Northshore Education Consortium

Financial Statements

For The Year Ended
June 30, 2018

Northshore Education Consortium
Contents
For the Year Ended June 30, 2018

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 the governmental activities, each major fund, and the aggregate remaining fund information of Northshore Education Consortium (a collaborative organized under the General Laws of the Commonwealth of Massachusetts), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Northshore Education Consortium'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 audits 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 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 Northshore Education Consortium, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

8 Essex Street • Newburyport, Massachusetts 01950 • Tel: (978) 462-2161 • Fax: (978) 462-8005
www.fd-cpa.com

Emphasis of Matter

As discussed in Note A to the financial statements, in fiscal 2018, the Consortium fully implemented Governmental Accounting Standards Board Statements No. 74, *Financial Reporting for Postemployment Benefit Plan Other Than Pension Plans* and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, OPEB Plan – Required Supplementary Information, and pension schedules on pages 3-6, 27-31 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 the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, 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 19, 2018

Northshore Education Consortium
Management's Discussion and Analysis
(unaudited)
June 30, 2018

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, 2018 with comparative information from June 30, 2017 and 2016. Please read it in conjunction with the financial statements that begin on page 7.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Consortium's financial statements. The Consortium's financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements:

The government-wide financial statements report information about the Consortium as a whole using accounting methods similar to those used by private sector companies.

- The **Statement of Net Position** presents information on all of the Consortium's assets and liabilities with the difference between the two reported as net position. It is one way of measuring the Consortium's financial health or position.
- The **Statement of Activities** presents information showing how the Consortium's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

Over time, increases or decreases in the Consortium's net position is an indicator of whether its financial position is improving or deteriorating. The reader will also need to consider other non-financial factors such as changes in economic conditions when evaluating the overall financial health of the Consortium.

Fund Financial Statements:

Funds are accounting devices used to keep track of specific sources of funding and spending in particular categories: governmental funds, proprietary funds, and fiduciary funds. Presently, the Consortium has only governmental funds.

- **Governmental funds** – The Consortium's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Consortium's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) is provided following the governmental funds statements that explains the relationship (or differences) between these two types of financial statement presentations.

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.

Required Supplementary Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

Northshore Education Consortium
Management's Discussion and Analysis
(unaudited)
June 30, 2018

Government-Wide Financial Highlights

Consortium's Net Position:

ASSETS	2018	2017	2016
Current assets	$ 6,520,995	$ 6,140,024	$ 6,526,083
Property & equipment, net	10,301,997	8,557,209	8,374,742
Bond fees, net	49,132	53,006	57,489
	$16,872,124	$14,750,239	$14,958,314
LIABILITIES AND NET POSITION			
Liabilities			
Current liabilities	$ 2,169,508	$ 1,955,516	$ 1,758,561
Other postemployment benefits	17,886,032	6,598,333	5,061,363
Bonds and notes payable, net of current portion	6,865,872	5,566,932	5,907,241
Total Liabilities	$26,921,412	$14,120,781	$12,727,165
Net Position			
Invested in capital assets, net of related debt	$ 3,104,197	$ 2,702,974	$ 2,195,697
Unrestricted	(13,187,175)	(2,107,206)	1,762
Restricted	33,690	33,690	33,690
	$(10,049,288)	$ 629,458	$ 2,231,149

The 2016 and 2017 other postemployment benefits ("OPEB") liability balances are shown above as previously reported under Governmental Accounting Standards Board ("GASB") Statement No. 45. The Consortium fully implemented GASB Statement No. 75 in fiscal 2018 and recorded an increase in the beginning OPEB liability of $9,423,369 as a result of the change in accounting principle. In 2018, Northshore Education Consortium's net position decreased by $1,255,377 before the cumulative effect of recording the beginning balance in the net OPEB liability. The decrease was primarily a result of recording the estimated expense for postretirement health benefit obligations in accordance with GASB Statement No. 75. The increase in net position before the increase in the net postretirement health benefit obligation was mainly a result of operating revenues in excess of operating expenditures.

Consortium's Changes in Net Position (excluding retirement system on-behalf payments):

	2018	2017	2016
Charges for services	$22,484,072	$19,424,124	$19,160,594
Operating grants and contributions	909,496	666,764	715,087
Member assessments	180,000	180,000	180,000
Interest	12,087	9,642	13,408
Credits to member districts	-	(387,624)	-
Operating Expenses	(22,976,702)	(19,957,627)	(18,765,321)
Change in net position before increase in net retirement health benefit obligation	608,953	(64,721)	1,303,768
Increase in net retirement health benefit obligation	(1,864,330)	(1,536,970)	(1,106,604)
Change in net position	$ (1,255,377)	$ (1,601,691)	$ 197,164

The above schedule does not include on-behalf payments from state retirement systems recorded as revenue and expense in the financial statements as required under GASB Statement No. 68.

Revenues

In 2018, operating revenues increased by approximately $3,302,680, or 16.29% over the prior fiscal year, due mainly to the Consortium's new program in Topsfield, Massachusetts and increased student enrollment.

Expenditures

In 2018, operating expenses increased by approximately $3,019,075, or 15.13% over the prior fiscal year, due mainly to the Consortium's new program in Topsfield, Massachusetts and increased program staff to service increased student enrollment.

Governmental Funds Financial Highlights

The Consortium reported a total general fund balance of $4,698,857, of which $4,060,052 is unassigned. The fund balance increased $207,730 over the prior fiscal year, primarily as a result of operations. Cash and cash equivalents increased $458,248 and accounts receivable decreased $73,082. Accounts payable and accrued liabilities increased by $173,241. All of these changes are related to operational activities with the Consortium receiving higher amounts of cash and cash equivalents from operations and having increased salary accruals to due increased staffing. Accounts receivable decreased as a result of decreased service invoices outstanding at the end of the year.

Capital Assets and Debt Administration

During 2018, the Consortium made improvements to its Sohier Road, Beverly facility costing $247,559 and purchased three vehicles costing $93,746 for use in its operations. Subsequent to year-end, the Consortium closed on the purchase of a program facility in Topsfield, Massachusetts. As of June 30, 2018, the Consortium had incurred $349,445 related to the purchase of that property and held cash in the amount of $1,680,055 that was used to purchase the property in fiscal 2019. During 2017, the Consortium made improvements to its Sohier Road, Beverly facility and purchased equipment for use in its operations. During 2016, the Consortium made improvements to its Sohier Road, Beverly facility and purchased a vehicle and other equipment for use in its operations. The total related capital expenditures for the years ended June 30, 2018, 2017 and 2016 were $690,750, $767,800, and $195,770, respectively.

Additional information on the Consortium's capital assets can be found in Note B in the notes to the financial statements.

The Consortium's debt consists of bonds to finance the purchase and buildout of the Consortium's headquarters and a note payable entered into during fiscal 2018 related to the purchase of a program facility in Topsfield, Massachusetts. As of June 30, 2018 and 2017, the remaining principal balance of the bonds was $5,566,932 and $5,907,241, respectively. As of June 30, 2018, the remaining principal balance of the note payable was $1,680,000. During fiscal 2018 and 2017, the principal of the bonds was paid down by $340,309 and $329,293, respectively. The current portion of bonds due in fiscal 2019 is $351,694 and the current portion of the note payable is $29,366.

Additional information on the Consortium's debt can be found in Note E in the notes to the financial statements.

Budgetary Highlights

The Consortium's annual budget for fiscal 2018 was approved by its Board of Directors. There were no revisions to the budget during the year. For the fiscal year ended June 30, 2018, the Consortium received revenues, excluding on-behalf payments by the Massachusetts Teachers' Retirement and State Employees' Retirement Systems, of approximately $23,585,000 compared to budgeted revenues of approximately $22,310,000. The difference between actual revenues received and budgeted revenues was due to higher than expected student enrollments.

Northshore Education Consortium
Management's Discussion and Analysis
(unaudited)
June 30, 2018

For the fiscal year ended June 30, 2018, the Consortium incurred actual governmental fund expenditures, excluding on-behalf payments by the Massachusetts Teachers' Retirement and State Employees' Retirement Systems, of approximately $23,380,000 compared to budgeted expenses of approximately $21,920,000. The difference between actual expenditures incurred and budgeted expenditures was primarily due to higher than expected salary and non-salary expenditures.

Key Financial Ratios

During 2018 and 2017, the Consortium calculated key financial ratios related to cash flows and debt. The Consortium's cost of borrowing was approximately 3.4% of outstanding debt during 2018 and 2017.

	2018	2017
Current Ratio	3.01	3.14

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.

	2018	2017
Debt Ratio	0.43	0.40

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.

	2018
Debt Coverage Ratio	2.22

The debt coverage ratio indicates the ability of the Consortium to repay its debt service using the net change in net position. With change in net position before interest, depreciation, change in OPEB obligation and member credits of approximately $1,428,000, the Consortium would have sufficient operating cash flows to meet its debt service requirements. A debt coverage ratio of more than 1.0 indicates the Consortium would not have to use reserve funds to repay its debt service.

	2018	2017
Operating Cash Flow to Current Debt	2.59	2.00

The operating cash flow to current debt ratio indicates the ability of the Consortium to repay current portions of debt from operating cash flow. A ratio of more than 1.0 indicates the Consortium would not have to use reserve funds to repay its debt service.

	2018	2017
Defensive Interval Ratio	3.26	3.46

The defensive interval ratio indicates the estimated 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 statements 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

Statement of Net Position

June 30, 2018

		Governmental Activities
ASSETS		
Current Assets:		
Cash and cash equivalents	$	5,449,133
Accounts receivable, net		897,121
Prepaid expenses and other assets		174,741
Total Current Assets		6,520,995
Non-current Assets:		
Cash held for purchase of building		1,680,055
Capital assets, net		8,621,942
Bond fees, net of accumulated amortization of $28,057		49,132
Total Non-current Assets		10,351,129
Total Assets	$	16,872,124
LIABILITIES AND NET POSITION		
Current Liabilities:		
Note payable, current portion	$	29,366
Bonds payable, current portion		351,694
Accounts payable and accrued liabilities		1,788,448
Total Current Liabilities		2,169,508
Non-current Liabilities:		
Other postemployment benefits		17,886,032
Note payable, net of current portion		1,650,634
Bonds payable, net of current portion		5,215,238
Total Non-current Liabilities		24,751,904
Total Liabilities		26,921,412
Net Position:		
Invested in capital assets, net of related debt		3,104,197
Unrestricted		(13,187,175)
Restricted		33,690
Total Net Position		(10,049,288)
Total Liabilities and Net Position	$	16,872,124

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

Northshore Education Consortium
Statement of Activities
For the Year Ended June 30, 2018

Functions/ Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:				
Administration	$ 1,035,634	$ -	$ -	$ (1,035,634)
Education	21,121,620	22,484,072	909,496	2,271,948
Intergovernmental revenue and expense	3,923,227	-	3,923,227	-
Other postemployment benefits	1,864,330	-	-	(1,864,330)
Interest expense	189,557	-	-	(189,557)
Depreciation and amortization	629,891	-	-	(629,891)
Total Governmental Activities	$ 28,764,259	$ 22,484,072	$ 4,832,723	(1,447,464)
General revenue:				
Assessments to member districts				180,000
Interest				12,087
Other				-
Total General Revenue				192,087
Change in Net Position				(1,255,377)
Net Position, Beginning of Year				
As previously reported				629,458
Cumulative effect of a change in accounting principle (see Note A)				(9,423,369)
As restated				(8,793,911)
Net Position, End of Year				$ (10,049,288)

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

Northshore Education Consortium
Balance Sheet
Governmental Funds
June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 5,415,443	$ 33,690	$ 5,449,133
Accounts receivable, net	897,121	-	897,121
Prepaid expenses and other assets	174,741	-	174,741
Total Assets	$ 6,487,305	$ 33,690	$ 6,520,995
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 1,788,448	$ -	$ 1,788,448
Total Liabilities	1,788,448	-	1,788,448
Fund Balances:			
Nonspendable	-	-	-
Restricted	-	33,690	33,690
Committed	638,805	-	638,805
Assigned	-	-	-
Unassigned	4,060,052	-	4,060,052
Total Fund Balances	4,698,857	33,690	4,732,547
Total Liabilities and Fund Balances	$ 6,487,305	$ 33,690	$ 6,520,995

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

Northshore Education Consortium

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2018

Total fund balances, governmental funds	$ 4,732,547
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets, including cash held for the purchase of a building, net of related debt, 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	3,104,197
Other postemployment benefit (OPEB) liability is not a current obligation and therefore is not reported in this fund financial statement, but is reported in the governmental activities of the Statement of Net Position.	(17,886,032)
Net position of governmental activities	$ (10,049,288)

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

Northshore Education Consortium
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Tuition and service revenues	$ 22,345,041	$ -	$ 22,345,041
Member assessments	180,000	-	180,000
Grants and contributions	909,496	-	909,496
Intergovernmental revenue	3,923,227	-	3,923,227
Interest	12,032	-	12,032
Other	139,031	-	139,031
Total Revenues	27,508,827	-	27,508,827
Expenditures:			
Administration	1,035,634	-	1,035,634
Program payroll	15,351,067	-	15,351,067
Program fringe benefits and payroll taxes	2,818,137	-	2,818,137
Contract services and professional fees	245,777	-	245,777
Transportation and travel	82,188	-	82,188
Rent and other occupancy	1,171,478	-	1,171,478
Building maintenance	270,785	-	270,785
Telephone and utilities	268,257	-	268,257
Supplies and equipment	661,228	-	661,228
Lunch program expenses	126,358	-	126,358
Grant related expenses	21,093	-	21,093
Other	105,252	-	105,252
Intergovernmental expense	3,923,227	-	3,923,227
Capital outlay, net of debt incurred	690,750	-	690,750
Debt Service:			
Debt principal	340,309	-	340,309
Debt interest	189,557	-	189,557
Total Expenditures	27,301,097	-	27,301,097
Net Change in Fund Balances	207,730	-	207,730
Fund Balances, Beginning of Year	4,491,127	33,690	4,524,817
Fund Balances, End of Year	$ 4,698,857	$ 33,690	$ 4,732,547

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

Northshore Education Consortium

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, 2018

Net change in fund balances of total governmental funds	$ 207,730

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. Governmental funds do not report inflows from assets held to purchase capital assets because such assets are not considered current financial resources. In contrast, the Statement of Activities does report the inflows as revenue.

Interest income on cash held for the purchase of a building	55
Capital outlay purchases, net of debt incurred	690,750
Depreciation	(629,891)

Governmental funds report debt service payments as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only the current year interest accrued on the debt as expense.

Debt principal payments	340,309

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

Net change in other postemployment benefits (OPEB) accrual	(1,864,330)
Change in net position of governmental activities	$ (1,255,377)

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

Northshore Education Consortium
Notes to the Financial Statements
June 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consortium

Northshore Education Consortium ("The Consortium") was created by agreement pursuant to the provisions of Massachusetts General Law Chapter 40, Section 4E, 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 for fiscal 2018 were 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. Ipswich became a Consortium member effective July 1, 2018.

Basis of Presentation

The Consortium's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America "(GAAP)". The Governmental Accounting Standards Board "(GASB)" is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Consortium are discussed below.

The Consortium's basic financial statements include both government-wide (reporting the Consortium as a whole) and fund financial statements (reporting the Consortium's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Governmental activities are generally financed through intergovernmental assessments or other non-exchange transactions. The Consortium does not have any activities classified as business type activities.

Cumulative effect of change in accounting principle

The Consortium has fully implemented GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Statement No. 74 provides guidance to improve financial reporting of Other Postemployment Benefit (OPEB) Plans. Statement No. 75 provides guidance on employer reporting for employer governmental entities whose employees are provided with OPEB. Under Statement No. 75, the Consortium is required to report the effects of OPEB-related transactions and events on its financial statements and to provide information about the Consortium's OPEB obligations and the assets available to satisfy the obligations. Previously, the Consortium recognized its Net OPEB obligation over a 30-year period in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under Statements No. 74 and 75, the Consortium is required to recognize its Net OPEB liability immediately. The beginning net position on the government-wide financial statements as a result of the cumulative effect of this change in accounting principle decreased in the amount of $9,423,369 from the amount previously reported in the financial statements for the year ended June 30, 2017. There was no change in the opening balance in the governmental fund balance as a result of the cumulative effect of this change in accounting principle.

Government-wide Statements

In the government-wide Statement of Net Position, governmental columns are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables and deferred outflows of resources, as well as long-term liabilities, deferred inflows of resources and other liabilities reported on a full accrual basis. The Consortium's net position is reported in three parts—net investment in capital assets; restricted; and unrestricted. The Consortium first utilizes restricted resources to finance qualifying activities.

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

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Consortium does allocate indirect expenses to functions in the Statement of Activities if there is a reasonable basis for doing so. Depreciation is reported as one amount, in total, on the Statement of Activities, and is not allocated among the respective functions.

The government-wide focus is more on the sustainability of the Consortium as an entity and the change in the Consortium's net position resulting from the current year's activities.

Fund Financial Statements
The financial transactions of the Consortium are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB pronouncements set forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Consortium may electively add funds, as major funds, which have specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

The following governmental fund types are used by the Consortium - the Consortium does not use proprietary funds:

Governmental Funds:
The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Consortium:

General fund - is the general operating fund of the Consortium. It is used to account for all financial resources not accounted for and reported in another fund.

Non-major governmental funds - consist of other special revenue and permanent funds that are aggregated and presented in the non-major governmental funds column on the government funds financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., 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 pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

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

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 account balances in banks in excess of the federally insured limits. In the event of a bank failure, the Consortium's deposits may not be returned to it. As of June 30, 2018, $7,425,884 of the Consortium's bank balances, not including uncleared transactions, was exposed to custodial credit risk.

Accounts Receivable

Accounts receivable consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible amounts. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Capital Assets

The Consortium capitalizes purchases with estimated useful lives in excess of one year and with a cost basis of $5,000 or more in its government-wide statements. Capital assets are capitalized at cost. Depreciation of all exhaustible assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Positon. 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.

In the fund financial statements, capital assets are not capitalized and related depreciation is not reported. Capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Equity Classifications

Government-wide Statements
Equity is classified as net position and displayed in three components:

Invested in capital assets, net of related debt - this component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Restricted - this component of net position consists of restricted net assets reduced by liabilities and deferred inflows or resources related to those assets. These assets may be restricted by 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.

Unrestricted - this component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Financial Statements
Governmental fund equity is classified as fund balance. Fund balance is further classified based on the extent to which the government is bound to honor constraints on specific purposes for which amounts in the funds can be spent. Fund balances can be classified in the following components:

Nonspendable fund balance – consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

Restricted fund balance – consists of amounts upon which constraints have been placed on their use whether (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – consists of amounts which can only be used for specific purposes pursuant to constraints imposed by the Consortium's highest level of decision making, the Board of Directors. Any modification or rescission must also be made by a vote of the Board of Directors.

Assigned fund balance – consists of amounts that are constrained by the Consortium's intent to be used for specific purposes. Intent is expressed by (a) the governing body itself, or (b) a Board of Directors, or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned fund balance – consists of the residual classification for the remaining fund balance. It represents amounts that have not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes.

Revenue Recognition

Revenues consist primarily of billings to member municipalities or other cities, towns and agencies for providing programs and services and are recognized at the time services are provided. Tuition and services paid for the next year are recorded as a deferred liability at June 30 and recognized as revenue in the next fiscal year.

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.

Subsequent Events

The Consortium has evaluated subsequent events through October 19, 2018, which is the date the financial statements were available to be issued. There are no recognized subsequent events, events that provide additional evidence about conditions that existed at the statement of net positions date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the statement of net positions date, which are necessary to disclose to keep the financial statements from being misleading.

NOTE B – CAPITAL ASSETS

A summary of depreciable capital assets follows:

	Buildings & Improvements	Furniture, Equipment & Software	Vehicles	Total
COST				
Balance, July 1, 2017	$12,489,115	$ 865,873	$ 375,986	$ 13,730,974
Additions	247,559	—	93,746	341,305
Disposals	—	—	—	—
	12,736,674	865,873	469,732	14,072,279
ACCUMULATED DEPRECIATION				
Balance, July 1, 2017	(5,661,538)	(662,540)	(349,687)	(6,673,765)
Additions	(561,929)	(49,828)	(14,260)	(626,017)
Disposals	—	—	—	—
	(6,223,467)	(712,368)	(363,947)	(7,299,782)
Net, June 30, 2018	$ 6,513,207	$ 153,505	$ 105,785	$ 6,772,497

NOTE B – CAPITAL ASSETS – *continued*

In fiscal 2018, the Consortium paid $247,559 for depreciable building improvements and $93,746 for three new vehicles. Subsequent to June 30, 2018, the Consortium closed on the purchase of a program facility in Topsfield, Massachusetts. As of June 30, 2018, the Consortium held $1,680,055 in a bank account that was used to purchase the property in fiscal 2019. During the year ended June 30, 2018, the Consortium had also incurred costs in the amount of $349,445 related to the purchase of the property, which have been included in Capital Assets but not depreciated in fiscal 2018. Land in the amount of $1,500,000 is also not being depreciated. Depreciation expense of $626,017, along with amortization expense of $3,874 (see Note E) was not allocated to governmental functions. It appears unallocated on the Statement of Activities.

NOTE C – BOARD COMMITTED FUND BALANCE

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 committed to allow for future claims. As of June 30, 2018, fund balance committed for unemployment claims was $60,000.

The Board of Directors has elected that funds be committed to cover retiree health benefits. As of June 30, 2018, fund balance committed for retiree health benefits was $279,000.

The Board of Directors has elected that funds be committed as tuition stabilization funds for future years. As of June 30, 2018, fund balance committed for tuition stabilization funds was $299,805.

NOTE D – LEASED FACILITIES AND EQUIPMENT

The Consortium has operating lease agreements to lease classroom space and equipment.

During fiscal 2015, the Consortium entered into a building lease for program use on Sohier Road in Beverly, Massachusetts, commencing July 1, 2015 through June 30, 2025, with options to June 30, 2035. Annual lease payments for the first year of the lease total $680,000 and increase 2.5% each subsequent year. The Sohier Road lease represents the majority of future minimum lease obligations of the Consortium in future years.

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

2019	$ 790,599
2020	766,384
2021	772,820
2022	788,460
2023	808,180
2024-2025	1,677,900
	$ 5,604,343

For the years ended June 30, 2018, total lease costs were $1,015,703.

NOTE E – 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 of the Consortium's 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, 2018, the remaining principal balance of the bonds was $5,566,932.

NOTE E – LONG TERM DEBT – *continued*

Note Payable:
During fiscal 2018, the Consortium entered into a $1,680,000 note payable agreement with a local bank in connection with its purchase of a program facility in Topsfield, Massachusetts. The note bears interest at a floating rate equal to the LIBOR Rate plus 3.00% and is payable in 119 consecutive monthly installments of principal and a final balloon payment to be made in June 2028. The note is secured by a first mortgage on the property. As of June 30, 2018, the remaining principal balance of the note was $1,680,000

The following summarizes long-term debt activity of the Consortium for the years ended June 30, 2018:

June 30, 2017 balance	$5,907,241
Additions, fiscal 2018	1,680,000
Reductions (repayments), fiscal 2018	(340,309)
June 30, 2018 balance	$7,246,932

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. Amortization expense for the year ended June 30, 2018 was $3,874 and as of June 30, 2018, a total of $28,057 bond fees had been amortized and expensed.

Future maturities of long-term debt are as follows:

2019	$ 381,060
2020	393,947
2021	408,774
2022	423,432
2023	438,643
2024-2028	3,729,542
2029-2033	1,471,534
	$7,246,932

NOTE F – ACCOUNTS RECEIVABLE

As of June 30, 2018, accounts receivable consist of the following:

Tuition and services	$ 891,392
Other	40,729
	932,121
Allowance for doubtful accounts	(35,000)
	$ 897,121

During fiscal 2018, the Consortium charged off $43,704 of uncollectible account balances against the allowance. Also, during fiscal 2018, the Consortium recognized additional allowances for bad debt in the amount of $98,824. Services revenue is shown net of the additional allowances for bad debt in the financial statements. 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 G – MASSACHUSETTS TEACHERS' AND STATE EMPLOYEES' RETIREE SYSTEMS

Plan Descriptions:
The Consortium's employees participate in the Massachusetts Teachers' (MTRS) or State Employee' Retirement System (MSERS), statewide cost-sharing multi-employer defined benefit plans public employee retirement systems (PERS) covering all employees of local school districts within the Commonwealth of Massachusetts. The retirement systems issue publicly available annual reports that includes financial statements and required supplementary information, which may be obtained by writing to Public Employee Retirement Administration Commission (PERAC), 5 Middlesex Avenue, Suite 304, Somerville, Massachusetts, 02145.

NOTE G – MASSACHUSETTS TEACHERS' AND STATE EMPLOYEES' RETIREE SYSTEMS – *continued*

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 become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the 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; for certain hazardous duty and public safety positions, 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.

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 the 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.

Contributions:
Member contributions for MSERS 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
1979 to present	An additional 2% of regular compensation in excess of $30,000

NOTE G – MASSACHUSETTS TEACHERS' AND STATE EMPLOYEES' RETIREE SYSTEMS – *continued*

Educational Collaboratives contribute amounts equal to the normal cost of employees' benefits participating in MSERS at a rate established by the Public Employees' Retirement Administration Commission (PERAC), currently 6.1% 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 employees 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. During fiscal year 2018, the Consortium's contributions on behalf of employees totaled $307,604.

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 (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present...........An additional 2% of regular compensation in excess of $30,000

The Commonwealth is a nonemployer contributor in MTRS and is required by statute to make all actuarially determined employer contributions on behalf of the member employers participating in MTRS.

The Consortium is considered to be in 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 under both MSERS and MTRS. Since the employers do not contribute directly to each system beyond the MSERS annual normal cost, there is no net pension liability to recognize. However, the notes to the financial statements must disclose the portion of the nonemployer contributing entities' share of the collective net pension liability that is associated with the employer. In addition, the Consortium must recognize its portion of the collective pension expense as both revenue and pension expense.

The nonemployer contributing entities' share of the collective net pension liability that is associated with the Consortium was measured as of June 30, 2017 and was $10,138,266 and $25,499,016 under MSERS and MTRS, respectively. In fiscal 2018, the Consortium recognized revenue and related expense of $1,311,820 (under GASB Statement No. 68) for its portion of the collective pension expense under MSERS. In fiscal 2018, the Consortium recognized revenue and related expense of $2,611,407, (under GASB Statement No. 68) for its portion of the collective pension expense under MTRS. These amounts are recorded as Intergovernmental revenue and expense in the financial statements.

NOTE H – RETIREMENT HEALTH BENEFITS

The Consortium follows the provisions of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions."

Description
The Consortium offers comprehensive medical insurance through Aetna and Tufts Health Plan and comprehensive dental insurance to eligible employees. An employee hired before April 2, 2012 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. And attainment of age 55 as an active member
iii. Or completion of 20 years of continuous service at the Consortium, regardless of age

NOTE H – RETIREMENT HEALTH BENEFITS - *continued*

An employee hired after April 2, 2012 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. And attainment of age 60 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 insurance.

Funding Policy
The contribution requirements of plan members and the Consortium are established and may be amended through Consortium ordinances. For the year ending on the July 1, 2017 Measurement Date total Consortium premiums plus implicit costs for the retiree medical program were $154,989. The Consortium also made a contribution to an OPEB Trust of $0 for a total contribution during the period of $154,989.

Investment Policy
The Consortium has not established a formal Investment Policy.

Actuarially Determined Contribution (ADC)
The Consortium's Actuarially Determined Contribution (ADC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 74/75 which represents a level of funding that, if paid on an ongoing basis, is projected to cover the service cost each year and amortize any unfunded actuarial liabilities (or funding excess). The following table shows the components of the Consortium's annual ADC for the fiscal year and the amount actually contributed to the plan:

Actuarially Determined Contribution - Deficiency / (Excess)

		June 30, 2018
I.	Service Cost	$1,374,682
II.	30-year amortization of NOL at 3.00%	817,483
III.	Actuarial Determined Contribution [I. + II.]	2,192,165
IV.	Contributions in relation to the actuarially determined contribution	(154,989)
V.	Contribution deficiency / (excess) [III. + IV.]	$2,037,176
	Covered employee payroll	$13,479,251
	Contribution as a % of covered employee payroll	1.15%

Funded Status and Funding Progress
As of the July 1, 2017 Measurement Date, the plan was 0.00% funded. The Total OPEB Liability (TOL) for benefits was $16,021,702, and the Fiduciary Net Position was $0, resulting in a Net OPEB Liability (NOL) of $16,021,702. The covered payroll (annual payroll of active employees covered by the plan) was $13,479,251 and the ratio of the NOL to the covered payroll was 118.9%.

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 actuarially determined 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 process, 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 Total OPEB Liabilities for benefits.

NOTE H – RETIREMENT HEALTH BENEFITS - *continued*

Measurement Date	Fiduciary Net Position	Total OPEB Liability	Net OPEB Liability	Funded Ratio	Covered Payroll	NOL as a % of Covered Payroll
7/1/2019 (est.)	$ -	$19,840,365	$19,840,365	0.0%	$14,300,137	138.7%
7/1/2018 (est.)	$ -	$17,886,032	$17,886,032	0.0%	$13,883,629	128.8%
7/1/2017	$ -	$16,021,702	$16,021,702	0.0%	$13,479,251	118.9%
7/1/2016	$ -	$12,231,785	$12,231,785	0.0%	$13,086,651	93.5%
7/1/2015	$ -	$9,236,079	$9,236,079	0.0%	N/A	N/A
7/1/2014	$ -	$8,254,757	$8,254,757	0.0%	N/A	N/A

OPEB Liability, OPEB Expense and ADC

	Fiscal Year Ended June 30, 2018		
	Non-Certified Employees and Retirees	**Certified Employees and Retirees**	**Total**
I. Total OPEB Liability	$10,269,032	$5,752,670	$16,021,702
II. Fiduciary Net Position as of July 1, 2017	-	-	-
III. Net OPEB Liability (Asset) [I.-II.]	10,269,032	5,752,670	16,021,702
IV. Service Cost	885,936	488,746	1,374,682
V. Interest on Net OPEB Liability (Asset) and Service Cost	442,295	202,342	644,637
VI. Deferred (Inflows)/Outflows from Plan Design Changes	-	-	-
VII. Deferred (Inflows)/Outflows from Plan Experience	-	-	-
VIII. Deferred (Inflows)/Outflows from Changes in Assumptions	-	-	-
IX. Projected Earnings on OPEB Plan Investments	-	-	-
X. Deferred (Inflows)/Outflows from Earnings on Investments	-	-	-
XI. Employer Share of Costs	(123,727)	(31,262)	(154,989)
XII. Employer Payments (Withdrawals) to/from OPEB Trust	-	-	-
XIII. Total Employer Contribution [XI.+XII.]	(123,727)	(31,262)	(154,989)
XIV. Net OPEB Expense [IV.+V.+VI.+VII.+VIII.+IX.+X.+XIII.]	$1,204,504	$ 659,826	$ 1,864,330
XV. Actuarial Determined Contribution (ADC)	$1,409,898	$ 782,267	$ 2,192,165
XVI. Total Expected Contribution	$ 123,727	$ 31,262	$ 154,989
XVII. Percentage of ADC Contributed [XVI./XV.]	9%	4%	7%

NOTE H – RETIREMENT HEALTH BENEFITS - *continued*

Effect of 1% Change in Healthcare Trend

In the event that healthcare trend rates were 1% higher than forecast and employee contributions were to increase at the forecast rates, the Total OPEB Liability as of the July 1, 2017 Measurement Date would increase to $23,984,178 or by 49.7% and Net OPEB Liability would increase to $23,984,178 or by 49.7%. The corresponding Service Cost would increase to $2,266,686 or by 64.9%. If such healthcare trend rates were 1% less than forecast and employee contributions were to increase at the forecast rate, the Total OPEB Liability would decrease to $10,171,032 or by 36.5% and the Net OPEB Liability would decrease to $10,171,032 or by 36.5%. The corresponding Service Cost would decrease to $758,321 or by 44.8%.

Effect of 1% Change in Discount Rates

As of the July 1, 2017 Measurement Date, if the discount rate were 1% higher than what was used in this valuation, the Total OPEB Liability would decrease to $13,023,691 or by 18.7% and the Net OPEB Liability would decrease to $13,023,691 or by 18/7%. The corresponding Service Cost would decrease to $1,031,902 or by 24.9%. If the discount rate were 1% lower than was used in this valuation, the Total OPEB Liability would increase to $20,675,357 or by 29.0% and the Net OPEB Liability would increase to $20,675,357 or by 29.0%. The corresponding Service Cost would increase to $1,905,820 or by 38.6%.

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 benefits 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: Individual Entry Age Normal
Discount Rate: 3.25% per annum (previously 4.00%)
Healthcare Trend Rates:

Year	Medical	Dental
FY 2013	6.0%	5.5%
FY 2014	5.0%	5.0%
FY 2015	5.0%	5.0%
FY 2016	5.0%	5.0%
FY 2017	5.0%	5.0%
FY 2018	5.0%	5.0%
FY 2019	5.0%	5.0%
FY 2020 +	5.0%	5.0%

General Inflation Assumption: 2.75% per annum
Annual Compensation Increases: 3.00% per annum
Actuarial Value of Assets: Market Value

Recognition of OPEB Trust Assets

The state of Massachusetts has passed legislation allowing municipal entities to establish a Trust for Other Postemployment Benefits ("OPEB") under M.G.L. Chapter 32B, Section 20 for purposes of accumulating assets to pre-fund the liabilities under GASB 75. This legislation was amended effective November 9, 2016 to clarify who may adopt such a Trust and provide guidance on the ongoing operation of such a Trust. To the best of our knowledge, Northshore Education Consortium has not established an irrevocable trust for the purposes of prefunding liabilities under GASB 74/75.

NOTE H – RETIREMENT HEALTH BENEFITS - *continued*

Changes in Net OPEB Liability

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
I. Balances at July 1, 2016 GASB 45	$12,231,785	$ -	$12,231,785
II. Change in Assumptions for GASB 75	2,125,915	-	2,125,915
III. Balances at July 1, 2016 GASB 75 [I.+II.]	14,357,700	-	14,357,700
Changes for the year:			
IV. Service Cost	1,270,857	-	1,270,857
V. Interest on Net OPEB Liability and Service Cost	506,107	-	506,107
VI. Changes in Benefit Terms*	-	-	-
VII. Changes in assumptions**	-	-	-
VIII. Differences between actual and expected experience**	-	-	-
IX. Net Investment Income	-	-	-
X. Employer Contributions (Withdrawals) to/from Trust	-	112,962	(112,962)
XI. Benefit payments withdrawn from Trust	-	(112,962)	112,962
XII. Benefit payments excluding Implicit Cost	(82,309)	-	(82,309)
XIII. Implicit Cost Amount	(30,653)	-	(30,653)
XIV. Administrative and Other Charges	-	-	-
XV. Net Changes [IV.+V.+VI.+VII.+VIII.+IX.+X.+XI.+XII.+XIII.+XIV.]	$ 1,664,002	$ -	$ 1,664,002
XVI. Balances at July 1, 2017 [III.+XV.]	$16,021,702	$ -	$16,021,702

* Recognized immediately
** Amortized over 7 years

Impact of Patient Protection and Affordable Care Act ("PPACA") Excise Tax

Under the Patient Protection and Affordable Care Act ("PPACA"), an excise tax will be imposed for tax years beginning after December 31, 2021 (formerly December 31, 2017, but amended by Congressional Legislation) for high cost employer sponsored health coverage. The law specified a 40% excise tax to be paid by the provider of such coverage of the excess value beyond a basic dollar amount plus an additional "kicker" for qualified retirees or those engaged in a high risk profession. The projected 2022 threshold amounts are $12,511 for single coverage and $32,676 for family coverage and a "kicker" amount of $1,650 for single coverage and $3,450 for family coverage.

For the fiscal year ended June 30, 2018, the TOL for the excise tax is $108,970 and the increase in OPEB Expense is $21,903. Given the Consortium's premiums through the 2018 fiscal year and the excise tax threshold, the Consortium's average single premiums are $4,265 below the excise tax threshold and the Consortium's average family premiums are $10,012 below the excise tax threshold. As more regulatory guidance becomes available, the calculation of the excise tax liability will evolve.

NOTE I – FRIENDS OF NORTHSHORE EDUCATION CONSORTIUM INC.

During fiscal 2005, the Friends of Northshore Education Consortium Inc. ("the Friends") was formed as a non-profit supporting organization of the Consortium. The Friends operates exclusively for the purpose of providing support for the Northshore Education Consortium and has a separate board of directors. Component units are included in the reporting entity if their operational and financial relationships with the Consortium are significant. Pursuant to these criteria, the Consortium did not identify the Friends as a component unit requiring inclusion in the accompanying financial statements. During fiscal 2018, the Consortium recorded grant income from the Friends in the amount of $195,596. At June 30, 2018, balances were due from the Friends in the amount of $40,729.

NOTE J – 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 20% of said provider's revenue annually. The Consortium had no surplus under 808CMR 1.00 as of June 30, 2018.

NOTE K – RESTRICTED FUNDS

As of June 30, 2018, restricted funds consisted of $33,690 of grants received but not yet expended for their intended purpose. All restricted grant funds are intended to be used for specific program expenditures.

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

Names, duties and total compensation of the five most highly compensated employees
The five highest compensated employees of the Consortium during fiscal 2018 were as follows:

Francine Rosenberg, Executive Director - $160,745, 260-day contract, 235 working, 25 vacation
Glenn Bergevin, Chief Financial Officer - $131,168, 260-day contract, 235 working, 25 vacation
Kenneth Letzring, Director of Northshore Academy Upper School - $109,307, 260-day contract, 235 working, 25 vacation
Thomas Miller, Director of the Kevin O'Grady School, $109,307, 260-day contract, 240 working, 20 vacation
Michelle Lipinski, Director of Northshore Recovery High School - $103,413, 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 Northshore Academy Upper School: Program direction and leadership of Northshore Upper Academy.
Director of the Kevin O'Grady School: Program direction and leadership of Kevin O'Grady school.
Director of Northshore Recovery High School: Program direction and leadership of Recovery High School.

Amounts expended on services for individuals aged 22 years and older
The Consortium does not provide services to individuals, age 22 or older.

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

Amounts expended on administration and overhead
Total administrative costs incurred by the Consortium totaled $1,035,634 for the year ended June 30, 2018. Administration expenses include all costs 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. Total overhead expenses allocated to various Consortium programs totaled $893,370.

Accounts held by the consortium that may be spent at the discretion of another person or entity
During the year ended June 30, 2017, the Consortium closed out all agency funds. As of June 30, 2018, the Consortium did not hold any accounts that may be spent at the discretion of another person or entity.

Transactions between the consortium and any related for-profit or non-profit organization
Transactions with a related non-profit organization are described in Note I to the financial statements.

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

Annual determination and disclosure of cumulative surplus

Cumulative Surplus Calculation - FY18							Page(s) in financial statements
(A)		Voted Cumulative Surplus as of 6/30/17			$ 4,491,127	(A)	p. 11
(B)	1	Amount of (A) used to support the FY18 Budget	(B)1	$ -			
	2	Amount of (A) returned to member districts	(B)2	$ -			
		(B)1 + (B)2 = (B)			$ -	(B)	
(C)		Unexpended FY18 General Funds			$ 207,730	(C)	p. 11
(D)		Cumulative Surplus as of 6/30/18 (A) - (B) + (C) = (D)			$ 4,698,857	(D)	
(E)		FY18 Total General Fund Expenditures*			$ 23,377,870	(E)	p. 11
(F)		Cumulative Surplus Percentage	(D) ÷ (E)		20%	(F)	
		Estimated Amount of Excess Cumulative Surplus as of 6/30/18			$ -		

* Excludes Intergovernmental expense

Northshore Education Consortium

Statements of Revenues, Expenditures and Changes in Fund Balance
of the General Fund - Budget to Actual
For the Year Ended June 30, 2018

	Original & Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:			
Tuition and service revenues	$ 21,524,256	$ 22,345,041	$ 820,785
Member assessments	180,000	180,000	-
Grants and contributions	500,000	909,496	409,496
Intergovernmental revenue	-	3,923,227	3,923,227
Interest	10,800	12,032	1,232
Other	97,000	139,031	42,031
Total Revenues	22,312,056	27,508,827	5,196,771
Expenditures:			
Payroll	14,663,331	15,351,067	(687,736)
Fringe benefits and payroll taxes	2,870,746	2,818,137	52,609
Non-salary expense	695,021	1,241,896	(546,875)
Occupancy/Fixed costs	2,622,256	2,240,386	381,870
Administration	1,065,958	1,035,634	30,324
Intergovernmental expense	-	3,923,227	(3,923,227)
Capital outlay, net of debt incurred	-	690,750	(690,750)
Total Expenditures	21,917,312	27,301,097	(5,383,785)
Net Change in Fund Balances	$ 394,744	$ 207,730	$ (187,014)

Notes to schedule:

The Board of Directors annually determines the budget to maintain and operate the Consortium 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 and may be revised by board approval during the year. During fiscal 2018, the board did not revise its originally approved budget. The above schedule presents a comparison of budgetary data to actual results.

The Consortium 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 Consortium's method (budget basis) in the above schedule to provide meaningful comparison of actual results with budget. There are no reconciling items between GAAP and budget basis in this statement. Intergovernmental revenue and expense is not budgeted by the Consortium because it is actuarially determined annually and does not require actual expenditure by the Consortium.

Northshore Education Consortium
OPEB Plan - Required Supplementary Information
As of the July 1, 2017 Measurement Date

Notes to Required Supplementary Information:

Valuation Date:	Actuarially Determined Contribution was calculated as of July 1, 2016.
Actuarial Cost Method:	Individual Entry Age Normal
Asset-Valuation Method:	Market Value of Assets as of the Measurement Date, July 1, 2017

Actuarial Assumptions:

Investment Rate of Return:	6.50%, net of OPEB plan investment expense, including inflation.
Municipal Bond Rate:	3.13% as of July 1, 2017 (source: S&P Municipal Bond 20-Year High Grade Index - SAPIHG)
Single Equivalent Discount Rate:	3.25%, net of OPEB plan investment expense, including inflation.
Inflation:	2.75% as of July 1, 2017 and for future periods
Salary Increases:	3.00% annually as of July 1, 2017 and for future periods
Cost of Living Adjustment:	Not Applicable
Pre-Retirement Mortality:	RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females.
Post-Retirement Mortality:	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females.
Disabled Mortality:	RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year 2012 for males and females.

Northshore Education Consortium
OPEB Plan - Required Supplementary Information
As of the July 1, 2017 Measurement Date

Notes to Required Supplementary Information (Continued):

Plan Membership

Plan Membership: At July 1, 2017, the OPEB plan membership consisted for the following

Inactive employees or beneficiaries currently receiving benefits:	13
Active Employees:	251
Total:	264

Changes in Assumptions: Effective July 1, 2017

* Discount rate is 3.25% previously 4.00%

Contributions:
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 year ending on the June 30, 2018 reporting date, total Consortium premiums plus implicit costs for the retiree medical program were $154,989.

Northshore Education Consortium

Schedule of the Consortium's Proportionate Share of Net Pension Liability

For the Year Ended June 30, 2018

		MTRS	MSERS
Consortium's proportion of the net pension liability	FY2014	0.12256%	0.07725%
	FY2015	0.12008%	0.07287%
	FY2016	0.11008%	0.07311%
	FY2017	0.11142%	0.07905%
Consortium's proportionate share of the net pension liability	FY2014	$ 19,481,867	$ 5,735,474
	FY2015	$ 24,604,621	$ 8,295,013
	FY2016	$ 24,611,520	$ 10,080,646
	FY2017	$ 25,499,016	$ 10,138,266
Consortium's covered-employee payroll	FY2014	$ 7,030,404	$ 4,092,673
	FY2015	$ 6,873,348	$ 3,992,230
	FY2016	$ 7,032,490	$ 3,225,780
	FY2017	$ 7,805,331	$ 4,626,178
Consortium's proportionate share of the net pension liability as a percentage of its covered-employee payroll	FY2014	277.11%	140.14%
	FY2015	357.97%	207.78%
	FY2016	349.97%	312.50%
	FY2017	326.69%	219.15%
Plan fiduciary net position as a percentage of the total pension liability	FY2014	61.64%	76.32%
	FY2015	55.38%	67.87%
	FY2016	52.73%	63.48%
	FY2017	54.25%	67.21%

Notes to Required Supplementary Information

MTRS is the Massachusetts Teachers' Retirement System

MSERS is the Massachusetts State Employees' Retirement System

Also, see Note G to financial statements

Measurement Date

The amounts presented in this schedule were determined as of June 30, 2017.

Schedule Presentation

This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

Northshore Education Consortium
Schedule of Pension Contributions
For the Year Ended June 30, 2018

	FY2014	FY2015	FY2016	FY2017
MTRS				
Contractually required contribution	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	$ -	$ -	$ -	$ -
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Consortium's covered-employee payroll	$ 7,030,404	$ 6,873,348	$ 7,032,490	$ 7,805,331
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%
MSERS				
Contractually required contribution	$ 229,190	$ 223,347	$ 180,644	$ 259,066
Contributions in relation to the contractually required contribution	$ 229,190	$ 223,347	$ 180,644	$ 259,066
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Consortium's covered-employee payroll	$ 4,092,673	$ 3,992,230	$ 3,225,780	$ 4,626,178
Contributions as a percentage of covered-employee payroll	5.60%	5.59%	5.60%	5.60%

Notes to Required Supplementary Information

MTRS is the Massachusetts Teachers' Retirement
MSERS is the Massachusetts State Employees'
Also, see Note G to financial statements

Measurement Date

The amounts presented in this schedule were determined as of June 30, 2017.

Schedule Presentation

This schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

Contributions

The Consortium is required to pay an annual appropriation as established by the Public Employees' Retirement Administration Commission (PERAC) for MSERS. No contribution is required for MTRS. The Commonwealth of Massachusetts as a nonemployer is legally responsible for the entire past service cost related to the Consortium and therefore has a 100% special funding situation.

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 the governmental activities, each major fund, and the aggregate remaining fund information of Northshore Education Consortium (a collaborative organized under the Laws of the Commonwealth of Massachusetts), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Northshore Education Consortium's basic financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits 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 audits 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 audits, 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*.

8 Essex Street • Newburyport, Massachusetts 01950 • Tel: (978) 462-2161 • Fax: (978) 462-8005
www.fd-cpa.com

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 19, 2018

NORTHSHORE
EDUCATION
CONSORTIUM

Administrative Offices
112 Sohier Road, Beverly, MA 01915 • tel: 978-232-9755 ext. 1253 • fax: 978-232-9449 • frosenberg@nsedu.org

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, 2018.

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, 2018.

Lisa Dana

Lisa Dana
Board Chair

11/7/18

Date