

CAPS EDUCATION COLLABORATIVE

**Financial Statements, Required
Supplementary And Other Information
For The Year Ended June 30, 2015
And
Independent Auditors' Reports**

CAPS EDUCATION COLLABORATIVE

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McCarthy, Hargrave & Co.

Certified Public Accountants

**To The Board of Directors Of The
CAPS Education Collaborative**
Westminster, Massachusetts

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of CAPS Education Collaborative as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements as listed in the table of contents.

Management's Responsibility

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 effort.

Auditor's Responsibility

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental-Wide Financial Statements	Adverse
General Fund Financial Statements	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Adverse Opinion on Governmental Activities

As described in Note B to the financial statements, management has not recorded a liability for postemployment benefits in the governmental activities, in accordance with GASB Statement No. 45, and accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that postemployment benefits attributable to employee service already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities and change the expenses of the governmental activities. The amounts by which this departure would affect the liabilities, net position, and expenses of the governmental activities are not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Governmental Activities” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of CAPS Education Collaborative as of June 30, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the fund financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the CAPS Education Collaborative, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis pages 4 through 10 and budgetary comparison information and pension schedules on pages 37 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CAPS Education Collaborative's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other information 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 December 4, 2015, on our consideration of CAPS Education Collaborative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering CAPS Education Collaborative's compliance.

December 4, 2015

McCarthy, Hargrave & Co.

CAPS EDUCATION COLLABORATIVE

Management's Discussion and Analysis

For The Year Ended June 30, 2015

As the management of CAPS Education Collaborative, we offer readers of the Collaborative's financial statements this narrative overview and analysis of the financial activities of the Collaborative for the fiscal year ended June 30, 2015.

Financial Highlights

- The assets of CAPS Education Collaborative exceeded its liabilities at the close of fiscal 2015 by \$ 2,337,023.
- The Collaborative's net position increased by \$ 250,680 after restatement (positive adjustment of \$ 103,397) for GASB Statement No. 68 due to the revenues exceeding expenses.
- At the close of fiscal 2015, the Collaborative's governmental funds reported combined ending fund balances of \$ 2,134,307, an increase of \$ 149,676.
- At June 30, 2015, the unassigned fund balance for the general fund was \$ 1,709,179 or 25 percent of total general fund expenditures.
- The Collaborative's capital lease obligations decreased by \$ 3,798 during the current fiscal year. This was due to principal reductions made during the fiscal year offset by the addition of a new capital lease.

Overview of Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements report information about the Collaborative with a broad overview of its finances using accounting methods similar to those used by a private-sector business.

The statement of net position presents information about all the Collaborative's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the Collaborative is improving or deteriorating.

The statement of activities presents information showing how the Collaborative's net position changed during fiscal 2015. All changes in net position are reported as soon as the underlying event causing the change takes place. Therefore, 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 (e.g., uncollected revenues).

The Collaborative is engaged in only governmental type activities. The government-wide financial statements can be found on pages 11 and 12 of this report.

CAPS EDUCATION COLLABORATIVE

Management's Discussion and Analysis

For The Year Ended June 30, 2015

(Continued)

Fund Financial Statements

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

Governmental Funds – Similar to the governmental activities in the government-wide financial statements, most of the Collaborative's basic services are presented here. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of available resources. They also focus on the balances of available resources at the end of the fiscal year. This information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is short-term and government-wide funds are long-term it is useful to compare similar information presented for governmental funds with governmental activities in the government-wide financial statements. This comparison may demonstrate the long-term implications of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Collaborative maintains 10 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is considered a major fund. Data from the 9 other governmental funds are combined into a single aggregated presentation.

The Collaborative adopts an annual budget for its general fund.

The governmental fund financial statements can be found on pages 13 through 16 of this report.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the basic financial statements can be found on pages 17 through 35 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information, which includes the General Fund's Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budgetary Basis and Pension Schedules.

Required supplementary information can be found on pages 37 through 42 of this report.

In addition, other information required by Massachusetts Session Law, Chapter 43 of the Acts 2012 can be found on pages 44 and 45 of this report.

CAPS EDUCATION COLLABORATIVE

Management's Discussion and Analysis

For The Year Ended June 30, 2015

(Continued)

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the Collaborative's case, assets exceeded liabilities by \$ 2,337,023 the close of the most recent fiscal year.

A portion of the Collaborative's net position \$ 89,489 reflects its investment in capital assets (e.g., leasehold improvements, equipment, furniture, and vehicles, less any related debt to acquire those assets that is still outstanding. The Collaborative uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the Collaborative's net position in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	2015	2014*
Current and Other Assets	\$ 2,455,219	\$ 2,224,793
Capital Assets, Net of Depreciation	193,248	105,872
Total Assets	2,648,467	2,330,665
Deferred Outflows of Resources - Pensions	113,227	-
Long-Term Liabilities	103,759	107,557
Other Liabilities	320,912	240,162
Total Liabilities	424,671	347,719
Net Position (Deficit):		
Invested in Capital Assets, Net of Related Debt	89,489	(1,685)
Restricted	314,968	11,826
Unrestricted	1,932,566	1,972,805
	<u>\$ 2,337,023</u>	<u>\$ 1,982,946</u>

*Prior to implementation of GASB Statement No. 68

An additional portion (\$ 314,968) of the Collaborative's net position represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position shows a balance of \$ 1,932,566.

At the end of fiscal 2015, the Collaborative is able to report a positive balance in all three categories of net position.

The Collaborative's total net position increased by \$ 250,680 during fiscal 2015, after restatement. This was due to revenues exceeding expenses.

CAPS EDUCATION COLLABORATIVE

Management's Discussion and Analysis

For The Year Ended June 30, 2015

(Continued)

Government-Wide Financial Analysis (Continued)

Change in Net Position

	2015	2014*
Revenues:		
Program Revenues:		
Charges for Services	\$ 6,373,317	\$ 5,912,172
Operating Grants and Contributions	476,602	503,885
General Revenues:		
Members' Assessments	102,776	103,808
Investment Income	3,792	36,329
Other	895	6,573
	<hr/> 6,957,382	<hr/> 6,562,767
Program Expenses:		
Administration and Office Expenses	452,742	381,826
Instruction	3,390,913	2,939,967
Other Student Services	941,621	1,002,520
Facilities	395,165	263,918
Transportation	192,478	158,344
Employee Benefits	1,325,095	1,190,333
Interest Expense	8,688	7,174
	<hr/> 6,706,702	<hr/> 5,944,082
Change in Net Position	<hr/> 250,680	<hr/> 618,685
Net Position Beginning of Year, as Previously Reported	1,982,946	1,364,261
GASB Statement No. 68 Pension Expense Adjustment	<hr/> 103,397	<hr/> -
Net Position Beginning of Year, as Restated	<hr/> 2,086,343	<hr/> 1,364,261
Net Position End of Year	<hr/> <hr/> \$ 2,337,023	<hr/> <hr/> \$ 1,982,946

*Prior to implementation of GASB Statement No. 68

CAPS EDUCATION COLLABORATIVE

Management's Discussion and Analysis

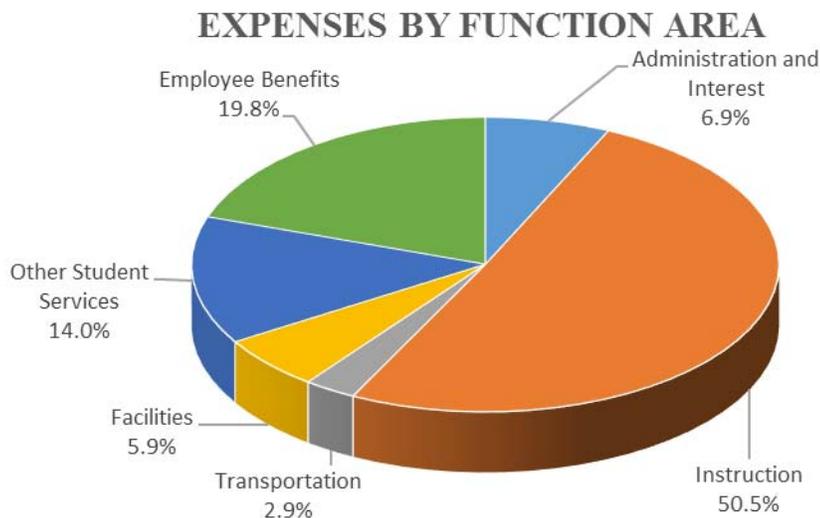
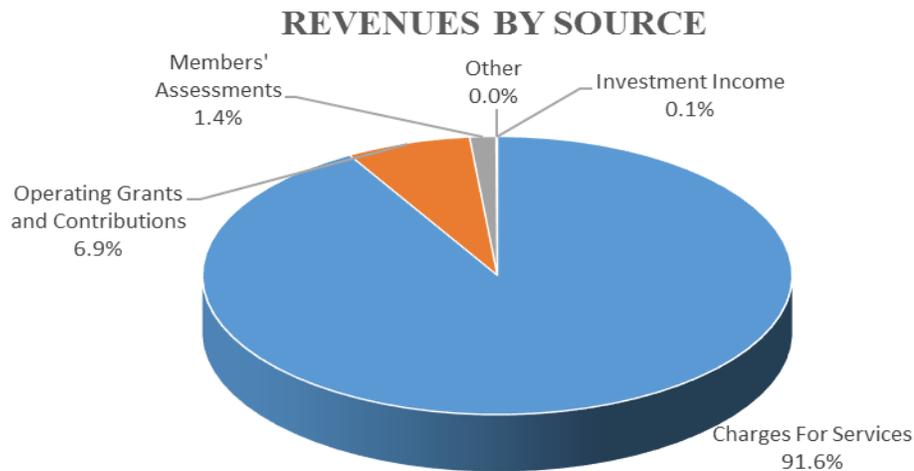
For The Year Ended June 30, 2015

(Continued)

Government-Wide Financial Analysis (Continued)

Revenues increased by \$ 394,615 or 6%. Special education tuition revenues increased \$ 808,173 due to increased enrollments offset by a decrease other student services revenues of \$ 355,790. All other revenues decreased a net \$ 57,768.

Expenditures increased by \$ 762,620 or 12.8%. Instruction expenses increased \$ 450,946, facilities expenses increased \$ 131,247 and employee benefit expenses increased \$ 134,762. All other expenses increased a net \$ 45,705.



CAPS EDUCATION COLLABORATIVE

Management's Discussion and Analysis

For The Year Ended June 30, 2015

(Continued)

Financial Analysis of the Collaborative's Funds

As noted earlier, the Collaborative uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of fiscal 2015, the Collaborative's governmental funds reported combined ending fund balances of \$ 2,134,307, an increase of \$ 149,676. Approximately 80 percent of this total amount (\$ 1,709,179) is available for spending at the Collaborative's discretion (unassigned fund balance). The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending.

The general fund is the chief operating fund of the Collaborative. At the end of fiscal 2015, the unassigned fund balance of the general fund was \$ 1,709,179 while total fund balance was \$ 2,124,145. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned portion of the fund balance represents 25 percent of total general fund expenditures, while total fund balance equals approximately 31 percent of that same amount.

The fund balance of the Collaborative's general fund increased \$151,340 during fiscal 2015.

Budgetary Highlights

The Collaborative's final general fund budget did not change in total from the original budget.

Revenues were \$ 582,308 more than budgeted primarily due to tuition revenue. Expenditures were \$ 416,065 more than budgeted, partially due to higher than anticipated expenditures for services to students and fixed charges offset by lower than anticipated expenditures for reimbursed expenses.

Capital Assets and Debt Administration

Capital Assets – The Collaborative's investment in capital assets for its governmental type activities as of June 30, 2015 amounted to \$ 193,248 (net of accumulated depreciation). This investment in capital assets includes leasehold improvements, equipment, furniture, and vehicles. The total increase in the Collaborative's investment in capital assets for the current year was 83 percent due to additions exceeding depreciation.

For fiscal 2015, the major activity consisted of the following:

- Addition of a vehicle through a capital lease of \$ 34,478
- Expenditures for leasehold improvement totaling \$ 55,096
- Expenditures for equipment and furniture totaling \$ 49,810

CAPS EDUCATION COLLABORATIVE

Management's Discussion and Analysis

For The Year Ended June 30, 2015

(Continued)

Capital Assets And Debt Administration

	<u>2015</u>	<u>2014</u>
Leasehold Improvements	\$ 49,509	\$ 2,649
Equipment and Furniture	42,493	-
Vehicles	101,246	103,223
	<u>\$ 193,248</u>	<u>\$ 105,872</u>

Additional information on the Collaborative's capital assets can be found in Note E to the basic financial statements on page 23 of this report.

Long-Term Debt – At the end of the current fiscal year, the Collaborative had outstanding long-term debt of \$ 103,759.

Long-Term Debt

	<u>2015</u>	<u>2014</u>
Capital Lease Obligations	\$ 103,759	\$ 107,557

The Collaborative's total debt decreased by \$ 3,798 during the current fiscal year reflecting principal reductions of \$ 38,276 offset by the addition of a new lease of \$ 34,478.

Additional information on the Collaborative's long-term debt can be found in Note G to the basic financial statements on page 24 of this report.

Economic Factors and Next Year's Budget

CAPS Education Collaborative is financially stable.

The fiscal 2016 budget reflects estimated revenues of \$ 6,406,799 and expenditures of \$ 6,350,000. The budget was presented to and approved by the finance subcommittee, and after the public hearing, by the full Board of Directors was based on several assumptions. First, the budget was based on the reasonable, yet conservative, assumption of 93 students. Second, the budget was based on a 2 1/2 percent increase in staff salaries which was a rate comparable to member districts' increase in rates. Third, the budget represented a differential tuition increase based on analysis of program costs as well as an increase in staffing needs and rental expenses.

Requests for Information

This financial report is designed to provide a general overview of the Collaborative's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Cynthia Landanno, Executive Director, CAPS Education Collaborative, 2 Narrows Road, Suite C105, Westminister, MA 01473.

CAPS EDUCATION COLLABORATIVE

Statement of Net Position

June 30, 2015

	<u>Governmental Activities</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 1,195,818
Accounts Receivable	848,585
Prepaid Expenses	<u>110,160</u>
Total Current Assets	<u>2,154,563</u>
Noncurrent Assets:	
Investments	300,656
Capital Assets, Net of Accumulated Depreciation	<u>193,248</u>
Total Noncurrent Assets	<u>493,904</u>
Total Assets	<u>2,648,467</u>
Deferred Outflows of Resources - Pensions	<u>113,227</u>
Liabilities	
Current Liabilities:	
Accounts Payable and Accrued Expenses	190,669
Accrued Payroll and Amounts Withheld	82,014
Prepaid Tuition	48,229
Current Portion of Capital Lease Obligations	<u>36,641</u>
Total Current Liabilities	<u>357,553</u>
Long-Term Liabilities:	
Capital Lease Obligations, Less Current Portion	<u>67,118</u>
Total Liabilities	<u>424,671</u>
Net Position:	
Invested in Capital Assets, Net of Related Debt	89,489
Restricted	314,968
Unrestricted	<u>1,932,566</u>
Total Net Position	<u>\$ 2,337,023</u>

The notes to the basic financial statements are an integral part of this statement.

CAPS EDUCATION COLLABORATIVE

Statement of Activities

For The Year Ended June 30, 2015

		Program Revenues		
	Expenses	Charges For Services	Operating Grants and Contributions	Net (Expense) Revenue
Functions/Programs:				
Administration and Office Expenses	\$ 452,742	\$ -	\$ -	(\$ 452,742)
Instruction	3,390,913	5,580,629	1,696	2,191,412
Other Student Services	941,621	649,974	1,345	(290,302)
Facilities	395,165			(395,165)
Transportation	192,478	142,714		(49,764)
Employee Benefits	1,325,095		473,561	(851,534)
Interest Expense	8,688			(8,688)
Total Governmental Activities	\$ 6,706,702	\$ 6,373,317	\$ 476,602	143,217
General Revenues:				
Member Assessments				102,776
Investment Income				3,792
Miscellaneous Revenues				895
Total General Revenues				107,463
Change in Net Position				250,680
Net Position Beginning of Year, as Restated				2,086,343
Net Position End of Year				\$ 2,337,023

The notes to the basic financial statements are an integral part of this statement.

CAPS EDUCATION COLLABORATIVE

Balance Sheet

Governmental Funds

June 30, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 1,195,818	\$ -	\$ 1,195,818
Accounts Receivable	848,585		848,585
Investments	300,656		300,656
Prepaid Expenses	110,160		110,160
Due from Other Funds		10,162	10,162
Total Assets	\$ 2,455,219	\$ 10,162	\$ 2,465,381
Liabilities			
Accounts Payable and Accrued Expenses	\$ 190,669	\$ -	\$ 190,669
Accrued Payroll and Amounts Withheld	82,014		82,014
Prepaid Tuition	48,229		48,229
Due to Other Funds	10,162		10,162
Total Liabilities	331,074	-	331,074
Fund Balances			
Nonspendable	110,160		110,160
Restricted	304,806	10,162	314,968
Unassigned	1,709,179		1,709,179
Total Fund Balances	2,124,145	10,162	2,134,307
Total Liabilities and Fund Balances	\$ 2,455,219	\$ 10,162	\$ 2,465,381

The notes to the basic financial statements are an integral part of this statement.

CAPS EDUCATION COLLABORATIVE
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position
June 30, 2015

Total Government Fund Balances (page 13)	\$ 2,134,307
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	193,248
Deferred Outflows of Resources – Pensions are not reported in the fund statements	113,227
Capital Lease Obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds	<u>(103,759)</u>
Net Position of Governmental Activities (page 11)	<u>\$ 2,337,023</u>

The notes to the basic financial statements are an integral part of this statement.

CAPS EDUCATION COLLABORATIVE

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For The Year Ended June 30, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Special Education Tuition	\$ 5,580,629	\$ -	\$ 5,580,629
Other Student Services	649,974		649,974
Member Assessments	102,776		102,776
State On-Behalf of Pension Contributions	473,561		473,561
Transportation	142,714		142,714
Investment Income	3,792		3,792
Miscellaneous	133	3,041	3,174
Total Revenues	6,953,579	3,041	6,956,620
Expenditures:			
Administration and Office Expenses	481,015		481,015
Instruction	3,401,889	1,000	3,402,889
Other Student Services	941,095	1,625	942,720
Facilities	441,090	2,080	443,170
Transportation	189,739		189,739
Employee Benefits	1,334,925		1,334,925
Capital Lease Payments:			
Principal	38,276		38,276
Interest	8,688		8,688
Total Expenditures	6,836,717	4,705	6,841,422
Revenues Over Expenditures	116,862	(1,664)	115,198
Other Financing Source –			
Capital Lease Obligation	34,478		34,478
Revenues and Other Financing Source Over Expenditures	151,340	(1,664)	149,676
Fund Balances, July 1, 2014	1,972,805	11,826	1,984,631
Fund Balances, June 30, 2015	\$ 2,124,145	\$ 10,162	\$ 2,134,307

The notes to the basic financial statements are an integral part of this statement.

CAPS EDUCATION COLLABORATIVE
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For The Year Ended June 30, 2015

Net Change in Fund Balances – Total Governmental Funds (page 15) \$ 149,676

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays in the current period exceeded depreciation and disposal of a vehicle. 87,376

The difference in pension expense under GASB No. 68 in the government-wide financial statements 9,830

The issuance of long-term debt (e.g., bonds, notes, and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the amount of the principal reduction on the leases over the amount of the new lease obligation. 3,798

Change in Net Position of Governmental Activities (page 12) \$ 250,680

The notes to the basic financial statements are an integral part of this statement.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

A. Summary of Significant Accounting Policies:

Introduction – CAP Education Collaborative’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The accounting and reporting framework and the more significant accounting principles and practices of CAPS Education Collaborative are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Collaborative’s financial activities for the fiscal year ended June 30, 2015.

Financial Reporting Entity:

CAPS Education Collaborative (the Collaborative), is an association of school committees formed for the purpose of conducting education programs and services to complement and strengthen the school programs of member school committees and increase educational opportunities for children. The Collaborative provides pre-school, elementary and secondary education for students ages 3 to 21 with significant disabilities. The Collaborative is governed by a Board of Directors comprised of Superintendents or members from school committees. For financial reporting purposes, the Collaborative is a stand-alone entity, not a component unit of another entity, and there are no component units included in its financial statements. The Collaborative was formed by agreement on July 1, 1976. The agreement is changed from time to time to accommodate member changes.

Government-Wide and Fund Financial Statements:

The government-wide financial statements report information on all of the nonfiduciary activities of the Collaborative. The Collaborative has only governmental-type activities.

The statement of activities demonstrates both the gross and net cost per functional category. Direct expenses are those that are clearly identifiable with the specific function and program revenues must be directly associated with that function. Program revenues include charges for services as well as grants and contributions that are restricted to meeting operational requirements of the function. Other revenue sources such as member assessments, investment income, and miscellaneous revenues, not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for the governmental funds. The major individual governmental fund is reported in separate a column in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred.

Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

A. Summary of Significant Accounting Policies (Continued):

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues.

The Collaborative applies the susceptible-to-accrual criteria to intergovernmental revenues. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the Collaborative; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually recoverable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible-to-accrual criteria are met.

Expenditures are recorded when the liability is incurred except for 1) interest on long-term debt, which is recorded when due; and 2) claims, judgments, and compensated absences, all of which are recorded as expenditures to the extent that they have been paid or are expected to be paid with expendable available financial resources.

The Collaborative reports the general fund as a major governmental fund. The general fund is the Collaborative's primary operational fund. It accounts for all financial resources except for those required to be accounted for in a separate fund.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for services provided, and 2) operating grants and contributions. General revenues are those that cannot be associated directly with program activities.

Assets and Liabilities:

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid financial instruments with original maturities of three months or less.

Inventory

The cost of supplies and other inventoriable items is recorded as an expenditure at the time of purchase (purchase method). No significant inventory balances were on hand at June 30, 2015.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

A. Summary of Significant Accounting Policies (Continued):

Assets and Liabilities (Continued):

Investments

Investments are stated at fair value, primarily based upon quotations from a national securities exchange.

Capital Assets

Capital assets, which include leasehold improvements, equipment, and vehicles are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Collaborative as fixed assets with estimated useful lives of three years or more. These assets are valued at cost. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Donated capital assets are valued at their estimated fair value at the time received. Depreciation is provided on the straight-line basis and accelerated basis over the estimated useful lives of the assets, which are 3-5 years for equipment, 3 1/2 years for leasehold improvements, and 4 to 5 years for vehicles.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the capital and intangible assets.

Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, employees are not compensated for unused sick and vacation leave. At June 30, 2015, there was no unused vacation time.

Long-Term Liabilities

For long-term liabilities, only that portion, which is matured, is reported as a fund liability of a governmental fund. All long-term liabilities are reported in the government-wide financial statement of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. It does not represent an additional cash requirement. The Collaborative has one item that qualifies for reporting in this category. It is pension related (See Note I).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. It does not represent an additional available cash. The Collaborative has no items that qualify for reporting in this category.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

A. Summary of Significant Accounting Policies (Continued):

Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Massachusetts State Employees' Retirement System (MSERS) and the Massachusetts Teachers' Retirement System (MTRS) and additions to/deductions from their respective fiduciary net position have been determined on the same basis as they are reported by MSERS and MTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position and Fund Balances

Net Position is reported as restricted when amounts are specified by outside parties for a specific future use. The Collaborative has net position restricted for various specific purposes due to donor intent.

The following fund balance classifications describe the relative strength of the spending constraints:

“Nonexpendable” – Represents amounts that are not in spendable form.

“Restricted” – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

“Committed” – represents amounts that can be used only for specific purposes imposed by a formal action of the Board of Directors, which is the highest level of decision-making authority for the Collaborative. Committed amounts may be established, modified, or rescinded only through actions approved by the Board of Directors.

“Assigned” – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes.

“Unassigned” – represents the residual fund balance for the general fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for the purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

A. Summary of Significant Accounting Policies (Continued):

Use of Estimates (Continued)

liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Total Column

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

Reconciliation of Government-Wide Fund Financial Statements:

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

B. Departure from Generally Accepted Accounting Principles:

The Collaborative has not reported the liability for other postemployment retirement benefits (OPEB), in accordance with GASB Statement No. 45. The amounts by which this departure would affect the liabilities and expenses of the governmental activities are not reasonably determinable. The Collaborative pays a portion of retiree's health insurance up to age 65. An actuarial calculation of the cumulative OPEB liability as required by GASB Statement No. 45 has not been performed.

C. Deposits and Investments:

The Collaborative maintains a cash and interest bearing deposit pool that is available for use by all funds.

State and local statutes place certain limitations on the nature of deposits and investments available to the Collaborative. Deposits (including demand deposits, term deposits, and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institution involved.

Deposits – Custodial Credit Risk – In the case of deposits, this is the risk that in the event of bank failure, the Collaborative's deposits may not be returned to it. The Collaborative's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for deposits held at each financial institution. As of June 30, 2015, the Collaborative's bank balance was \$ 1,196,952 and \$ 946,942 was uninsured and uncollateralized.

Investments Summary:

The Collaborative's investments at June 30, 2015 are presented below. All investments are presented by investment type, with debt securities presented by contractual maturity.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

C. Deposits and Investments (Continued):

Investments Summary (Continued):

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 to 5	6 to10	More Than 10
Debt Securities:					
U. S. Treasury	\$ 41,713	\$ -	\$ -	\$ -	\$ 41,713
Certificates of Deposit	20,272	10,164	10,108		
Municipal Bonds	15,737			4,641	11,096
Corporate Bond	10,069	10,069			
	87,791	\$ 20,233	\$ 10,108	\$ 4,641	\$ 52,809
Other Investments:					
Money Market Fund	16,727				
Equity Mutual Funds	90,456				
Bond Mutual Funds	20,039				
International Equity Funds	85,643				
	\$ 300,656				

At June 30, 2015, the Collaborative had a net unrealized gain of \$ 33,164 on its investments.

Investments (Debt Securities) – Interest Rate Risk – Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment although the maturity value is unaffected. The Collaborative does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments – Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of a failure by the custodian, the Collaborative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Collaborative’s securities are the custody of Edward Jones at June 30, 2015. The Collaborative’s securities are protected under securities and Exchange Commission Rule 15c3-3. As of June 30, 2015, none of the Collaborative’s investments were subject to custodial credit risk.

Investments – Credit Risk of Debt Securities – Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will default on its obligations. The Collaborative has not adopted a formal policy related to credit risk.

Investments – Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Collaborative’s investment in a single issuer. The Collaborative has not adopted a formal policy related to concentration of credit risk.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

D. Receivables and Interfund Receivables and Payables:

Outstanding balances between funds at the end of the fiscal year are reported as “Due To/From Other Funds.”

Receivables as of year-end for the Collaborative’s general fund are as follows:

Member School Systems	\$ 686,878
Nonmember School Systems	153,402
Other	8,305
	<hr/>
	\$ 848,585
	<hr/>

No allowance for uncollectible accounts was deemed necessary at June 30, 2015.

E. Capital Assets:

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

	Beginning Balance	Increases	Decreases	Ending Balance
	<hr/>	<hr/>	<hr/>	<hr/>
Capital Assets Being Depreciated:				
Leasehold Improvements	\$ 3,653	\$ 55,096	\$ -	\$ 58,749
Equipment and Furniture	-	49,810		49,810
Vehicles	185,379	34,478	(21,950)	197,907
Total Capital Assets Being Depreciated	<hr/> 189,032	<hr/> 139,384	<hr/> (21,950)	<hr/> 306,466
Less Accumulated Depreciation for:				
Leasehold Improvements	1,004	8,236		9,240
Equipment and Furniture	-	7,317		7,317
Vehicles	82,156	27,291	(12,786)	96,661
Total Accumulated Depreciation	<hr/> 83,160	<hr/> 42,844	<hr/> (12,786)	<hr/> 113,218
Total Capital Assets Being Depreciated, Net	<hr/> \$ 105,872	<hr/> \$ 96,540	<hr/> (\$ 9,164)	<hr/> \$ 193,248
				<hr/> <hr/>

Depreciation expense was charged to Functions/Programs as follows:

Administration and Office Expense	\$ 4,768
Instruction	2,157
Other Student Services	201
Facilities	8,427
Transportation	27,291
	<hr/>
	\$ 42,844
	<hr/>

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

F. Line of Credit:

The Collaborative has a \$ 300,000 line of credit with a bank. The line is on a revolving basis, payable on demand, and secured by all assets of the Collaborative. The interest rate is variable, with floor rate of 4.25%. There was nothing outstanding under the line of credit as of June 30, 2015.

G. Long-Term Liabilities – Capital Lease Obligations:

The Collaborative leases six vehicles from one leasing company under capital leases payable in monthly installments until May 2019 with varying interest rates ranging from 4.151% to 9.244%.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital Lease Obligation	\$ 107,557	\$ 34,478	\$ 38,276	\$ 103,759	\$ 36,641

The following is a summary of future minimum payments including residual value amounts under the capital leases:

	Fiscal Year	Amount
	2016	\$ 43,392
	2017	25,678
	2018	15,690
	2019	22,952
	2020	13,433
		<u>121,145</u>
Less Amount Representing Interest		<u>17,386</u>
Present Value of Minimum Capitalized Lease Payments		<u>\$ 103,759</u>
The assets acquired through capital leases are as follows:		
Vehicles		\$ 197,907
Less Accumulated Depreciation		<u>96,661</u>
		<u>\$ 101,246</u>

H. Operating Leases:

The Collaborative has entered into several lease agreements for classroom and administrative office space under non-cancelable operating leases that expire on various dates through fiscal year 2018. It also leases space under annual lease arrangements. The cost of the leases for fiscal 2015 totaled \$ 212,275 and is reported as facilities expenditures in the general fund. Some of the leases are to related parties (member school systems).

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

H. Operating Leases (Continued):

The future minimum lease payments are as follows:

Fiscal Year	Related Parties	Non-Related Parties	Total
2016	\$ 60,000	\$ 115,237	\$ 175,237
2017	25,000	118,695	143,695
2018	25,000	121,714	146,714
	<u>\$ 110,000</u>	<u>\$ 355,646</u>	<u>\$ 465,646</u>

The related parties are two member school systems. In addition, starting in fiscal 2015, the Collaborative is sub-leasing part of its space, as well as usage of certain equipment to another Collaborative on an annual basis. The rental income from this arrangement for fiscal 2015 was approximately \$ 54,000.

I. Pension Plans:

Massachusetts State Employees' Retirement System:

Plan Description – The Massachusetts State Employees' Retirement System (MSERS) is a public employee retirement system (PERS), that administers a cost-sharing multi-employer defined benefit plan as defined by Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The former Massachusetts Turnpike Authority (MTA) employees and retirees became members of MSERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of MSERS. The assets and liabilities of the former MTA have been transferred to MSERS. MSERS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

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

Benefits – MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) established 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.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

I. Pension Plans (Continued):

Massachusetts State Employees' Retirement System (Continued):

Benefits (Continued)

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 age is at 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.

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 except for State Police which is 12% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of \$ 30,000

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Collaboratives contribute amounts equal to the normal cost of employees' benefits at a rate established by the Public Employees' Retirement Administration Commission (PERAC), currently 5.6% of covered payroll. Legally, the Collaboratives are only responsible for contributing the annual normal cost of their employees' benefits (i.e., the present value of the benefits earned by those 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. The Commonwealth as a nonemployer is legally responsible for the entire past service cost related to the Collaboratives and therefore has a 100% special funding situation. Therefore, the Collaborative does not report a liability for its proportionate share of the net pension liability.

The net pension liability of the Plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The Collaborative's proportion of the net pension liability was based on the Collaborative's and related Commonwealth's share of actual contributions to the pension plan relative to the actual contributions of all participating governmental entities, adjusted for any nonemployer contributions. At June 30, 2014, the Collaborative's proportion was 0.03486%.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

I. Pension Plans (Continued):

Massachusetts State Employees' Retirement System (Continued):

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued) –

For the year ended June 30, 2015, the Collaborative recognized pension expense of \$ 315,923, including an on behalf of payment by the Commonwealth of \$ 212,724. At June 30, 2015, the District reported deferred outflows of resources related to pensions of \$ 113,227 for contributions made after the measurement date.

The following table summarizes the changes in both deferred outflows and deferred inflows of resources of the Plan excluding employer specific amounts (change in proportion) (amounts in thousands):

	Year of Deferral	Amortization Period	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Deferred Outflows of Resources:						
Change of assumptions	2014	5.5 years	\$ -	\$ 102,000	(\$ 18,545)	\$ 83,455
Deferred Inflows of Resources:						
Net difference between projected and actual earnings on investments	2014	5 years	\$ -	(\$1,904,736)	\$380,947	(\$1,523,789)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the collective pension expense as follows (amounts in thousands):

Fiscal Year Ending June 30	
2015	(\$ 362,402)
2016	(362,402)
2017	(362,402)
2018	(362,402)
2019	9,274
Total	(\$ 1,440,334)

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

CAPS EDUCATION COLLABORATIVE
Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

I. Pension Plans (Continued):

Massachusetts State Employees' Retirement System, (Continued):

Actuarial Assumptions (Continued) –

1. (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2000 Employees table projected 20 years with Scale AA (gender distinct)
 - Post-retirement – reflects Healthy Annuitant table projected 15 years with Scale AA (gender distinct)
 - Disability – Reflects mortality rate is assumed to be in accordance with RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

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

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return
Global Equity	43.00%	7.20%
Core Fixed Income	13.00%	2.50%
Hedge Funds	10.00%	5.50%
Private Equity	10.00%	8.80%
Real Estate	10.00%	6.30%
Value Added Fixed Income	10.00%	6.30%
Timber/Natural Resources	4.00%	5.00%
Total	100.00%	

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

I. Pension Plans (Continued):

Massachusetts State Employees' Retirement System (Continued):

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the State's proportionate share of the net pension liability associated with the Collaborative calculated using the discount rate of 8.0 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percent-point lower (7.0 percent) or 1-percent-point higher (9.0) than the current rate

	<u>1% Decrease</u> <u>7.0%</u>	<u>Current</u> <u>Discount Rate</u> <u>(8.0%)</u>	<u>1% Increase</u> <u>(9.0%)</u>
State's Proportionate Share of the Net Pension Liability Associated with the Collaborative	\$ 3,746,900	\$ 2,588,145	\$ 1,593,513

Massachusetts Teacher's Retirement System:

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

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

Benefits – MTRS provided retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) established uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

I. Pension Plans (Continued):

Massachusetts Teacher's Retirement System (Continued):

Benefits (Continued) –

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 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 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% if regular compensation 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

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions –

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB State No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer. At June 30, 2014, the Collaborative's proportionate share of the Plan's net pension liability was 0.023618%.

For the year ended June 30, 2015, the Collaborative recognized a pension expense and related on behalf of revenue of \$ 260,837.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

I. Pension Plans (Continued):

Massachusetts Teacher's Retirement System (Continued):

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued) –

The following table summarizes the changes in both deferred outflows and deferred inflows of resources of the Plan (amounts in thousands):

	Year of Deferral	Amortization Period	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Deferred Outflows of Resources:						
Change of assumptions	2014	6.1 years	\$ -	\$ 108,000	(\$17,705)	\$ 90,295
Deferred Inflows of Resources:						
Net Difference Between Projected and Actual Earnings on Investments	2014	5 years	\$ -	(\$1,993,320)	\$398,664	(\$1,594,656)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions of the Plan will be recognized in the collective pension expense as follows (amounts in thousands):

Fiscal Year Ending June 30	
2015	(\$ 380,959)
2016	(380,959)
2017	(380,959)
2018	(380,959)
2019	17,705
Thereafter	1,770
Total	(\$ 1,504,361)

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

1. (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

I. Pension Plans (Continued):

Massachusetts Teacher's Retirement System (Continued):

Actuarial Assumptions (Continued) –

3. Mortality rates were as follows:

- Pre-retirement – reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
- Post-retirement – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
- Disability – Reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

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

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return
Global Equity	43.00%	7.20%
Core Fixed Income	13.00%	2.50%
Hedge Funds	10.00%	5.50%
Private Equity	10.00%	8.80%
Real Estate	10.00%	6.30%
Value Added Fixed Income	10.00%	6.30%
Timber/Natural Resources	4.00%	5.00%
Total	100.00%	

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

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

I. Pension Plans (Continued):

Massachusetts Teacher's Retirement System (Continued):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the State's proportionate share of the net pension liability associated with the Collaborative calculated using the discount rate of 8.0 percent, as well as what the Collaborative's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percent-point lower (7.0 percent) or 1-percent-point higher (9.0) than the current rate:

	1% Decrease 7.0%	Current Discount Rate (8.0%)	1% Increase (9.0%)
State's Proportionate Share of the Net Pension Liability Associated with the Collaborative	\$ 4,781,952	\$ 3,754,413	\$ 2,881,405

J. Fund Balances:

The constraints on fund balances are listed in the aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable –			
Prepaid Expenses	\$ 110,160	\$ -	\$ 110,160
Restricted:			
Excess Cumulative Surplus	\$ 304,806	\$ -	\$ 304,806
Gifts and Grants		10,162	10,162
Total Restricted	\$ 304,806	\$ 10,162	\$ 314,968
Unassigned	\$ 1,709,179	\$ -	\$ 1,709,179
Total Fund Balances	\$ 2,124,145	\$ 10,162	\$ 2,134,307

The restricted fund balance-excess cumulative surplus disposition must be voted upon by the Collaborative's Board to return all or some of the funds to the member districts. Any amount not returned may be used to support the current or subsequent year's budget. These funds can be used to offset expenses that might otherwise be borne by the member districts and/or to prepare for future obligations, such as OPEB or a capital reserve.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

K. Implementation of GASB Pronouncements:

Statement #68, Accounting and financial Reporting for Pensions – An Amendment of GASB Statement No. 27 – The Collaborative has implemented this statement in fiscal 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. The recording of its share of the pension expense related to the Massachusetts State Employees’ Retirement System covering certain of its employees resulted in the following adjustment:

Net position at June 30, 2014	\$ 1,982,946
Change in Reporting of Pension Expense	<u>103,397</u>
Net Position at June 30, 2014, as Restated	<u><u>\$ 2,086,343</u></u>

Statement #69, Government Combinations and Disposals of Government Operations, which was required to be implemented during fiscal 2015. The implementation of this statement had no impact on the Collaborative’s basic financial statements.

Statement #71, Pension Transition for Contributions Made Subsequent to the Measure Date – An amendment of GASB Statement No. 68, which was required to be implemented simultaneously with the provisions of Statement No. 68 (see above).

L. Implementation of GASB Pronouncements:

GASB has issued the following statements, which are effective after June 30, 2015:

Statement #72, Fair Value Measurement and Application, which is required to be implemented during fiscal 2016. The Collaborative is currently evaluating the effect this statement will have on its basic financial statements.

Statement #73, Accounting and Financial reporting for pensions and related Assets that are Not Within the Scope of GASB Statement #68, and Amendments to certain Provisions of GASB Statements #67 and #68, which is required to be implemented during 2016. The Collaborative is currently evaluating the effect this statement will have on its basic financial statements.

Statement #74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, which is required to be implemented during 2017. The Collaborative is currently evaluating the effect that this statement will have on its basic financial statements.

Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which is required to be implemented during fiscal 2018. The Collaborative is currently evaluating the effect this statement will have on its basic financial statements.

Statement #76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which is required to be implemented during fiscal 2016. The Collaborative is currently evaluating the effect this statement will have on its basic financial statements.

CAPS EDUCATION COLLABORATIVE

Notes To The Basic Financial Statements

For The Year Ended June 30, 2015

(Continued)

L. Implementation of GASB Pronouncements:

Statement #77, Tax Abatement Disclosures, which is required to be implemented during fiscal 2017. The Collaborative does not believe implementation of this statement will have any effect on its basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

REQUIRED SUPPLEMENTARY INFORMATION

CAPS EDUCATION COLLABORATIVE

GENERAL FUND

**Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – Budgetary Basis**

For The Year Ended June 30, 2015

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Tuition Revenue	\$ 4,472,621	\$ 4,472,621	\$ 5,252,885	\$ 780,264
Summer Tuition Revenue	295,000	295,000	347,605	52,605
Assessment Revenue	102,888	102,888	102,776	(112)
OT Reimbursement	190,000	190,000	116,540	(73,460)
PT Reimbursement	160,000	160,000	107,543	(52,457)
Speech Reimbursement	230,000	230,000	97,988	(132,012)
Instructional Reimbursement	345,000	345,000	315,841	(29,159)
Transportation	110,000	110,000	142,714	32,714
Investment Income	-	-	3,792	3,792
Other Income	-	-	133	133
	<u>5,905,509</u>	<u>5,905,509</u>	<u>6,487,817</u>	<u>582,308</u>
Expenditures:				
Administration	355,000	355,000	417,067	(62,067)
Instructional	2,500,000	2,500,000	2,963,797	(463,797)
OT	270,000	270,000	269,029	971
PT	270,000	270,000	281,893	(11,893)
Speech	315,000	315,000	285,395	29,605
Operations and Maintenance	365,000	365,000	275,861	89,139
Fixed Charges	970,000	970,000	1,135,770	(165,770)
Transportation	110,000	110,000	142,751	(32,751)
Reimbursed Expenses	315,000	315,000	113,054	201,946
Summer Program	295,000	295,000	302,118	(7,118)
Other Expenses	65,000	65,000	59,330	5,670
	<u>5,830,000</u>	<u>5,830,000</u>	<u>6,246,065</u>	<u>(416,065)</u>
Change in Fund Balance	<u>\$ 75,509</u>	<u>\$ 75,509</u>	<u>\$ 241,752</u>	<u>\$ 166,243</u>

**CAPS EDUCATION COLLABORATIVE
GENERAL FUND**

**Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – Budgetary Basis**

For The Year Ended June 30, 2015

Budgetary Basis of Accounting:

The Collaborative adopts an annual budget for all general fund functions.

All portions of the annual budget are prepared under the direction of the Executive Director. The budget must be approved by a vote of the Board of Directors.

In Fiscal 2015, the original budget was not increased.

The Collaborative’s annual budget is prepared on a basis other than GAAP. The “actual” results column of the schedule of revenues, expenditures and changes in fund balances are presented on a “budgetary basis” to provide a meaningful comparison with the budget.

The following reconciliations summarize the differences between budgetary and GAAP – Basis accounting principles for the year ended June 30, 2015:

	Revenues	Expenditures	Other Financing Sources	Revenue And Other Sources Expenditures Over (Under)
Budgetary Basis	\$ 6,487,817	\$ 6,246,065	\$ -	\$ 241,752
State Pension Payments Made on Behalf of the Collaborative	473,561	473,561		-
Depreciation Expense		(42,844)		42,844
Capital Assets Acquired		104,906		(104,906)
Capital Lease Obligation		34,478	34,478	-
Capital Lease Obligation Principal Payments		28,350		(28,350)
Other	(7,799)	(7,799)		-
GAAP Basis	\$ 6,953,579	\$ 6,836,717	\$ 34,478	\$ 151,340

CAPS EDUCATION COLLABORATIVE

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

Massachusetts State Employees' Retirement System

	<u>2015</u>
State's Proportion of the Net Pension Liability	100%
State's Proportionate share of the Net Pension Liability	\$ 2,588,145
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.32%

*The amounts presented were determined as of the previous June 30

CAPS EDUCATION COLLABORATIVE
Schedule of the Collaborative's Contributions
Massachusetts State Employees' Retirement System

	2015
Contractually Required Contribution	\$ 103,397
Contributions in Relation to the Contractually Required Contribution	(103,397)
Contribution Deficiency (Excess)	\$ -
Collaborative's Covered-Employee Payroll	\$ 1,846,375
Contributions as a Percentage of Covered-Employee Payroll	5.6%

*The amounts presented were determined as of the previous June 30

CAPS EDUCATION COLLABORATIVE

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

Massachusetts Teachers' Retirement System

	<u>2015</u>
State's Proportion of the Net Pension Liability	100%
State's Proportionate Share of the Net Pension Liability	\$ 3,754,413
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.64%

*The amounts presented were determined as of the previous June 30

CAPS EDUCATION COLLABORATIVE

Schedule of the State's Contributions

Massachusetts Teachers' Retirement System

	<u>2015</u>
Contractually Required Contribution	\$ 221,391
Contributions in Relation to the Contractually Required Contribution	<u>(221,391)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>

*The amounts presented were determined as of the previous June 30

OTHER INFORMATION

CAPS EDUCATION COLLABORATIVE

Other Information

For The Year Ended June 30, 2015

The following information is provided to conform with the requirements of the Massachusetts Session Law, Chapter 43 of the Acts of 2012: An Act Relative to Improving Accountability and Oversight of Education Collaboratives. This law was adopted in March of 2012 and constitutes a comprehensive amendment to Massachusetts General Law, Chapter 40, Section 4E which established the requirements for the formation and administration of Educational Collaboratives in Massachusetts.

Note 1 – Lease of Real Property

The Collaborative has entered into several lease agreements for classroom and administrative office space under non-cancelable operating leases that expire on various dates through fiscal year 2018. It also leases space under annual lease arrangements. The cost of the leases for fiscal 2015 totaled \$ 212,275 and is reported as facilities expenditures in the general fund.

The future minimum lease payments are as follows:

Fiscal Year	Related Parties	Non-Related Parties	Total
2016	\$ 60,000	\$ 115,237	\$ 175,237
2017	25,000	118,695	143,695
2018	25,000	121,714	146,714
	<u>\$ 110,000</u>	<u>\$ 355,646</u>	<u>\$ 465,646</u>

The related parties are two member school systems. In addition, starting in fiscal 2015, the Collaborative is sub-leasing part of its space as well as usage of certain equipment to another Collaborative on an annual basis. The rental income from this arrangement for fiscal 2015 was approximately \$ 54,000.

CAPS EDUCATION COLLABORATIVE

Other Information

For The Year Ended June 30, 2015

(Continued)

Note 2 – Five Most Highly Compensated Employees

The following employees were the five highest compensated employees for the period ended June 30, 2015:

<u>Name</u>	<u>Employee Position</u>	<u>Salary</u>
Edward McCaul	Executive Director	\$ 124,930
Sheri D'Annolfo	Coordinator	91,150
Erin Blanchette	Teacher/CVI	86,909
Eleanor Hagwood	Psychologist	81,975
John Mara	Teacher	81,124

Note 3 – Administration and Overhead

For fiscal year ended June 30, 2015, the Collaborative expended approximately \$ 481,000 for amounts related to administration and overhead.

Note 4 – Student Activity Accounts

The Collaborative did not have any accounts that may be spent at the discretion of another person or entity.

Note 5 – Services for Pupils age 22 and older

The Collaborative did not expend any funds on services for individuals age 22 or older.



McCarthy, Hargrave & Co.

Certified Public Accountants

**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 The
CAPS Education Collaborative
Westminster, 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 CAPS Education Collaborative, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise CAPS Education Collaborative's basic financial statements, and have issued our report thereon dated December 4, 2015.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

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.

December 4, 2015

McCarthy, Hargrave & Co.