

READS COLLABORATIVE
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

READS COLLABORATIVE
BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
READS Collaborative
Middleboro, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the READS Collaborative, Middleboro, Massachusetts, as of and for the year ended June 30, 2015, 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 of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 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 statement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the READS Collaborative, Middleboro, Massachusetts, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof, 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 on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Government 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 READS Collaborative, Middleboro, Massachusetts's basic financial statements. The accompanying Supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The Supplementary Information is the responsibility of management and was derived from and relate 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 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 Information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2015, on our consideration of the READS Collaborative, Middleboro, Massachusetts'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 tests on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering READS Collaborative, Middleboro, Massachusetts's internal control over financial reporting and compliance.



Borgatti Harrison & Co.

Framingham, Massachusetts
October 8, 2015

Management's Discussion and Analysis

As Management of the Regional Educational Assessment and Diagnostic Services Collaborative (READS Collaborative), we offer readers of the Collaborative financial statements this narrative overview and analysis of financial activities of the Collaborative for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our basic statements and notes to the basic statements.

Financial Highlights

The assets of the READS Collaborative exceeded its liabilities at the close of the fiscal year by \$2,083,268 (net position). Of this amount, \$426,224 (unrestricted net position) may be used to meet ongoing obligations of the Collaborative.

The total assets of the Collaborative are \$4,929,874. Of this amount, \$3,344,475 represents current assets.

The total revenues of the Collaborative for fiscal 2015 were \$8,831,312, an increase of \$937,342 (11.87%) over fiscal 2014.

The total expenses of the Collaborative for fiscal 2015 were \$9,234,265, an increase of \$728,424 (8.56%) over fiscal 2014.

The overall financial position of the Collaborative is stable. The change in net position for the fiscal year amounts to a decrease of \$402,953 (16.21%) due to funding the Other Post Employment Benefits Trust in the amount of \$401,187 and credits issued in the amount of \$187,088.

Overview of Financial Statements

This overview is intended to serve as an introduction to the Collaborative's basic financial statements. The Collaborative's basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

Government-Wide Financial Statements:

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

The statement of net position presents information on all of the Collaborative's assets and liabilities, with the difference between the two reports as net assets. Over time, increases or decreases in 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 Collaborative's assets changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions that are principally supported by member tuitions and intergovernmental revenues (government activities). The governmental activities include general government, pension benefits, property and liability insurance, employee benefits, claims and judgments, and interest.

Fund Financial Statements:

A fund is a grouping of related accounts or a single account that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds are governmental funds.

Governmental Funds:

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and charges in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

The basic governmental fund financial statements can be found on **pages 6 through 14**.

Notes to the Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 34 of this report. An index of the notes appears on page 15.

Government-Wide Financial Analysis:

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Governmental assets exceeded liabilities by \$2,083,268 at the close of FY 2015, a decrease of \$402,953(16.21%).

Financial Analysis of Governmental Funds:

As noted earlier, the Collaborative uses fund accounting to ensure and demonstrate compliance with local, state and federal requirements.

Governmental Funds- The focus of the Collaborative's governmental funds is to provide information on near-term inflows, outflow and balances of spendable resources. Such information is useful in assessing the Collaborative's financial requirements. In particular, undesignated fund balance may serve as a useful measure of a Collaborative's net resources available for spending at the end of the fiscal year.

General Fund Budgetary Highlights:

Actual revenues were \$8,048,957, under budget by \$379,542, primarily due to member town service fees.

Actual expenditures were \$8,046,451, under budget by \$799,248, primarily due to payroll and contract service costs associated with the decreased program services to members and nonmembers.

Fiscal Year 2016

The Collaborative has appropriated a balanced annual budget for FY2016 of \$9,031,128. Student enrollment is anticipated to be the same as last year. The Collaborative anticipates that revenue and expenses will be in line with the current fiscal year.

Requests for information:

This financial report is designed to provide a general overview of the READS Collaborative's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Donna Richards, Business Manager at READS Collaborative, 105 East Grove Street, Middleboro, MA 02346.

READS COLLABORATIVE
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Equivalents	\$ 2,849,658
Accounts receivable	465,799
Prepaid expenses	29,018
Total current assets	3,344,475
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	1,585,399
Total noncurrent assets	1,585,399
Total Assets	4,929,874
 LIABILITIES	
Current Liabilities:	
Accounts payable	63,727
Accrued payroll and other	578,089
Total current liabilities	641,816
Noncurrent Liabilities:	
Other post employment benefits obligation	2,129,472
Accrued employee benefits	75,318
Total noncurrent liabilities	2,204,790
Total Liabilities	2,846,606
 NET POSITION	
Invested in capital assets, net of related debt	1,585,399
Restricted	71,645
Unrestricted	426,224
Total net position	\$ 2,083,268

See accompanying notes to financial statements

READS COLLABORATIVE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Primary government					
Governmental Activities					
Salaries and contract services	\$ 6,395,758	\$ 4,223,212	\$ 93,009	\$ -	\$ (2,079,537)
Payroll taxes and benefits	1,754,107	-	641,060	-	(1,113,047)
Legal	990	-	-	-	(990)
Conferences and conventions	59,842	-	-	-	(59,842)
Supplies and postage	146,897	-	3,568	-	(143,329)
Travel and transportation	68,878	-	-	-	(68,878)
Insurance	123,332	-	-	-	(123,332)
Advertising, subscriptions and other	19,912	-	-	-	(19,912)
Telephone	18,085	-	-	-	(18,085)
Repairs and maintenance	87,869	-	44,718	-	(43,151)
Rent	231,876	-	-	-	(231,876)
Equipment	52,459	-	-	-	(52,459)
Utilities	46,347	-	-	-	(46,347)
Recruitment	2,342	-	-	-	(2,342)
Tuition	20,711	-	-	-	(20,711)
Recreational services	39,099	-	-	-	(39,099)
Depreciation	165,761	-	-	-	(165,761)
Total governmental activities	\$ 9,234,265	\$ 4,223,212	\$ 782,355	\$ -	(4,228,698)
General revenues:					
Member assessments					3,820,579
Investment earnings					5,166
Other income					-
Total general revenues					3,825,745
Change in net position					(402,953)
Net position - beginning of year					2,486,221
Net position - end of year					\$ 2,083,268

See accompanying notes to financial statements

READS COLLABORATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,778,013	\$ 71,645	\$ 2,849,658
Accounts receivable	465,799	-	465,799
Prepaid expenses	29,018	-	29,018
Total assets	<u>\$ 3,272,830</u>	<u>\$ 71,645</u>	<u>\$ 3,344,475</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 63,727	\$ -	\$ 63,727
Accrued payroll and other	578,089	-	578,089
Total liabilities	<u>641,816</u>	<u>-</u>	<u>641,816</u>
Fund balances:			
Nonspendable	29,018	-	29,018
Restricted	-	-	-
Committed	-	-	-
Assigned	394,071	71,645	465,716
Unassigned	2,207,925	-	2,207,925
Total fund balances	<u>2,631,014</u>	<u>71,645</u>	<u>2,702,659</u>
Total liabilities and fund balances	<u>\$ 3,272,830</u>	<u>\$ 71,645</u>	<u>\$ 3,344,475</u>

See accompanying notes to financial statements

READS COLLABORATIVE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2015

Total fund balance, governmental funds \$ 2,702,659

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 1,585,399

In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in Governmental Funds, interest is not reported until due. -

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. -

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. (2,247,902)

Net Position of Governmental Activities in the Statement of Net Position \$ 2,040,156

See accompanying notes to financial statements

READS COLLABORATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE, 30, 2015

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Program service fees - members	\$ 3,891,471	\$ 89,377	\$ 3,980,848
Program service fees - nonmembers	3,364,123	-	3,364,123
District contracted services and other	975,285	44,718	1,020,003
Credits issues	(187,088)	-	(187,088)
Interest income	5,166	-	5,166
Governmental revenue	641,060	7,200	648,260
Total revenues	<u>8,690,017</u>	<u>141,295</u>	<u>8,831,312</u>
EXPENDITURES			
Salaries and contract services	6,302,058	93,009	6,395,067
Payroll taxes and benefits	1,352,522	398	1,352,920
Legal	990	-	990
Conferences, conventions and meetings	42,101	17,741	59,842
Supplies and postage	140,917	5,980	146,897
Travel and transportation	68,737	141	68,878
Insurance	123,332	-	123,332
Advertising, subscriptions and other	16,718	3,194	19,912
Telephone	18,085	-	18,085
Repairs and maintenance	43,485	44,384	87,869
Rent	231,876	-	231,876
Equipment	238,191	-	238,191
Utilities	46,347	1,637	47,984
Recruitment	2,342	-	2,342
Recreational services	39,099	-	39,099
Tuition	20,711	-	20,711
Total expenditures	<u>8,687,511</u>	<u>166,484</u>	<u>8,853,995</u>
Excess (deficiency) of revenues over expenditures	<u>2,506</u>	<u>(25,189)</u>	<u>(22,683)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	5,251	-	5,251
Transfers (out)	-	(5,251)	(5,251)
Total other financing sources and uses	<u>5,251</u>	<u>(5,251)</u>	<u>-</u>
Net change in fund balances	7,757	(30,440)	(22,683)
Fund balances - beginning of year	2,623,257	102,085	2,725,342
Fund balances - end of year	<u>\$ 2,631,014</u>	<u>\$ 71,645</u>	<u>\$ 2,702,659</u>

See accompanying notes to financial statements

READS 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, 2015

Net change in fund balances - total governmental funds: \$ (22,683)

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

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

This is the amount by which capital outlays (\$187,369) exceeded depreciation (\$165,761) in the current period. 21,608

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. -

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. -

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Sick leave buyback not reflected on Governmental funds	(691)
OPEB liability not reflected on Governmental funds	(444,299)

Change in net position of governmental activities	\$ (446,065)
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See accompanying notes to financial statements

READS COLLABORATIVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCE)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Program service fees - members	\$ 4,810,007	\$ 4,810,007	\$ 3,891,471	\$ (918,536)
Program service fees - nonmembers	3,381,780	3,381,780	3,364,123	(17,657)
District contracted services and other	420,800	420,800	975,285	554,485
Governmental revenue	-	-	-	-
Interest income	3,000	3,000	5,166	2,166
Credits issued	-	(187,088)	(187,088)	-
Total revenues	<u>8,615,587</u>	<u>8,428,499</u>	<u>8,048,957</u>	<u>(379,542)</u>
EXPENDITURES				
Salaries and contracted services	6,802,110	6,802,110	6,302,058	500,052
Payroll taxes and benefits	908,463	951,575	711,462	240,113
Legal	5,700	5,700	990	4,710
Conferences, conventions and meetings	70,950	70,950	42,101	28,849
Supplies and postage	127,875	127,875	140,917	(13,042)
Travel and transportation	60,300	60,300	68,737	(8,437)
Insurance	119,000	119,000	123,332	(4,332)
Advertising, subscriptions and other	30,431	30,431	16,718	13,713
Telephone	30,650	30,650	18,085	12,565
Repairs and maintenance	32,135	32,135	43,485	(11,350)
Rent	257,603	257,603	231,876	25,727
Equipment	34,300	221,300	238,191	(16,891)
Utilities	87,030	87,030	46,347	40,683
Recruitment	3,000	3,000	2,342	658
Recreational services	46,040	46,040	39,099	6,941
Tuition	-	-	20,711	(20,711)
Total expenditures	<u>8,615,587</u>	<u>8,845,699</u>	<u>8,046,451</u>	<u>799,248</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(417,200)</u>	<u>2,506</u>	<u>419,706</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	-	-	5,251	5,251
Use of unreserved surplus	-	417,200	417,200	-
Total other financing sources and uses	<u>-</u>	<u>417,200</u>	<u>422,451</u>	<u>5,251</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>424,957</u>	<u>424,957</u>
Fund balances - beginning of year	<u>2,623,257</u>	<u>2,206,057</u>	<u>2,206,057</u>	<u>-</u>
Fund balances - end of year	<u>\$ 2,623,257</u>	<u>\$ 2,206,057</u>	<u>\$ 2,631,014</u>	<u>\$ 424,957</u>

See accompanying notes to financial statements

READS COLLABORATIVE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>Other Post- Employment Benefits Trust</u>
ASSETS	
Cash and cash equivalents	\$ 487,238
Due from other governments	43,112
Total assets	<u>530,350</u>
LIABILITIES	
Total liabilities	<u>-</u>
NET POSITION	
Held in trust for benefits and other purposes	<u>\$ 530,350</u>

See accompanying notes to financial statements

READS COLLABORATIVE
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Other Post- Employment Benefits Trust</u>
ADDITIONS	
Contributions	\$ 86,175
Investment earnings	<u>1,024</u>
Total additions	<u>87,199</u>
 DEDUCTIONS	
Health insurance premiums paid	<u>10,117</u>
Total deductions	<u>10,117</u>
Change in net assets	77,082
Net position - beginning of year	<u>453,268</u>
Net position - end of year	<u><u>\$ 530,350</u></u>

See accompanying notes to financial statements

READS COLLABORATIVE
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READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Regional Educational Assessment and Diagnostic Services (READS) Collaborative (Collaborative) is an educational collaborative established under Massachusetts General Laws, Chapter 40, Section 4E and Board of Education policy and an agreement between School Committees of the Towns of Abington, Acushnet, Berkley, Carver, East Bridgewater, Marion, Mattapoisett, Middleboro, Norton, Rochester, Somerset, Taunton, West Bridgewater, Bristol-Plymouth Vocational Technical School, Freetown-Lakeville Regional School District, Dighton-Rehobeth Regional School District, Somerset-Berkley Regional School District and the Bridgewater-Raynham Regional School District. The Collaborative was formed in 1974 with the purpose of providing educational services to low incidence handicapped school age children.

The accounting and reporting policies of the Collaborative relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United State of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

B. Financial Reporting Entity

The Collaborative's basic financial statements include the accounts of all Collaborative operations. The criteria for including organizations as component units within the Collaborative's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- * The organization is legally separate (can sue and be sued in their own name)
- * The Collaborative holds the corporate powers of the organization
- * The Collaborative appoints a voting majority of the organization's board
- * The Collaborative is able to impose its will on the organization
- * The organization has the potential to impose a financial benefit/burden on the Collaborative
- * There is fiscal dependency by the organization on the Collaborative

Based on the aforementioned criteria, the READS Collaborative has no component units.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

C. Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the activities of the Collaborative.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Member tuition and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The Collaborative segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental activities typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Collaborative has presented the following major governmental funds:

General Fund - This fund is the main operating fund of the Collaborative. It is used to account for all financial resources not accounted for in other funds. All member tuitions and other fees that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, insurance and benefits and other costs that are not paid through other funds are paid from the General Fund. The general fund is always considered a major fund.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the **nonmajor governmental funds** column on the governmental funds financial statements. The following describes the general use of these fund types:

Special Revenue Fund - This fund is used to account for the proceeds of specific revenue sources (other than capital projects or permanent funds) that are restricted by law or administrative action to expenditures for specified purposes.

Fiduciary Fund Financial Statements:

Other Post-Employment Benefits Trust Funds - This fund is used to account for resources legally held in trust for retiree health insurance premiums.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

D. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations on their use either through the enabling legislations adopted by the Collaborative or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

E. 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 in 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. It also includes the long-term amount of interfund loans.

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 (Massachusetts General Laws or Collaborative Agreement).

Enabling legislation authorizes the Collaborative to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Collaborative can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of Collaborative Board. Those committed amounts cannot be used for any other purpose unless the Collaborative Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classifications may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts by Collaborative Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Collaborative 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 Collaborative Board, a Collaborative official delegated that authority by the Collaborative Agreement or ordinance.

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, and 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.

F. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The Collaborative considers revenues as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Government Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement costs, claims and judgments are recorded only when payment is due. The revenues susceptible to accrual are tuitions, program service fees, reimbursable income, interest income and intergovernmental revenues. All other governmental fund revenue is recognized when received.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

G. Budgetary Control

The Board of Directors annually determines the amount to be raised (after deducting the amount of anticipated revenues from other sources, including surplus revenue, if any) to maintain and operate the Collaborative during the next fiscal year and then, based upon enrollment data, assesses the member and non-member districts in accordance with the terms of the agreement.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2015 approved budget for the general fund was \$8,615,587 in appropriations and carryforwards. During fiscal year 2015, there were supplemental changes in appropriations in the amount of \$230,112.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effect of encumbrances and continuing appropriations, which are adjusted to the actual results for comparison. Deficits, if any, are raised in the subsequent year's budget process.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end.

An individual fund's pooled Cash and Cash Investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less is also considered being "cash equivalents".

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

J. Inventories of Supplies

Supplies are considered to be expenditures at the time of purchase and are not included in the statement of net assets as inventories.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

K. Interfund Receivable and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

L. Compensated Absences

Professional staff can be compensated for unused sick leave based upon the number of continuous years of service, as outlined in their Union contract. For Governmental Funds, vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities.

M. Encumbrances and Continuing Appropriations

Encumbrance accounting, under which purchase orders, contracts and other commitments for fund expenditures are recorded in order to reserve portions of the applicable appropriation, is employed in the governmental funds. Open encumbrances at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

N. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

O. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government -wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$2,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	40 Years
Furniture and equipment	5 - 7 Years
Improvements	10 Years

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

P. Claims and Judgments

Estimated losses from judgments and claims are recorded in the Government-Wide financial statements as a liability and as an expense if the loss is probable and amounts can be reasonably estimated.

Q. Reconciliation of Government-Wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position for governmental activities as shown on the government-wide statement of net position is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements, which comprise the reconciliation difference, stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

R. Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis.

2 - BUDGETARY BASIS OF ACCOUNTING

The READS Collaborative prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the Collaborative's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund to provide meaningful comparison of actual results with budget. The major differences between budget and GAAP basis in the General Fund are that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).

Adjustments necessary to convert the General Fund's excess of revenues over expenditures on the budget basis to a GAAP basis are provided below:

Excess of revenues over expenditures – budget basis	\$ 2,506
Record revenue recognized for pension on-behalf payments	641,060
Record expenditures recognized for pension on-behalf payments	<u>(641,060)</u>
Excess of revenues over expenditures – GAAP basis	<u>\$ 2,506</u>

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

3 - 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 or insurance protection by the financial institutions involved. Investments can be made in securities unconditionally guaranteed by the U.S. Government with maturities of 90 days or less which are collateralized by such securities. The Collaborative also has the authority to purchase units in the Massachusetts Municipal Depository Trust (MMDT), a pooled fund managed for the Commonwealth.

The Collaborative has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments in relation to the Collaborative's restricted investments in the Permanent Funds. The Collaborative maintains a cash and investment pool that is available for use by all funds with unrestricted cash and investments.

Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Collaborative's deposits may not be recovered. The Collaborative does not have a policy for custodial credit risk of deposits. As of June 30, 2015, \$138,668 of the Collaborative's bank balance of \$388,668 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Collaborative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Collaborative does not have a policy for custodial credit risk of investments.

The Collaborative has a repurchase agreement with Rockland Trust Co. whereby the daily amount exceeding the target balance is swept into a one-day repurchase instrument. The bank then purchases and assigns to the Collaborative securities with a par value and market value sufficient to cover the amount of the repurchase instrument. As of June 30, 2015, securities in the amount of \$2,681,695 were registered in the name of the Collaborative and, therefore, were not exposed to custodial credit risk.

Interest Rate Risk of Debt Securities – Investments

Interest rate risk of debt securities for investments is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Collaborative does not have a policy for interest rate risk of debt securities.

Credit Risk of Debt Securities – Investments

Credit risk of debt securities for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligation. The Collaborative does not have a policy for credit risk of debt securities.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4 - PENSION PLANS

Massachusetts State Employees' Retirement System

The Massachusetts State Employees' Retirement System (MSERS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The MSERS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MSERS is vested in the Massachusetts State Retirement Board (MSRB), which consists of five members—two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is chosen by the State Treasurer and the State Treasurer, who serves ex-officio and is the Chairman of the MSRB.

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

Members of the system become fully vested after 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching age 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety position, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

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

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

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975.....	5% of regular compensation
1975 – 1983.....	7% of regular compensation
1984 to 6/30/1996.....	8% of regular compensation
7/1/1996 to present.....	9% of regular compensation
7/1/2001 to present.....	11% of regular compensation
1979 to present.....	An additional 2% of regular compensation in excess of \$30,000

READS COLLABORATIVE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

The MSERS issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission.

Special funding situation. Educational Collaboratives contribute amounts equal to the normal costs of employees' benefits at a rate established by the Public Employees' Retirement Administration Commission (PERAC), currently 5.6% of covered payroll. Legally, the collaboratives are only responsible for contributing the annual normal cost of their employees' benefits (i.e., the present value of the benefits earned by those in any given year) and are not legally responsible for the past service cost attributable to those employees or previously retired employees of the collaboratives. The Commonwealth as a nonemployer is legally responsible for the entire past service cost related to the collaboratives and therefore has a 100% special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in MSERS. Since the employers do not contribute directly to MSERS, there is no net pension liability to recognize for each employer.

Payments made by the Commonwealth of Massachusetts on behalf of the Collaborative amounted to \$98,363 in fiscal 2015 and are reflected as revenues and corresponding expenditures in the Collaborative's financial statements.

Actuarial assumptions. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. This valuation used the following assumptions:

1. (a) 8% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3% cost of living increase per year.
2. Salary increases are based on analysis of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2000 Employees table adjusted for “white-collar” employment projected 20 years with Scale AA (gender distinct)
 - Post-retirement – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 are summarized in the following table:

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	43.0%	7.2%
Core Fixed Income	13.0%	2.5%
Hedge Funds	10.0%	5.5%
Private Equity	10.0%	8.8%
Real Estate	10.0%	6.3%
Value Added Fixed Income	10.0%	6.3%
Timber/Natural Resources	<u>4.0%</u>	5.0%
Total	<u>100.0%</u>	

Discount rate. The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity analysis. The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MSERS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2014	\$10,748,000,000	\$ 7,424,105,000	\$ 4,571,000,000

Massachusetts Teachers' Retirement System, a Noncontributing Employer Plan

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

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

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

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

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

Hire Date	% of Compensation
Prior to 1975.....	5% of regular compensation
1975 – 1983.....	7% of regular compensation
1984 to 6/30/1996.....	8% of regular compensation
7/1/1996 to present.....	9% of regular compensation
7/1/2001 to present.....	11% of regular compensation
1979 to present.....	An additional 2% of regular compensation in excess of \$30,000

Special funding situation. The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

Payments made by the Commonwealth of Massachusetts on behalf of the Collaborative amounted to \$542,697 in fiscal 2015 and are reflected as revenues and corresponding expenditures in the Collaborative's financial statements.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

Actuarial assumptions. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. This valuation used the following assumptions:

4. (a) 8% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3% cost of living increase per year.
5. Salary increases are based on analysis of past experience but range from 4.0% to 7.5% depending on length of service.
6. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability –reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	43.0%	7.2%
Core Fixed Income	13.0%	2.5%
Hedge Funds	10.0%	5.5%
Private Equity	10.0%	8.8%
Real Estate	10.0%	6.3%
Value Added Fixed Income	10.0%	6.3%
Timber/Natural Resources	<u>4.0%</u>	5.0%
Total	100.0%	

Discount rate. The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

Sensitivity analysis. The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

<u>Fiscal Year</u> <u>Ended</u>	<u>1% Decrease</u> <u>to 7%</u>	<u>Current Discount</u> <u>Rate 8%</u>	<u>1% Increase</u> <u>to 9%</u>
June 30, 2014	\$20,247,000,000	\$15,896,000,000	\$12,200,000,000

Annual Pension Cost

For 2015, the Collaborative's annual pension cost of \$224,674 was equal to the Collaborative's required and actual contributions of \$126,311 and the Commonwealth's in-kind contribution of \$98,363. The periodic employer contributions to the retirement system are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded on a current basis. The unfunded actuarial accrued liability is funded on a schedule that ends no later than the year 2040. The annual amortization of the unfunded actuarial liability increases each year by no more than 7.5%. The funding strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

Three Year Trend Information

<u>Fiscal</u> <u>Year</u> <u>Funding</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>
2013	\$ 132,699	100%
2014	126,254	100%
2015	126,311	100%

5 – LONG-TERM OBLIGATIONS

Transactions for the year ended June 30, 2015 are summarized as follows:

	<u>Balance</u> <u>July 1</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>June 30</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Type Activities</u>					
Compensated Absences	\$ 74,627	\$ 691	\$ -	\$ 75,318	\$ -
Total governmental activities	\$ 74,627	\$ 691	\$ -	\$ 75,318	\$ -

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ <u>100,687</u>	\$ <u>187,369</u>	\$ <u>-</u>	\$ <u>288,056</u>
Capital assets, being depreciated				
Furniture and equipment	912,196	-	-	912,196
Buildings	1,692,377	-	-	1,692,377
Improvements	<u>112,046</u>	<u>-</u>	<u>-</u>	<u>112,046</u>
Total capital assets, being depreciated	<u>2,716,619</u>	<u>-</u>	<u>-</u>	<u>2,716,619</u>
Less accumulated depreciation for:				
Furniture and equipment	588,594	112,248	-	700,842
Buildings	630,710	42,308	-	673,018
Improvements	<u>34,211</u>	<u>11,205</u>	<u>-</u>	<u>45,416</u>
Total accumulated depreciation	<u>1,253,515</u>	<u>165,761</u>	<u>-</u>	<u>1,419,276</u>
Total capital assets, being depreciated, net	<u>1,463,104</u>	<u>(165,761)</u>	<u>-</u>	<u>1,297,343</u>
Governmental activities capital, assets net of accumulated depreciation	\$ <u>1,563,791</u>	\$ <u>21,608</u>	\$ <u>-</u>	\$ <u>1,585,399</u>

Depreciation expense is not allocated to programs of the primary government but is shown as a separate line item in the statement of activities.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - COMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustments by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the Collaborative. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Collaborative expects such amounts, if any, to be immaterial.

The Collaborative rents classroom space at several locations under long-term and short-term arrangements. Rent expense under these leases amounted to \$217,440 for the year ended June 30, 2015.

The Collaborative leases a school bus and various office equipment under long-term lease agreements that expire in 2015. Rent expense under these leases amounted to \$14,436 for the year ended June 30, 2015.

8 - RISK FINANCING

The Collaborative is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; workers compensation claims; errors and omissions; and natural disasters for which the Collaborative carries commercial insurance.

9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description - The Collaborataive provides health insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefits Other Post Employment Benefit (OPEB) plan. Chapter 32B of the Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through Board vote. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2014, the latest actuarial valuation, is as follows:

Active employees.....	110
Retired employees and beneficiaries.....	<u>3</u>
Total	113
	==

Funding Policy - The contribution requirements of the Plan and the Collaborative is established by the Board of Directors. The current required health insurance contribution rates of Plan members and the Collaborative are 50% and 50%, respectively. The Collaborative began partially funding the Plan in 2014.

READS COLLABORATIVE
 NOTES TO BASIC FINANCIAL STATEMENTS
 (Continued)

Annual OPEB and NET OPEB Obligation – The Collaborative’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement 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 years. The components of the Collaborative’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Collaborative’s net OPEB obligation are summarized in the following table:

Normal cost		\$ 355,913
Amortization of unfunded actuarial accrued liability		98,169
Interest on OPEB obligation		69,131
Other adjustments		<u>(16,089)</u>
		507,124
Contributions made		<u>105,937</u>
		401,187
Increase in net OPEB obligation		401,187
Net OPEB obligation, beginning of year		<u>1,728,285</u>
		2,129,472
Net OPEB obligation, end of year		<u><u>\$ 2,129,472</u></u>

Trend information regarding annual pension cost, the percentage of the annual pension cost contribution and the net pension obligation is as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
6/30/2015	\$507,124	20.89%	\$ 401,187
6/30/2014	503,651	95.44%	22,969
6/30/2013	462,230	5.93%	434,817
6/30/2012	421,972	1.14%	417,234
6/30/2011	290,103	2.02%	853,265
6/30/2010	290,103	2.02%	564,024

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

Funding Status and Funding Progress – The funding status of the Plan on July 1, 2014 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/08	\$ -	\$ 1,765,435	\$ 1,765,435	-	\$ 4,584,071	38.5%
07/01/11	-	2,486,723	2,486,723	-	3,635,432	68.4%
07/01/14	453,268	3,492,477	3,039,209	12.98%	5,090,712	59.7%

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 included 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.

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 calculation. The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2014
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Dollar
Remaining amortization period:	24 Years
Interest discount rate:	4%
Healthcare/medical cost trend rate:	5% per year

10 – EVALUATION OF SUBSEQUENT EVENTS

The Collaborative has evaluated subsequent events through October 8, 2015, the date which the financial statements were available to be released.

READS COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

11 – 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 governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
<u>Nonspendable:</u>			
Prepaid expenses	\$ <u>29,018</u>	\$ <u>-</u>	\$ <u>29,018</u>
<u>Restricted For:</u>			
	<u>-</u>	<u>-</u>	<u>-</u>
<u>Committed To:</u>			
	<u>-</u>	<u>-</u>	<u>-</u>
<u>Assigned:</u>			
Special events	-	9,051	9,051
Designated for next year	201,600	-	201,600
School based Medicaid	-	62,594	62,594
Capital improvements	<u>192,471</u>	<u>-</u>	<u>192,471</u>
Total Assigned	<u>394,071</u>	<u>71,645</u>	<u>465,716</u>
<u>Unassigned:</u>	<u>2,207,925</u>	<u>-</u>	<u>2,207,925</u>
Total Fund Balances	<u>\$2,631,014</u>	<u>\$ 71,645</u>	<u>\$2,702,659</u>

READS COLLABORATIVE

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

JUNE 30, 2015

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:

* Annual contracts for the lease of classroom space from member school districts at the following locations:

West Bridgewater High School	\$ 6,500
Central Baptist Church, Middleboro	8,000
Freetown-Lakeville Regional School District	6,000

* Long-term lease for the lease of classroom space from member school districts at the following locations:

Norton Public Schools	48,315
Bristol-Plymouth Regional School District	92,650
Middleboro Public Schools, including annual capital improvements surcharge	<u>55,975</u>

Total rent paid for real estate	<u><u>\$ 217,440</u></u>
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During fiscal 2015, the Collaborative purchased a parcel of land adjacent to their current location to be used for future building expansion. The amount expended was \$187,369.

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

Theresa Craig, Executive Director	\$ 133,859
John Dorn, Psychologist/Neurologist	159,479
Donna Richards, Business Manager	91,148
Deirdre Dowd-Pizzuto, Program Director	95,882
Evelyn Rankin, Program Director	90,533

4. The amounts expended on administration and overhead :

\$ 611,851

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

None

6. The amounts expended on services for individuals age 22 and older:

None

See accompanying auditor's report on supplementary information

READS COLLABORATIVE
SCHEDULE OF THE COLLABORATIVE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM

	<u>2015</u>
Employer's proportionate share of the net pension liability	0.00000%
Employer's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the Collaborative	7,811,416
Total	<u>\$ 7,811,416</u>

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information is presented for those years for which information is available.

See accompanying auditor's report on supplementary information

READS COLLABORATIVE
SCHEDULE OF THE COLLABORATIVE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS STATE EMPLOYEES' RETIREMENT SYSTEM

	<u>2015</u>
Employer's proportionate share of the net pension liability	0.00000%
Employer's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the Collaborative	3,159,508
Total	<u>\$ 3,159,508</u>

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the information is presented for those years for which information is available.

See accompanying auditor's report on supplementary information