Northshore Education Consortium

Financial Statements

June 30, 2014 and 2013

Northshore Education Consortium

Contents
June 30, 2014 and 2013

FRITZ DEGUGLIELMO LLC
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Northshore Education Consortium
Beverly, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Northshore Education Consortium (a collaborative organized under the Laws of the Commonwealth of Massachusetts), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northshore Education Consortium as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress – Other Post-Employment Healthcare Benefits on pages 3-5 and 20 be presented to supplement the basic financial statements. Such information, although not 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 for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Northshore Education Consortium's basic financial statements. The accompanying budgetary comparison information on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison information on page 19 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014, on our consideration of Northshore Education Consortium'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 Northshore Education Consortium's internal control over financial reporting and compliance.

Fritz DeGuglielmo LLC
Certified Public Accountants

Newburyport, Massachusetts
October 13, 2014

Northshore Education Consortium
Management's Discussion and Analysis
June 30, 2014 and 2013

Our discussion and analysis of Northshore Education Consortium's ("The Consortium") financial performance provides an overview of the Consortium's financial activities for the fiscal years ended June 30, 2014 and 2013 with comparative information from June 30, 2012. Please read it in conjunction with the financial statements that begin on page 6.

This financial report consists of several financial statements:

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

Statements of Revenues, Expenses and Changes in Net Position – The Statements of Revenues, Expenses and Changes in Net Position present the results of the operations of the Consortium, providing information of the revenue sources and related expenses during the year. These statements help users to determine whether the Consortium had sufficient revenues to cover expenses during the years presented and its net increase or decrease in net position based on operations.

Statements of Functional Expenses – The Statements of Functional Expenses identify expenses incurred during the years presented by functional classification and provide additional detail of expenses. These statements help users to determine what the Consortium is spending its resources on.

Statements of Cash Flows – The Statements of Cash Flows provide information on the cash receipts and cash disbursements during the years presented and the changes in working capital components. These statements are an important tool in assisting users in assessing the Consortium's cash flow sources and uses. These statements also assist users in assessing the Consortium's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

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

FINANCIAL HIGHLIGHTS

ASSETS

	2014	2013	2012
Current assets	$ 5,677,725	$ 5,277,532	$ 5,657,356
Property & equipment, net	9,176,161	9,543,202	9,759,343
Bond fees, net	65,239	69,115	72,990
	$14,919,125	$14,889,849	$15,489,689

LIABILITIES AND NET POSITION

	2014	2013	2012
Liabilities			
Current liabilities	$ 2,048,643	$ 1,758,479	$ 1,996,413
Net retirement health benefit obligation	2,896,625	1,865,956	899,584
Bonds and notes payable, net of current portion	6,554,610	6,862,947	7,158,964
Total Liabilities	$11,499,878	$10,487,382	$10,054,961
Net Position			
Board designated	$ 579,851	$ 579,851	$ 579,851
Operating-unrestricted	402,117	1,371,603	2,470,206
Temporarily restricted	58,826	-	-
Invested in capital assets, net of related debt	2,378,453	2,451,013	2,384,671
	$ 3,419,247	$ 4,402,467	$ 5,434,728

In 2014, the decrease in net position of $983,220 was primarily a result of recording the estimated expense for retirement health benefit obligations in accordance with Governmental Accounting Standards Board Statement No. 45. The increase in net position before the increase in the net retirement health benefit obligation of $47,449 was mainly a result of a decrease in program related payroll expense. There were no changes to board designated assets in fiscal 2014.

SUMMARY OF ACTIVITIES

	2014	2013	2012
Operating Revenues	$19,268,084	$19,611,701	$20,218,235
Operating Expenses	19,235,542	19,696,936	20,042,393
Operating Income	32,542	(85,235)	175,842
Non-operating Revenues	14,907	19,346	68,864
Non-operating Expenses	-	-	-
Change in net position before increase in net retirement health benefit obligation	47,449	(65,889)	244,706
Increase in net retirement health benefit obligation	(1,030,669)	(966,372)	(795,584)
Change in net position	$ (983,220)	$(1,032,261)	$ (550,878)

Operating Revenues
In 2014, operating revenues decreased by approximately $344,000, or 2%, primarily due to decreased grant revenues and decreased tuition and services revenue due to decreased enrollment.

Operating Expenses
In 2014, operating expenses decreased by approximately $461,000, or 2%, due mainly to decreases in grant related expenses and payroll expenses.

Non-operating Revenues
In 2014, non-operating revenue was generated from interest earned on cash and cash equivalents.

CAPITAL ASSETS AND OBLIGATIONS

During 2014, the Consortium made improvements to its Sohier Road, Beverly facility, including additions to play space that were funded by restricted contributions. During 2013, the Consortium made improvements to its Sohier Road, Beverly facility. During 2012, the Consortium made improvements to its West Peabody and Sohier Road, Beverly facilities, including a new play space at the Sohier Road facility that was funded by contributions and grants. The total related capital expenditures were $92,593, $309,988, and $76,465, respectively.

BUDGETARY HIGHLIGHTS

The Consortium's annual budget for fiscal 2014 was approved by its Board of Directors. For the fiscal year ended June 30, 2014, the Consortium received revenues, excluding on-behalf payments by the Massachusetts Teachers' Retirement Board, of approximately $18,680,000 compared to budgeted revenues of approximately $18,091,000. The difference between actual revenues received and budgeted revenues was primarily due to higher than anticipated census in several programs.

For the fiscal year ended June 30, 2014, the Consortium incurred actual expenses, excluding on-behalf payments by the Massachusetts Teachers' Retirement Board, of approximately $18,633,000 compared to budgeted expenses of approximately $18,281,000. The difference between actual expenses incurred and budgeted expenses was primarily due to higher than expected payroll and related expenses.

KEY FINANCIAL RATIOS

During 2014 and 2013, the Consortium calculated key financial ratios related to cash flows and debt. All ratios calculated were consistent between the two years. The Consortium's cost of borrowing was approximately 3.2% and 3.3% of outstanding debt during 2014 and 2013.

	2014	2013
Current Ratio	2.77	3.00

The current ratios indicate that the Consortium should be able to sufficiently pay all current liabilities with current assets on hand. A ratio of less than 1.00 would indicate the Consortium may have significant difficulties in paying current obligations.

	2014	2013
Debt Ratio	0.46	0.48

A low debt ratio indicates a strong financial position. The debt ratio of the Consortium is adequate considering construction and asset purchases in recent years and should improve as debt payments are made.

	Expected 2015	2014
Debt Coverage Ratio	1.56	1.56

The debt coverage ratio indicates the ability of the Consortium to repay its debt service. With consistent change in net position before interest and depreciation of approximately $829,000, the Consortium should have sufficient cash flows to meet its debt service requirements. A debt coverage ratio of less than 1.0 indicates the Consortium would have to use reserve funds to repay its debt service.

	2014	2013
Defensive Interval Ratio	3.42	3.14

The debt interval ratio indicates the number of months the Consortium would be able to pay operating expenses and debt payments without any revenues being generated.

CONTACTING THE CONSORTIUM

This financial report is designed to provide readers of the financial statement an overview of the Consortium's financial activities. If you have questions in regard to this report, contact our Executive Director, Francine H. Rosenberg or our Chief Financial Officer, Glenn Bergevin, at (978) 232-9755.

Northshore Education Consortium
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,696,616	$ 4,032,623
Accounts receivable, net	710,496	1,046,466
Prepaid expenses and other assets	51,360	47,888
Cash held for municipalities	219,253	150,555
Total Current Assets	5,677,725	5,277,532
Non-current Assets		
Furniture, equipment and leasehold improvements, net	9,176,161	9,543,202
Bond fees, net of accumulated amortization of $11,950 and $8,074	65,239	69,115
Total Non-current Assets	9,241,400	9,612,317
Total Assets	$ 14,919,125	$ 14,889,849
LIABILITIES AND NET POSITION		
Current Liabilities		
Bonds payable - current portion	$ 308,337	$ 298,357
Accounts payable and accrued liabilities	1,521,053	1,309,567
Member municipalities accounts	219,253	150,555
Total Current Liabilities	2,048,643	1,758,479
Long Term Liabilities:		
Net retirement health benefit obligation	2,896,625	1,865,956
Bonds payable, net of current portion	6,554,610	6,862,947
Total Long Term Liabilities	9,451,235	8,728,903
Total Liabilities	11,499,878	10,487,382
Net Position		
Operating-unrestricted	981,968	1,951,454
Temporarily restricted	58,826	-
Invested in capital assets, net of related debt	2,378,453	2,451,013
Total Net Position	3,419,247	4,402,467
Total Liabilities and Net Position	$ 14,919,125	$ 14,889,849

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

Northshore Education Consortium
Statements of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2014 and 2013

	2014					2013				
	Unrestricted		Total	Temporarily		Unrestricted		Total	Temporarily	
	Unrestricted	Designated	Unrestricted	Restricted	Total	Unrestricted	Designated	Unrestricted	Restricted	Total
Operating Revenues										
Massachusetts Teachers' Retirement Board	$ 602,760	$ -	$ 602,760	$ -	$ 602,760	$ 454,623	$ -	$ 454,623	$ -	$ 454,623
Services	17,796,308	-	17,796,308	-	17,796,308	18,154,183	-	18,154,183	-	18,154,183
Commonwealth of Massachusetts contract	518,586	-	518,586	-	518,586	500,000	-	500,000	-	500,000
Contributions and grants	23,234	-	23,234	147,196	170,430	322,895	-	322,895	-	322,895
Member fees	180,000	-	180,000	-	180,000	180,000	-	180,000	-	180,000
Net position released from restrictions:										
Satisfaction of donor restrictions	88,370	-	88,370	(88,370)	-	-	-	-	-	-
Total Operating Revenues	19,209,258	-	19,209,258	58,826	19,268,084	19,611,701	-	19,611,701	-	19,611,701
Operating Expenses										
Program	17,735,087	-	17,735,087	-	17,735,087	18,281,089	-	18,281,089	-	18,281,089
Administrative	950,415	-	950,415	-	950,415	860,475	-	860,475	-	860,475
Depreciation and Amortization	550,040	-	550,040	-	550,040	555,372	-	555,372	-	555,372
Total Operating Expenses	19,235,542	-	19,235,542	-	19,235,542	19,696,936	-	19,696,936	-	19,696,936
Change in Operating Net Position	(26,284)	-	(26,284)	58,826	32,542	(85,235)	-	(85,235)	-	(85,235)
Non-operating Revenues										
Interest	14,907	-	14,907	-	14,907	19,346	-	19,346	-	19,346
Total Non-operating Revenues	14,907	-	14,907	-	14,907	19,346	-	19,346	-	19,346
Change in Net Position, before increase in net retirement health benefit obligation	(11,377)	-	(11,377)	58,826	47,449	(65,889)	-	(65,889)	-	(65,889)
Increase in net retirement health benefit obligation	(1,030,669)	-	(1,030,669)	-	(1,030,669)	(966,372)	-	(966,372)	-	(966,372)
Change in Net Position	(1,042,046)	-	(1,042,046)	58,826	(983,220)	(1,032,261)	-	(1,032,261)	-	(1,032,261)
Net Position – Beginning of Year	3,822,616	579,851	4,402,467	-	4,402,467	4,854,877	579,851	5,434,728	-	5,434,728
Net Position – End of Year	$ 2,780,570	$ 579,851	$ 3,360,421	$ 58,826	$ 3,419,247	$ 3,822,616	$ 579,851	$ 4,402,467	$ -	$ 4,402,467

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

Northshore Education Consortium

Statements of Functional Expenses

For the years ended June 30, 2014 and 2013

	2014	2013
Program Expenses		
Payroll	$ 12,796,058	$ 13,248,591
Fringe benefits and payroll taxes	2,842,611	2,713,678
Contract services	176,685	203,107
Transportation and travel	79,007	65,302
Rent	761,012	751,586
Building maintenance	150,521	107,380
Telephone and utilities	172,597	149,546
Supplies and equipment	343,199	334,390
Lunch program expenses	86,615	93,994
Interest	231,509	241,167
Grant related expenses	4,430	281,971
Bad debt expense	62,631	45,000
Other	28,212	45,377
	17,735,087	18,281,089
Depreciation and amortization	546,597	552,108
Total Program Expenses	$ 18,281,684	$ 18,833,197
Administrative Expenses		
Payroll and related expenses	$ 744,133	$ 692,416
Contract services	31,602	31,454
Office expense and other	174,680	136,605
	950,415	860,475
Depreciation and amortization	3,443	3,264
Total Administrative Expenses	$ 953,858	$ 863,739
Total Expenses	$ 19,235,542	$ 19,696,936

Northshore Education Consortium
Statements of Cash Flows
For the years ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from members and others	$ 18,865,200	$ 18,509,389
Payments to suppliers and others	(4,423,445)	(4,813,111)
Payments to employees	(13,388,652)	(13,880,042)
Cash provided by (used in) operating activities	1,053,103	(183,764)
Investing Activities		
Purchase of property and equipment	(179,123)	(335,356)
Cash used in investing activities	(179,123)	(335,356)
Financing Activities		
Contributions restricted for investment in property	88,370	-
Payments on long-term debt	(298,357)	(286,358)
Cash used in financing activities	(209,987)	(286,358)
Net increase (decrease) in cash and cash equivalents	663,993	(805,478)
Cash and cash equivalents at beginning of year	4,032,623	4,838,101
Cash and cash equivalents at end of year	$ 4,696,616	$ 4,032,623

	2014	2013
Reconciliation of change in net position to net cash provided by (used in) operating activities:		
Operating activities		
Change in net position	$ (983,220)	$ (1,032,261)
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:		
Bad debt expense	62,631	45,000
Depreciation and amortization	550,040	555,372
Increase in net retirement health obligation	1,030,669	966,372
Change in working capital		
Accounts receivable and other	269,867	(528,807)
Accounts payable and other	211,486	(71,966)
Deferred revenue	-	(117,474)
Cash held for municipalities	(68,698)	58,153
Member municipalities account	68,698	(58,153)
Contributions restricted for investment in property	(88,370)	-
Cash provided by (used in) operating activities	$ 1,053,103	$ (183,764)

	2014	2013
Supplemental Data:		
Interest paid	$ 231,509	$ 241,167
Taxes paid	$ -	$ -

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consortium

Northshore Education Consortium ("The Consortium") was created by agreement pursuant to the provisions of Section 4E of Chapter 40, as amended by Chapter 43 of the Acts of 2012. The purpose of the agreement is to provide special programs and services for school children under the members' jurisdiction. The Consortium members are as follows: Beverly, Boxford (Tri-Town), Danvers, Gloucester, Hamilton-Wenham, Lynn, Lynnfield, Manchester-Essex Regional School District, Marblehead, Masconomet Regional School District, Middleton (Tri-Town), Nahant, North Reading, Peabody, Reading, Rockport, Salem, Swampscott, Topsfield (Tri-Town) and Triton Regional School District.

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

The Consortium, in accordance with GASB Statement No. 34, is considered a special purpose governmental entity engaged only in business type activities and is not a component unit of another governmental entity. As such, the basic financial statements of the Consortium are reported on the same basis as an enterprise fund, which is a proprietary fund in fund financial statements. The Consortium does not have any funds other than the enterprise fund, and it is not a proprietary fund that is part of a government wide financial statement. As such, the notations "enterprise fund" and "proprietary fund" do not appear on the Consortium's financial statements.

Measurement Focus and Basis of Accounting

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

Cash and Cash Equivalents

The Consortium considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. From time to time the Consortium maintains bank account balances in banks in excess of the federally insured limits.

Revenues and Expenses

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

Property and Equipment

The Consortium capitalizes purchases with estimated useful lives in excess of one year and with a cost basis of $3,000 or more. Furniture, equipment and leasehold improvements are capitalized at cost. Furniture and equipment are depreciated over estimated useful lives of three to seven years on a straight-line basis. Buildings and improvements are depreciated over estimated useful lives of fifteen to thirty-nine years. Leasehold improvements are amortized over the lease term or useful life.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Member Municipalities Accounts
Member municipalities accounts represent funds held by the Consortium for use as directed by the individual member municipalities for services provided by the Consortium.

Net Position
Net position is displayed in three components:

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

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

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

Advertising Costs
Advertising costs in the amount of $2,331 and $16,956 were expensed as incurred for the years ended June 30, 2014 and 2013, respectively.

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

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	2014	2013
Land	$ 1,500,000	$ 1,500,000
Building	6,565,111	6,565,111
Office furniture and equipment	634,774	588,994
Vehicles	356,443	332,015
Building improvements	5,105,048	5,012,455
	14,161,376	13,998,575
Accumulated depreciation	(4,985,215)	(4,455,373)
Property and equipment, net	$9,176,161	$ 9,543,202

NOTE B – PROPERTY AND EQUIPMENT - *continued*

In fiscal 2014, the Consortium paid $92,593 for building improvements, $62,102 for office furniture and equipment and $24,428 for a new vehicle. Also during fiscal 2014, the Organization disposed of fully depreciated office furniture and equipment with an original cost of $16,322. In fiscal year 2013, the Consortium paid $309,988 for building improvements and $25,368 for office furniture and equipment.

NOTE C – BOARD DESIGNATED FUNDS

The Consortium has elected to directly pay unemployment claims rather than funding through the Commonwealth of Massachusetts system. The Board of Directors has elected that funds be designated to allow for future claims. As of June 30, 2014 and 2013, accumulated net position designated for unemployment claims was $60,000.

The Board of Directors has designated funds to cover retiree health benefits. As of June 30, 2014 and 2013, accumulated net position designated for retiree health benefits was $279,000.

The Board of Directors has designated funds to be used to purchase capital improvements. As of June 30, 2014 and 2013, accumulated net position designated for building improvements and capital purchases were $240,851.

NOTE D – LEASED FACILITIES

The Consortium has operating lease agreements to lease classroom space and equipment. The Recovery High School and Northshore Academy Upper leases represent the majority of the future minimum lease obligations of the Consortium for the next fiscal year. During fiscal year 2013, the Consortium renewed the leases through the end of fiscal 2015 and the minimum lease obligations are reflected below. The Recovery High School lease is based on an exchange of classrooms with the Beverly School District and no funds will change hands. The value of the lease is estimated at $150,000 per year.

During fiscal 2015, and prior to the issuance of the audit report, the Consortium entered into a building lease for program use in Beverly, Massachusetts, commencing July 1, 2015 through June 30, 2025. Annual lease payments for the first year of the lease total $680,000 and increase 2.5% each subsequent year. Because the lease had been entered into prior to issuance of this report, future minimum lease payments are reflected below.

The future minimum lease obligations under these lease agreements are as follows:

2015	$ 758,120
2016	718,598
2017	718,398
2018	721,617
2019	736,111
Thereafter	4,794,680
	$8,447,524

For the years ended June 30, 2014 and 2013, annual lease costs were $742,154 and $737,956, respectively.

NOTE E – LINE OF CREDIT

The Consortium previously established a line of credit with a local bank in the amount of $1,000,000 that could be utilized from time to time for working capital purposes. During fiscal 2013, the line of credit agreement was amended to establish a maturity date of May 31, 2014 unless renewed, adjust the interest rate to the Prime Rate as published in the Wall Street Journal, and establish an annual commitment fee equal to 0.25% of the credit limit, or $2,500. The Consortium declined to renew the line of credit at maturity.

NOTE F – LONG TERM DEBT

2011 Revenue Bonds:
In fiscal 2011, the Massachusetts Development Finance Agency (Agency) issued revenue bonds in the amount of $7,715,000 to refinance all previously issued revenue bonds outstanding. The bonds were issued pursuant to a loan and trust agreement dated May 26, 2011 with the Agency, the Consortium, and a local bank as trustee. On June 6, 2012, the bond agreement was amended to adjust the interest rate from 4.50% to 3.25% from June 26, 2012 to May 26, 2021. Monthly payments of principal and interest from June 26, 2012 to May 26, 2021 are $44,155. The interest rate will be adjusted on June 26, 2021 to the greater of 4.50% or the Federal Home Loan Bank Rate at that time plus 50 basis points (0.50%), and will be payable at that rate until maturity on May 26, 2031. The bonds are secured by a first mortgage on the property and assets of the Consortium. As of June 30, 2014 and 2013, the remaining principal balance of the bonds was $6,862,947 and $7,161,304, respectively.

The Consortium paid $77,189 in fees related to the bonds issued in 2011, which have been capitalized and are amortized over the 239 month maturity period of the bonds. As of June 30, 2014 and 2013, $11,950 and $8,074 of bond fees had been amortized and expensed.

Future maturities of long term debt are as follows:

2015	$ 308,337
2016	318,075
2017	329,293
2018	340,309
2019	351,693
Thereafter	5,215,240
	$6,862,947

NOTE G – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2014	2013
Tuition and services	$ 757,870	$1,092,462
Other	17,626	29,004
	$ 775,496	$1,121,466
Allowance for doubtful accounts	(65,000)	(75,000)
	$ 710,496	$1,046,466

During fiscal 2013, the Consortium increased the allowance for doubtful accounts from $30,000 to $75,000 and accordingly recognized $45,000 of bad debt expense for the year ended June 30, 2013. During fiscal 2014, the Consortium charged off $72,631 of uncollectible account balances against the allowance. Also during fiscal 2014, the Consortium increased the remaining allowance from $2,369 to $65,000 and accordingly, recognized $62,631 of bad debt expense. The allowance is based on specific identification of probable losses and an estimate of additional losses based on historical experience. Account balances are charged off against the allowance when it is probable the receivable will not be recovered.

NOTE H – MASSACHUSETTS TEACHERS' RETIREMENT BOARD

The Consortium's employees participate in the Massachusetts Teachers or State Retirement Plan, a statewide multiple-employer public employee retirement system covering all employees of local school districts within the Commonwealth of Massachusetts. These retirement systems are cost sharing public employee retirement systems with one exception; all risks and costs are not shared by the Consortium but

NOTE H – MASSACHUSETTS TEACHERS' RETIREMENT BOARD – *continued*

are the liability of the Commonwealth of Massachusetts. These systems are funded primarily through state and employee contributions, and the Consortium has no legal obligation for paying benefits.

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

In fiscal 2014 and 2013, the Massachusetts Teachers' Retirement Board contributed $602,760 and $454,623, respectively, in pension benefits on behalf of teachers who participate in the retirement system, which have been recognized in these financial statements.

NOTE I – RETIREMENT HEALTH BENEFITS

During fiscal 2012, the Consortium adopted the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

<u>Description</u>
The Consortium offers comprehensive medical insurance through Tufts Health Plan, comprehensive dental insurance through Delta Dental, and group term life insurance to eligible employees. An employee shall become eligible to retire under these programs upon meeting the following conditions:

i. Completion of 10 years of continuous service at the Consortium
ii. Attainment of age 55 as an active member

The plan is administered by the Consortium and the Consortium shares in 50% of premiums for Medical insurance. The Consortium does not share in the premiums for dental or life insurance.

<u>Funding Policy</u>
The contribution requirements of plan members and the Consortium are established and may be amended through Consortium ordinances. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2014 fiscal year, total Consortium premiums plus implicit costs for the retiree medical program are $82,835.

<u>Annual OPEB Cost and Net OPEB Obligation</u>
The Consortium's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the Consortium's annual OPEB costs for the fiscal years ended June 30, 2013 and 2014, the amount actually contributed to the plan and changes in the Consortium's net OPEB obligation to the plan:

NOTE I – RETIREMENT HEALTH BENEFITS - *continued*

Annual Required Contribution, fiscal 2013	$1,028,176
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Amortization of Actuarial (Gains) / Losses	—
Annual OPEB cost (expense)	1,028,176
Contributions Made	(61,804)
Increase in net OPEB obligation	966,372
Net OPEB Obligation-beginning of year	899,584
Net OPEB Obligation-end of year	$1,865,956

Annual Required Contribution, fiscal 2014	$1,113,504
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Amortization of Actuarial (Gains) / Losses	—
Annual OPEB cost (expense)	1,113,504
Contributions Made	(82,835)
Increase in net OPEB obligation	1,030,669
Net OPEB Obligation-beginning of year	1,865,956
Net OPEB Obligation-end of year	$2,896,625

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

Fiscal Year Ended	Annual OPEB Cost	Expected Employer Payments	Net OPEB Obligation
6/30/10	N/A	N/A	N/A
6/30/11	N/A	N/A	N/A
6/30/12	$947,226	$47,642	$899,584
6/30/13	$1,028,176	$61,804	$966,372
6/30/14	$1,113,504	$82,835	$1,030,699

Funding Status and Funding Progress

As of July 1, 2011, the most recent valuation date, the plan was 0.0% funded. The actuarial liability for benefits was $5,893,143, and the actuarial value of assets was $0.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $5,893,143. The covered payroll (annual payroll of active employees covered by the plan) was $11,561,674, and the ratio of the UAAL to the covered payroll was 51.0%.

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

NOTE I – RETIREMENT HEALTH BENEFITS - *continued*

Effect of 1% Change in Healthcare Trend Rates

In the event that healthcare trend rates were 1% higher than forecast and employee contributions were to increase at the forecast rates, the Actuarial Accrued Liability would increase to $8,546,108 or by 45.0% and the corresponding Normal Cost would increase to $960,750 or by 55.1%. 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 $3,843,797 or by 34.8% and the corresponding Normal Cost would decrease to $365,258 or by 41.0%.

Actuarial Methods and Assumptions

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

Actuarial Cost Method: Projected Unit Credit
Investment Rate of Return: 4.00% per annum
Healthcare Trend Rates:

Year	Medical	Dental
FY 2008	11.0%	8.5%
FY 2009	10.0%	8.0%
FY 2010	9.0%	7.5%
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: 3.50% per annum
Annual Compensation Increases: 4.50% 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

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

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

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

NOTE I – RETIREMENT HEALTH BENEFITS - *continued*

Recognition of OPEB trust assets
The State of Massachusetts has recently passed legislation allowing municipal entities to establish a trust for Other Than Postemployment Benefits ('OPEB") under M.G.L. Chapter 32B, Section 20 for purposes of accumulating assets to prefund the liabilities under GASB 45. The Consortium has not established an irrevocable trust for the purposes of prefunding liabilities under GASB 45.

As described in Note C, the Board of Directors has designated $279,000 as of June 30, 2014 and 2013, for future retiree health benefits.

NOTE J – FRIENDS OF NORTHSHORE EDUCATION CONSORTIUM INC.

During fiscal 2005 the Friends of Northshore Education Consortium Inc. ("the Friends") was formed as a charitable organization. The Friends operates exclusively for the purpose of providing support for the Northshore Education Consortium and has a separate board of directors. During fiscal 2014 and 2013, the Consortium recorded grant income from the Friends in the amount of $119,909 and $44,727, respectively. At June 30, 2014 and 2013, balances were due from the Friends in the amount of $17,626 and $29,004, respectively.

NOTE K – COMMONWEALTH OF MASSACHUSETTS SURPLUS REVENUE RETENTION

The cumulative excess of revenue received from the Commonwealth of Massachusetts is the amount in accordance with the Commonwealth of Massachusetts Not-for-profit Provider Surplus Revenue Retention Policy, pursuant to 808CMR 1.19(3) of the Pricing, Reporting and Auditing for Social Programs, which allows a provider to retain, for future use, a portion of annual net surplus. Net surplus, from the revenues and expenses with services provided to purchasing agencies, which are subject to 808CMR 1.00, may not exceed 5% of said provider's revenue annually. Furthermore, the cumulative amount of the provider's net surplus may not exceed 20% of the provider's prior year's revenues from purchasing agencies. The Consortium had no accumulated surplus as of June 30, 2014.

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

Highest Paid Employees
The five highest paid employees of the Consortium during fiscal 2014 were as follows:

Francine Rosenberg, Executive Director - $140,000, 260 day contract, 235 working, 25 vacation
Glenn Bergevin, Chief Financial Officer - $120,000, 260 day contract, 235 working, 25 vacation
Thomas Miller, Director of the Kevin O'Grady School, $101,506, 260 day contract, 240 working, 20 vacation
Kenneth Letzring, Director of Northshore Academy Upper School - $100,332, 260 day contract, 235 working, 25 vacation
Michelle Lipinski, Director of Northshore Recovery High School - $94,186, 260 day contract, 235 working, 25 vacation

The duties of the individuals listed above include:
Executive Director: Overall direction, strategy, compliance, and leadership of all Consortium programs and administration.
Chief Financial Officer: Financial reporting, budgeting, cash management, payroll, benefits, HR, and facilities oversight.
Director of the Kevin O'Grady School: Program direction and leadership of Kevin O'Grady school.
Director of Northshore Academy Upper School: Program direction and leadership of Northshore Upper Academy.
Director of Northshore Recovery High School: Program direction and leadership of Recovery High School.

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

Over 22 Program

The Consortium does not provide services to individuals, age 22 or older.

Administrative Costs

Total administrative costs incurred by the Consortium totaled $953,858 for the year ended June 30, 2014. Administrative expenses include all costs that cannot be directly or reasonably applied to a program of the Consortium. Administrative expenses include salaries, related benefits and payroll taxes, associated with the Consortium's administrative office (i.e., Executive Director, finance staff, human resources, etc.), as well as other costs associated with maintaining that office (i.e. occupancy, supplies, etc.). The Consortium directly applies salaries, where appropriate, to its programs and allocates related employee benefits and taxes to those programs. Occupancy, supplies, maintenance and any other cost that can be directly applied, or reasonably allocated, are reported under program expense. See Note A for a description of the functional allocation of expenses.

Accounts Held on Behalf of Others

As disclosed in Note A to the financial statements, the Consortium holds funds on behalf of certain member districts, for use in program activities or services as directed by the member district. The overall balance held for these member districts are shown on the Statement of Net Position as an asset, "Cash held for municipalities" and a corresponding liability, "Member municipalities accounts."

Related Party Transactions

Cash held for municipalities (member districts) is disclosed in Note A. A lease with a member district (Beverly) is described in Note D to the financial statements. Transactions with a related non-profit organization are described in Note J to the financial statements.

Real Property Transactions

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

Northshore Education Consortium
Statement of Revenues and Expenses
Budget and Actual
For the year ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
Revenues and Other Support:				
Services, contracts, contributions, grants member fees, and interest	$ 19,208,044	$ 18,090,892	$ 18,680,231	$ 589,339
On-behalf retirement payment revenue	-	-	602,760	602,760
Total revenue and other support	19,208,044	18,090,892	19,282,991	1,192,099
Expenses:				
Payroll and related expenses	15,447,612	14,709,875	15,035,909	(326,034)
Administration	833,629	992,159	953,858	38,301
All other expenses	2,781,804	2,579,814	2,643,015	(63,201)
Increase in net retirement health benefit obligation	1,536,956	1,536,956	1,030,669	506,287
On-behalf retirement payment expense	-	-	602,760	(602,760)
Total expenses	20,600,001	19,818,804	20,266,211	(447,407)
Excess (deficit) of revenue over expenses	$ (1,391,957)	$ (1,727,912)	$ (983,220)	$ 744,692

See independent auditor's report.

Northshore Education Consortium
Required Supplementary Information
June 30, 2014

Schedule of Funding Progress - Other Post-Employment Healthcare Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
7/1/2008	$0	N/A	N/A	0.0%	N/A	N/A
7/1/2009	$0	N/A	N/A	0.0%	N/A	N/A
7/1/2010	$0	N/A	N/A	0.0%	N/A	N/A
7/1/2011	$0	$5,893,143	$5,893,143	0.0%	$11,561,674	51.00%
7/1/2012 (est.)	$0	$6,723,636	$6,723,636	0.0%	$12,081,949	55.65%
7/1/2013 (est.)	$0	$7,619,385	$7,619,385	0.0%	$12,625,637	60.35%

See independent auditor’s report.

FRITZ DEGUGLIELMO LLC
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

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

To the Board of Directors of
Northshore Education Consortium
Beverly, 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 Northshore Education Consortium (a collaborative organized under the Laws of the Commonwealth of Massachusetts), which comprise the statement of net position as of June 30, 2014 and the related statements of revenues, expenses and changes in net position, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northshore Education Consortium'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northshore Education Consortium's internal control. Accordingly, we do not express an opinion on the effectiveness of the Northshore Education Consortium's internal control.

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

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

Compliance and Other Matters

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

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We noted certain other matters that we reported to management of the Consortium in a separate letter dated October 13, 2014.

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.

Fritz DeGuglielmo LLC

Certified Public Accountants

Newburyport, Massachusetts
October 13, 2014

NORTHSHORE EDUCATION CONSORTIUM

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Francine H. Rosenberg M.Ed.
Executive Director

ACCEPTANCE OF THE BOARD OF DIRECTORS

We, the Board of Directors of the Northshore Education Consortium, have voted to accept the representations of management and the expression of the opinions made by Fritz DeGuglielmo LLC as embodied in the financial statements, supplemental schedules and independent auditor's reports for the year ended June 30, 2014.

We also certify that the representations made by management and the disclosures in the financial statements are accurate and have been correctly and completely disclosed as required by accounting principles generally accepted in the United States of America and under Commonwealth of Massachusetts laws for the year ended June 30, 2014.

____
Board Chair

11/10/2014
____
Date