They are contributory defined benefit plans requiring mandatory membership beginning with employment of all Collaborative employees working more than half time.

Massachusetts Teachers' Retirement System (MTRS)

Teachers and certain administrative and other professional employees of the Collaborative participate, individually, in a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board. The Collaborative does not contribute to the plan. The Commonwealth of Massachusetts contributed \$174,194 for 2013 to the retirement system on behalf of Collaborative employees. These on-behalf payments are reported by the Collaborative as intergovernmental revenues and pension expenditures in the general fund.

Massachusetts State Retirement System (MSRS)

Collaborative non-teaching employees are members of the Massachusetts State Retirement System. Under the provisions of this retirement plan, employees contribute certain percentages of their pay and are eligible for retirement benefits after meeting the required age and service criteria. The Collaborative contributes a percentage of the payroll for the normal cost determined and assessed by the Massachusetts Public Employee Retirement Administration Commission (PERAC). The last normal cost percentage of payroll was assessed in 1993 at a rate of 7.8%. PERAC recently reviewed the current assessment rate percentage based on current demographic data of the Collaborative and determined a new normal cost assessment rate of 5.6% will be effective July 1, 2012. This pay as you go method does not provide for funding of accrued pension liabilities actuarially. The Collaborative's current year covered payroll and total payroll was \$4,166,397. The Collaborative's contribution to the plan for fiscal year 2013 was \$154,795.

Southeastern Massachusetts Educational Collaborative
Notes to Financial Statements (Continued)
June 30, 2013

Note 3 - Pension Plans (Continued)

Under accounting principles generally accepted in the United States of America, the annual minimum provision for pension costs includes normal cost, interest on unfunded past service cost liability and amortization of unfunded vested benefits for participants in the pension plan.

Member contributions vary depending on date of hire and are based on a percentage of gross regular compensation for both MTRS and MSRS. The contribution rates can vary from 5% to 11%.

The PERAC provides for retirement allowance benefits up to a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

Note 4 - Sick Pay

Accumulated sick pay for the Executive Director is accrued and vested at 25% of accumulated sick days up to a maximum of 180 days. As of June 30, 2013 the accumulated sick pay for the Executive Director is equal to \$12,554 and is listed under compensated absences on the balance sheet. For all other employees, accumulated sick pay is not accrued in the governmental funds, as employees are not vested and are not paid for unused sick days upon termination of employment although unused sick days may be accumulated to a maximum of 180 days.

Note 5 - Commitments Under Non-Capitalized Leases

Southeastern Massachusetts Educational Collaborative is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Collaborative's account groups.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013.

<u>Year Ending</u> <u>June 30</u>	<u>Amounts</u>
2014	\$276,823
2015	221,009
2016	111,188
2017	82,430
2018	-
<u>Totals</u>	<u>\$691,450</u>

Rental expenditures during fiscal year ended June 30, 2013 amounted to \$294,763.

Southeastern Massachusetts Educational Collaborative
Notes to Financial Statements (Continued)
June 30, 2013

Note 6 - Cash

State and local statutes place certain limitations on the nature of deposits and investments available to the Collaborative. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Deposits with Financial Institutions

The carrying amount of the Collaborative's deposits with financial institutions was \$158,698 and the bank balance was \$450,324. The bank balance not insured by the Federal Deposit Insurance Corporation (FDIC) was \$145,226.

Cash - Restricted

Cash held in a separate bank account is restricted for use towards future sick leave and non-capitalized lease liabilities. Also, a fund balance has been designated for this purpose.

Note 7 - Capital Assets

Net Investment in Capital Assets represents a building at historical cost acquired on August 20, 1998. The total cost of the land, building and security equipment was \$313,634. Land has been allocated a cost of \$90,000 and is nondepreciable. The building has an allocated cost of \$204,838 and is depreciated using the straight line method over 40 years with an annual depreciation amount of \$5,121. The Collaborative also has vehicles which have been capitalized and are being depreciated over five years using the straight-line method. The depreciation amount was \$36,561 for the year.

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
<u>Governmental Activities</u>				
Non-depreciable assets				
Land	\$ 90,000	\$ -	\$ -	\$ 90,000
<u>Depreciable Assets</u>				
Building	204,838	18,796		223,634
Vehicle	131,446	125,480	-	256,926
<u>Total Historical Cost</u>	<u>426,284</u>	<u>144,276</u>	<u>-</u>	<u>570,560</u>
<u>Less: Accumulated Depreciation</u>				
Buildings	70,841	5,121		75,962
Vehicles	39,419	36,561	-	75,980
<u>Total Accumulated Depreciation</u>	<u>110,260</u>	<u>41,682</u>	<u>-</u>	<u>151,942</u>
<u>Governmental Activities Capital</u>				
<u>Assets - Net</u>	<u>\$316,024</u>	<u>\$102,594</u>	<u>\$ -</u>	<u>\$418,618</u>

Note 8 - Deferred Compensation Plan

As a political subdivision of the Commonwealth of Massachusetts, the Collaborative is able to offer its employees participation in the Commonwealth of Massachusetts deferred compensation program created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. Contributions to the plan are made at the discretion of the Collaborative's Board. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth of Massachusetts (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth of Massachusetts general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant.

It is the opinion of the Commonwealth of Massachusetts that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth of Massachusetts general creditors; however, plan assets have not been used in the past to satisfy such claims.

The assets and liabilities of the deferred compensation plan are included as an Agency Fund in the Commonwealth of Massachusetts financial statements since the Commonwealth of Massachusetts has title to these assets.

The deferred compensation plan is mandatory and in place of social security for the Collaborative's part time employees. All full time staff can voluntarily contribute a dollar amount to the plan.

In addition to the 457 Deferred Compensation Plan, the Collaborative also offers a voluntary 403(b) Retirement Plan to all full time staff through elective deferral contributions via payroll deductions.

Note 9 - Cafeteria Plan

Effective July 1, 2007 the Collaborative adopted a Section 125 Cafeteria Plan (The Plan) for its employees. Employees may elect to enroll in the Plan so that their share of group health insurance and dental benefits are paid with pre-tax dollars.

Note 10 - Notes Payable

Three notes payable have been recorded in the Statement of Net Position.

The first note payable is payable in monthly installments of \$424.17 including interest at 6.90% for a 5 year term ending October 2014. Interest paid during the fiscal year for this loan was \$625. This note payable is collateralized by a vehicle.

Southeastern Massachusetts Educational Collaborative
Notes to Financial Statements (Continued)
June 30, 2013

Note 10 - Note Payable (Continued)

The second note payable is payable in monthly installments of \$418.72 including interest at 5.29% for a 3 year term ending August 2015. Interest paid during the fiscal year for this loan was \$602. This note payable is collateralized by a vehicle.

The third note payable is payable in monthly installments of \$405.60 including interest at 5.29% for a 3 year term ending August 2015. Interest paid during the fiscal year for this loan was \$583. This note payable is collateralized by a vehicle.

Maturities of long-term debt are as follows:

Year Ending <u>June 30</u>	<u>Amounts</u>
2014 (Current Maturities)	\$ 3,847
2015	11,235
2016	<u>821</u>
Subtotal	25,903
Less: Current Maturities	<u>13,847</u>
Total Long-Term Debt	<u>\$ 12,056</u>

Note 11 - Other Post-employment Benefits (OPEB)

The Collaborative adopted Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions as of July 1, 2011.

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, requires governments to account for OPEB, such as medical insurance, dental and life insurance, on an accrual basis. The effect is the recognition of an actuarially required contribution as an expense on the Government-Wide Statement of Activities when a future retiree earns their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Government-Wide Statement of Net Position over time.

A) A Description of the Retiree Medical Insurance Program

1. Plan Type: Comprehensive medical insurance offered through Tufts Health Plan
2. Administrator: Southeastern Massachusetts Educational Collaborative
3. Eligibility: An employee shall become eligible to retire under this plan upon attainment of age 55 as an active member and completion of 10 years of service or an employee shall be able to retire with 20 years of service regardless of age.
4. Cost Sharing: 50% of premiums in retirement

Note 11 - Other Post-employment Benefits (OPEB) (Continued)

B) A Description of the Dental Insurance Program

1. Plan Type: Comprehensive dental
2. Administrator: Southeastern Massachusetts Educational Collaborative
3. Eligibility: Same as above
4. Cost Sharing: 50% of premiums in retirement

C) A Description of the Retiree Life Insurance Program

1. Plan Type: Group Term Life Insurance - \$5,000
2. Administrator: Southeastern Massachusetts Educational Collaborative
3. Eligibility: Same as above
4. Cost Sharing: 50% of premiums in retirement (one grandfathered participant pays 40%)

D) Retiree Medical, Dental and Life Insurance Contributions

<u>Group</u>	<u>Individual</u>	<u>Family</u>
Medical	50% of Premiums	50% of Premiums
Dental	50% of Premiums	50% of Premiums
Life	50% of Premiums	N/A
	One grandfathered participant pays 40%	

E) Funding Policy

The contribution requirements of plan members and the Collaborative are established and may be amended through Collaborative ordinances. The required contribution is based on the projected pay-as-you-go financing requirements. For fiscal year 2013, the total estimated premiums plus implicit costs for the retiree medical program were \$41,694 but the actual amount paid during the fiscal year was \$17,847.

F) Annual OPEB Cost and Net OPEB Obligation

The Collaborative's annual other post-employment 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 the 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 the change in the Collaborative's net OPEB obligation based on a valuation as of July 1, 2011:

Southeastern Massachusetts Educational Collaborative
Notes to Financial Statements (Continued)
June 30, 2013

Note 11 - Other Post-employment Benefits (OPEB) (Continued)

F) Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual required contribution	<u>\$543,970</u>
Interest on beginning net OPEB obligation	-
Adjustment to annual required contribution	-
Amortization to actuarial (gains) / losses	-
Annual OPEB cost	543,970
Contributions made	<u>(17,847)</u>
Increase in net OPEB obligation	526,123
Net OPEB obligation – beginning of year	<u>482,223</u>
Net OPEB obligation – end of year	<u>\$1,008,346</u>

The Collaborative's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation required for fiscal year 2012 and the two succeeding years including fiscal year 2013 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Expected Employer Payments	Actual Employer Payments	Increase In OPEB Obligation
6/30/2012	\$513,126	\$30,903	\$30,903	\$482,223
6/30/2013 (est.)	\$543,970	\$41,694	\$17,847	\$526,123
6/30/2014 (est.)	\$576,399	\$52,085		\$524,314

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b)-(a)/(c)
7/01/2011	\$0	\$3,310,007	\$3,310,007	0.00%	\$3,740,064	88.50%
7/01/2012 (est.)	\$0	\$3,752,501	\$3,752,501	0.00%	\$3,852,266	97.41%
7/01/2013 (est.)	\$0	\$4,213,489	\$4,213,489	0.00%	\$3,967,834	106.19%

Southeastern Massachusetts Educational Collaborative
Notes to Financial Statements (Continued)
June 30, 2013

Note 11 - Other Post-employment Benefits (OPEB) (Continued)

F) Annual OPEB Cost and Net OPEB Obligation (Continued)

Fiscal Year Ending June 30, 2012:

	Collaborative Employees and <u>Retirees</u>
OPEB obligation at beginning of year	\$ -
Annual OPEB Cost	513,126
Expected employer payments	30,903
Increase in OPEB obligation	482,223
OPEB obligation at end of year	482,223
APBO at beginning of year	3,310,007

Fiscal Year Ending June 30, 2013:

	Collaborative Employees and <u>Retirees</u>
OPEB obligation at beginning of year	\$ 482,223
Annual OPEB Cost	543,970
Expected Employer Payments	41,694
Actual Employer Payments	17,847
Increase in OPEB Obligation	526,123
OPEB Obligation at end of year	1,008,346
APBO at beginning of year	3,752,501

Fiscal Year Ending June 30, 2014:

	Collaborative Employees and <u>Retirees</u>
OPEB obligation at beginning of year	\$ 1,008,346
Annual OPEB Cost	576,399
Expected Employer Payments	52,085
Increase in OPEB Obligation	524,314
OPEB Obligation at end of year	1,532,660
APBO at beginning of year	4,213,489

G) Funded Status and Funding Progress

As of July 1, 2011, the most recent valuation date, the plan was 0% funded. The actuarial liability for benefits was \$3,310,007, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,310,007. The covered payroll (annual payroll of active employees covered by the plan) was \$3,740,064 and the ratio of the UAAL to the covered payroll was 88.5%.

Note 11 - Other Post-employment Benefits (OPEB) (Continued)

H) Effect of 1% Change in Healthcare Trend Rates

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 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. 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 the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In January 2009, the Commonwealth adopted Chapter 479, which amends Chapter 32B and allows local municipalities to establish an OPEB liability trust fund and a funding schedule for the trust fund. However, this chapter did not include Regional Vocational Schools or Educational Collaboratives. The state is currently working on legislation to allow them to establish OPEB liability trust funds as well.

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 would increase to \$4,928,073 or by 48.9% and the corresponding Normal Cost would increase to \$530,770 or by 61.3%. If such healthcare trend rates were 1% less than forecast and employee contributions were to increase at the forecast rate, the Actuarial Accrued Liability would decrease to \$2,094,999 or by 36.7% and the corresponding Normal Cost would decrease to \$183,509 or by 44.2%.

I) 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 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:	Projected Unit Credit		
Investment Rate of Return:	4% per annum (previously N/A)		
Healthcare Trend Rates	<u>Year</u>	<u>Medical</u>	<u>Dental</u>
	FY 2008	11.0%	8.5%
	FY 2009	10.0%	8.0%
	FY 2010	9.0%	7.5%

Note 11 - Other Post-employment Benefits (OPEB) (Continued)

I) Actuarial Methods and Assumptions (Continued)

<u>Year</u>	<u>Medical</u>	<u>Dental</u>
FY 2011	8.0%	7.0%
FY 2012	7.0%	6.5%
FY 2013	6.0%	6.0%
FY 2014	5.0%	5.5%
FY 2015	5.0%	5.0%

General Inflation Assumption:	2.5% per annum
Annual Compensation Increases:	3.0% per annum
Actuarial Value of Assets:	Market Value
Amortization of UAAL:	Level dollar amortization over 30 years at transition
Remaining Amortization Period:	30 years at July 1, 2011

J) Recognition of OPEB Trust Assets

The Commonwealth of Massachusetts has recently passed legislation allowing municipal entities to establish a trust for Other Than Post-employment Benefits (“OPEB”) under M.G.L. Chapter 32B, Section 20 for purposes of accumulating assets to prefund the liabilities under GASB 45. To the best of our knowledge, Southeastern Massachusetts Educational Collaborative has not established an irrevocable trust for the purpose of prefunding liabilities under GASB 45 because the State did not include Educational Collaboratives in the above mentioned chapter.

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

For employees who retire on or after January 1, 2011 whenever a retired employee or beneficiary receives a healthcare premium contribution from a governmental 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 correspond 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 we have not attempted to value the impact of prior governmental service at other entities in the Commonwealth of Massachusetts for current employees of the Southeastern Massachusetts Educational Collaborative nor have we attempted to value the impact of prior Southeastern Massachusetts Educational Collaborative employees currently working at other governmental entities in the Commonwealth of Massachusetts.

Note 12 - Net Position/Fund Balance

The Collaborative implemented Governmental Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and Statement 65, Items Previously reported as Assets and Liabilities, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position.

Net Position

Net position in government-wide financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Collaborative is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board.

Note 12 - Net Position/Fund Balance (Continued)

Fund Balance (Continued)

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Collaborative applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 13 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Collaborative is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the governmental funds are presented as follows:

Assigned	\$ 55,500
Unassigned	<u>934,590</u>
<u>Total Fund Balance</u>	<u>\$990,090</u>

Note 14 - Corrective Action Plan (CAP)

The Collaborative recorded a prior period adjustment in fiscal year 2012 to correct contract billing errors for additional services provided to consumers in 2009 and 2010. The errors were due to the inappropriate use of Limited Use Service Agreements by the Massachusetts Department of Developmental Services and the resulting payments to the Collaborative. These payments were to be refunded to the Commonwealth of Massachusetts by reducing contract payments in fiscal year 2013 and 2014 in accordance with the Corrective Action Plan (CAP) dated November 2012.

During fiscal year 2013, \$24,324 was repaid towards the balance due to the Commonwealth of Massachusetts. The remaining balance is \$28,739 to be repaid in fiscal year 2014.

Note 15 - Line of Credit

On July 24, 2012, the Collaborative was approved for a line of credit agreement with a bank that provides for secured borrowings of up to \$200,000. The secured line of credit is on a revolving basis, and is payable on demand and will be subject to review on an annual basis for renewal. As

Southeastern Massachusetts Educational Collaborative
Notes to Financial Statements (Concluded)
June 30, 2013

Note 15 - Line of Credit (Continued)

collateral for the loan, The Collaborative will grant the bank a valid first mortgage on the property located in New Bedford, Massachusetts along with the assignment of rents and leases. In addition, the Collaborative will grant the bank a valid first security interest in all business assets. The principal amount of the loan outstanding will bear interest at an annual floating rate using the national prime rate plus .50% per annum.

The outstanding balance as of June 30, 2013 was \$ -0- .

Interest paid during the fiscal year was \$ -0- .

Note 16 – Contingencies

Per the new requirements enacted as part of M.G.L. c. 40, § 4E, “An Act Relative to Improving Accountability and Oversight of Education Collaboratives,” the Collaborative has revised their Articles of Agreement and is currently awaiting final approval from the Department of Elementary and Secondary Education.

Note 17 - Subsequent Events

Management has evaluated the impact of all subsequent events on the Collaborative through November 18, 2013, the date the financial statements were available to be issued, and has determined that there were no subsequent events requiring adjustment in the financial statements.

BENOIT & McARDLE, P.C.
Certified Public Accountants

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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
Southeastern Massachusetts Educational
Collaborative
New Bedford, 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 the governmental activities of Southeastern Massachusetts Educational Collaborative, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Southeastern Massachusetts Educational Collaborative's basic financial statements and have issued our report thereon dated November 18, 2013.

Internal Control Over Financial Reporting

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

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

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

Internal Control Over Financial Reporting (Continued)

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 Southeastern Massachusetts Educational Collaborative's financial statements are free of 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.

We noted certain other matters that we reported to management of Southeastern Massachusetts Educational Collaborative in a separate letter dated November 18, 2013.

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.

Benoit & McArdle, P.C.

Benoit & McArdle, P.C.
Certified Public Accountants

Marion, Massachusetts
November 18, 2013

Southeastern Massachusetts Educational Collaborative
 Supplementary Information
 June 30, 2013

Disclosures Required By the Commonwealth of Massachusetts
Chapter 43 of The Acts of 2012 of the Massachusetts General Laws

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

None

2. Transactions or contracts related to the purchase, sale, rental or lease of real property

Acushnet Public Schools	\$ 27,076
Dartmouth Public Schools	13,632
Fairhaven Public Schools	6,816
271 Alden Road, Fairhaven, MA	15,624
Ledgewood Commons	13,800
Olympia Tower Housing	67,815
12 Welby Road, New Bedford, MA	<u>136,000</u>
	<u>\$280,763</u>

3. The names, duties, and total compensation of the 5 most highly compensated employees

<u>Employee</u>	<u>Title</u>	<u>Compensation</u>
Catherine Cooper	Executive Director	\$126,295
Karen Stern	Program Director S.A.I.L. & ADH	100,656
Michelle Goettlich	Student Services Director	81,322
Nelson Cordeiro	Assistant Program Director S.A.I.L.	73,599
Lynn Garcia	Speech Pathologist	71,781

Description of Duties

Executive Director - Responsible for all matters of decision and administration which come within the scope as executive officer. Responsibilities include but are not limited to: confirming that the Collaborative is in compliance with federal and state laws, as applicable; assistance in preparing the Collaborative budgets; overseeing the accounting department; overseeing all programs; and reviewing and submitting monthly attendance records for adult services programs.

Program Director S.A.I.L. & ADH - Responsible for the S.A.I.L. and ADH programs. Responsibilities include but are not limited to: reviewing pre and post ISP paperwork; completing and submitting monthly Department of Developmental Services' census paperwork; completing monthly ESDR reports; completing monthly attendance records for adult services programs; and oversight of personnel and consumers within the adult services programs.

Southeastern Massachusetts Educational Collaborative
Supplementary Information
June 30, 2013

Disclosures Required By the Commonwealth of Massachusetts
Chapter 43 of The Acts of 2012 of the Massachusetts General Laws (Concluded)

3. The names, duties, and total compensation of the 5 most highly compensated employees (continued)

Description of Duties (continued)

Student Services Director - Responsible for all LEA funded school-year and summer programs. Responsibilities include but are not limited to: supervising and coordinating the overall day-to-day operations and maintenance of all LEA funded school-year and summer programs; supervising and evaluating all professional staff within the LEA funded programs; supervising the IEP process and maintenance of student records for all LEA funded students; and confirming that the LEA programs are in compliance with MA Curriculum Frameworks as well as the Department of Elementary and Secondary Education guidelines and procedures, as applicable.

Assistant Program Director S.A.I.L. - Responsible for the S.A.I.L. program as assistant to the Program Director. Responsibilities include but are not limited to: overseeing aspects of the S.A.I.L. budget; review of agency incident reports and HCSIS reports; submitting monthly ESDR reports; review of timesheets and assigned contract hours; and oversight of personnel and consumers within the adult services programs.

Speech Pathologist - Responsible for providing direct therapeutic services for specific students identified as having speech/language deficits. Responsibilities include but are not limited to: providing direct instruction in accordance with students' IEP; providing demonstration therapy and program monitoring to facilitate the implementation of developed programs; and developing long and short term speech, language and auditory goals/objectives for individual students.

4. The amounts expended on administration and overhead

Administration and Overhead	\$523,068
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5. Any accounts held by the Collaborative that may be spent at the discretion of another person or entity

None

6. Amounts expended on services for individuals age 22 and older

For fiscal year 2013, the S.A.I.L. program expended \$2,629,903 and the ADH program expended \$472,334.