

**Annual Financial Report
of**

LEARN

**A Connecticut Regional Educational
Service Center**

Year Ended June 30, 2014

LEARN

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Introductory Section

LEARN

PRINCIPAL OFFICIALS

| <u>Office</u> | <u>Name</u> | <u>Manner of Selection/Term</u> | <u>District</u> |
|---------------------|-------------------|--|-----------------|
| Board of Directors: | | | |
| Chairperson | Sheri Cote | Appointed to Board Elected to office annually | Waterford |
| Vice Chairperson | Rita Volkmann | Appointed to Board Elected to office annually | Groton |
| Fiscal Officer | Craig L. Esposito | Appointed to Board Elected to office annually | Stonington |
| Secretary | Tim Hagen | Appointed to Board Elected to office annually | East Lyme |
| Executive Director | Eileen Howley | Appointed to Board Elected to office annually | LEARN |
| Committee Member | Abby Dolliver | Appointed to Board Elected to office annually | Norwich |

Financial Section

Independent Auditor's Report

Board of Directors
LEARN
Old Lyme, Connecticut

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 LEARN, a Connecticut Regional Education Service Center, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise LEARN's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such 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 LEARN, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows 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 and the other post-employment benefit plan schedules on pages 5 to 15 and pages 43 and 44, respectively, 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 LEARN's basic financial statements. The introductory section and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of Federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of expenditures of state financial assistance, as required by the State Single Audit Act, are presented for purposes of additional analysis and are also not a required part of the basic financial statements.

The supplemental schedules, the schedule of expenditures of Federal awards and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules, the schedule of expenditures of Federal awards and the schedule of expenditures of state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section 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 16, 2014, on our consideration of LEARN'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 LEARN's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

New London, Connecticut
December 16, 2014



LEARN

Management's Discussion and Analysis

June 30, 2014

The Board of Directors and LEARN Administration offer constituents and readers of LEARN's financial statements this narrative overview and analysis of the financial activities of LEARN for the fiscal year ended June 30, 2014.

This management's discussion and analysis ("MD&A") will explain the role of the financial statements and provide analysis on selected financial information.

Financial Highlights

- Unrestricted net position, the amount that may be used to meet LEARN's ongoing obligations to creditors, was \$5,574,887 at June 30, 2014.
- On a government-wide basis, LEARN's assets exceeded its liabilities at the close of the most recent fiscal year by \$52,240,967.
- On a government-wide basis, LEARN's total net position increased by \$1,143,698. LEARN's net position has grown as its Magnet Schools' activity has continued to increase on the road to full capacity at each school. The Marine Science Magnet High School, Dual Language & Arts Academy and Three Rivers Middle College increased by over 100 students; as well as growth at the Goodwin based CT River Academy and addition of the Goodwin Early Childhood Magnet. There has been significant growth in our Student Support Services (Special Education) department as it leads and responds to meeting district and individual needs for their student population. New and continued programming and services provided to the New London and Norwich school districts in areas related to the State of Connecticut Department of Education including Network School support, S.E.E.D. professional development services, and the New London Special Master program also contributed to this increased net position

Management's Discussion and Analysis (Continued)

Financial Highlights (continued)

- Continuing to implement cost containment and revenue enhancing strategies, the General Fund experienced a substantial positive change of \$1,701,648 resulting in an ending fund balance of \$6,257,956 at June 30, 2014. Management continues to be proactive in program and departmental budget monitoring. The standard for operation is to continuously review, refine, and improve resource sharing within the agency. Management continues to research systems for enhancing electronic streamlining of operational components, as well as keeping up with the most current versions of system applications and benefiting from economies of scale. The initiation of the ECHMC Insurance consortium into LEARN's fiduciary network of programs contributed as well.

Management and each department continue to review and adjust operational practices in response to customer needs to ensure efficient and economical delivery of services in order to maintain an improving position. Adaptability and flexibility in operations and response to customer needs is also a crucial component of this positive change.

- At the close of the fiscal year, LEARN's governmental funds reported a combined ending fund balance of \$6,412,435, which represents a positive change of \$2,650,083 over the prior year. Conscious efforts across the agency to maintain operations in efficient and cost effective manners are revisited at quarterly budget meetings. Continued process streamlining, resource sharing and operational improvements have contributed to this change. All aspects of the organization continue to be economical, are mindful of efficient systems and continue to share resources and streamline costs. With no major construction project or program start-up expenses, the ability to concentrate resources and operations on standard programs and services contributed to cost efficiencies and a more stable operating result. The efforts of various agency-wide programs such as a central purchasing model for supplies and materials and printer and copier management plus overall facility support also contributed to this base increase.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to LEARN's basic financial statements.

The financial reports are presented in two major formats: government-wide financial statements and fund financial statements. Government-wide financial statements complement rather than replace traditional fund financial statements.

Government-Wide Financial Statements

Government-wide financial statements are statements which present LEARN as a single, unified entity, similar to a private-sector business. All financial activity within LEARN's programs is presented in these statements, which is similar to a private-sector business enterprise. All of LEARN's owned assets and owed liabilities are reported along with all of LEARN's incurred expenses and earned revenues. For example, LEARN's capital assets, related depreciation expense and long-term debt are included in these statements.

Management's Discussion and Analysis (Continued)

Government-Wide Financial Statements (continued)

The government-wide financial statements reflect LEARN's programs, which are supported by governmental activities including programs funded through Federal, state and foundation grants, contracts, tuition and other governmental agencies in exchange for fees and charges.

There are two government-wide financial statements: the statement of net position and the statement of activities.

The statement of net position presents information on all of LEARN's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of how LEARN's financial position is fluid and reactive to the ever changing economic climate and evolving district needs and requirements

The statement of activities is used to report the changes in net position. This statement first reports all expenses by function or program activity, then reports program revenues (such as charges for services, grants and contributions and capital grants) as a reduction of the expenses. The result is the net cost of the function or program. Having expenses presented as the first item in this statement reinforces the goal of public sector governments - to use revenues as a means to an end and to provide services, and not just to raise revenues.

LEARN's governmental activities span a wide scope and diversity of offerings in education, health and human services. Some of the major operations include regional programs providing education and related health services for children with disabilities in the least restrictive environment and magnet schools promoting integrated and quality education and early childhood intervention initiatives. LEARN's other activities include technical assistance consulting services, staff development programs, technology and transportation services.

The government-wide financial statements can be found on Exhibits A and B of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance programs and services in the future. In the case of LEARN, assets exceeded liabilities by \$52,240,967 at the close of the most recent fiscal year.

By far the largest portion of LEARN's net position is its investment in capital assets (e.g., land, buildings and improvements, vehicles, furniture, fixtures and equipment and construction in progress). Capital assets are presented in the statement of net position less any related debt used to acquire those assets; consequently, these assets are not available for future spending. Although LEARN's investment in its capital assets, net of accumulated depreciation, 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.

Management's Discussion and Analysis (Continued)

Summary Statement of Net Position

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|----------------------|----------------------|
| Current and other assets | \$ 11,930,492 | \$ 9,730,613 |
| Capital assets (net) | <u>47,104,672</u> | <u>47,829,358</u> |
| Total assets | <u>59,035,164</u> | <u>57,559,971</u> |
| Deferred outflows of resources | <u>15,115</u> | <u>41,024</u> |
| Other liabilities | 5,786,545 | 5,420,059 |
| Noncurrent liabilities | <u>1,022,767</u> | <u>1,083,667</u> |
| Total liabilities | <u>6,809,312</u> | <u>6,503,726</u> |
| Net position: | | |
| Net investment in capital assets | 46,581,812 | 47,177,668 |
| Restricted | 84,268 | 23,364 |
| Unrestricted | <u>5,574,887</u> | <u>3,896,237</u> |
| Total net position | <u>\$ 52,240,967</u> | <u>\$ 51,097,269</u> |

Management's Discussion and Analysis (Continued)

Change in Net Position

| | 2014 | 2013 |
|--|----------------------|----------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 15,474,029 | \$ 14,111,975 |
| Operating grants and contributions | 32,403,302 | 22,898,381 |
| Capital grants and contributions | 401,786 | 703,844 |
| General revenues: | | |
| Gain on sale of assets | 7,500 | 4,088 |
| Interest income | 10,889 | 9,842 |
| Total revenues | <u>48,297,506</u> | <u>37,728,130</u> |
| Expenses: | | |
| Administrative services/development | 4,000,473 | 2,097,981 |
| Early care and education | 1,561,247 | 1,536,616 |
| Partners B-3/family enhancement services | 1,122,284 | 1,308,433 |
| Magnet school programs | 27,964,277 | 21,607,711 |
| Special education services | 8,656,623 | 6,990,970 |
| Professional and career services | 2,095,784 | 1,862,801 |
| Instruction and technology services | 400,847 | 607,402 |
| Transportation | 1,315,851 | 1,348,275 |
| Interest expense | 36,422 | 72,104 |
| Total expenses | <u>47,153,808</u> | <u>37,432,293</u> |
| Change in net position | 1,143,698 | 295,837 |
| Net position - July 1 | <u>51,097,269</u> | <u>50,801,432</u> |
| Net position - June 30 | <u>\$ 52,240,967</u> | <u>\$ 51,097,269</u> |

Approximately 32.0% of revenues came from charges for services and approximately 67.9% came from grants (operating and capital) and contributions. Both of these sources have been significant contributors to revenue in past fiscal years.

Management's Discussion and Analysis (Continued)

Government-Wide Financial Analysis (continued)

The charges for services in 2014 increased 9.7% as compared to those for 2013 indicating fairly level operations. There has continued to be an increase in the tuition based services and contract program services, requested by districts, with SPED experiencing large growth. The substantial increase in operating grants is mainly due to the additional seats filled at the Marine Science, CT River, DL&AA, TRMC magnet schools, the addition of the Goodwin Early Childhood Magnet, and the funding for per student state magnet tuition also increased by a slight amount. This initiates an increase of both local and grant funding based on the increase of student numbers. LEARN currently serves more than 2,000 students and that number is expected to grow in the next fiscal year. The MSAP-Peace Federal Grant also had a large increase effect, as well as an increase in number of state awarded grants. The decrease in capital grants and contributions is a result of the majority of Marine Science construction being completed and pieces of what were construction costs have now been transferred to become ongoing program operational expenses, particularly as warranty life comes to an end.

Operational expense increases mirror the increases in revenue noted above in regard to the growing Magnet schools, MSAP grant and increased SPED programming and services; main expense categories included salary/benefits and purchased services. The fluidity of programs and services continue to shift between department areas based on the needs and requirements of both the local school boards and the State of CT Department of Education.

Fund Financial Statements

A fund represents a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. LEARN uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These statements present each fund's financial assets, which are assets that convert into cash due to their inherent nature, as opposed to capital assets which are used in the operation of a program and not intended to be converted to cash. The liabilities recognized are expected to be used for LEARN's near-term financing needs, such as accounts payable and accrued liabilities. Long-term debt, related debt service and outstanding claims and judgments are reported on fund financial statements when payment for these liabilities becomes due.

LEARN's funds are classified into four categories: (1) general fund, (3) special revenue funds, (1) capital projects fund and (1) proprietary fund type (internal service fund).

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. As noted earlier, the government-wide financial statements include capital assets, which are not intended to be converted to cash in the near term, and long-term debt, which is not due and payable in the near term; thus, items such as these are not included in the governmental funds' financial statements.

Management's Discussion and Analysis (Continued)

Governmental Funds (continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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.

LEARN continues to operate over 100 individual governmental programs accounted for in five 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, Special Revenue Fund and the Capital Projects Fund, all of which are considered to be major funds. Data from the other two funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on Exhibits C and D of this report.

Financial Analysis of the Government's Funds

Governmental Funds

The focus of LEARN's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing LEARN's financing requirements. In particular, 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.

The General Fund represents the general operations and normal recurring activities of LEARN, such as administration, facilities management, staff development and certain student programs. General Fund revenues are derived from tuition, sales of services and basic grants from the State of Connecticut.

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Funds within the Special Revenue Fund are funded by Federal and state grants and contracts, as well as some private grants and contracts.

The Capital Projects Fund accounts for the financial resources used for the acquisition and/or construction of major capital facilities. The current capital project continues to be the Marine Science Magnet High School of Southeastern Connecticut (MarSci). Although the majority of the facility construction had been completed during the July 2013 – June 2014 fiscal year, punch list and miscellaneous work has continued. There is currently an uncommitted balance of construction funds available and under review for potential use to enhance the current MarSci program and curriculum. Like the Regional Multicultural Magnet School ("RMMS"), once completed and placed into full service, both facilities will continue to be in the operational stages. Although there are no additional significant construction projects on the docket, the Southwest School facility that houses the DL&AA program is being reviewed for its stability and continued use.

Management's Discussion and Analysis (Continued)

Fund Balances

As of the end of the current fiscal year, LEARN's governmental funds reported a combined ending fund balance of \$6,412,435, a positive change of \$2,650,083 over the prior year. In excess of 99% of the ending fund balance is unassigned fund balance, which represents fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes within the general fund. The remainder of fund balance is restricted for specific purposes.

Governmental Fund Balances June 30, 2014 and 2013

| | Balance, Fiscal Year Ended | | Increase (Decrease) |
|--------------------------|----------------------------|--------------------|---------------------|
| | June 30, | | |
| | 2014 | 2013 | |
| General Fund | \$6,257,956 | \$4,556,308 | \$1,701,648 |
| Special Revenue Fund | 64,226 | (721,593) | 785,819 |
| Capital Projects Fund | 70,848 | (95,727) | 166,575 |
| Other Governmental Funds | <u>19,405</u> | <u>23,364</u> | <u>(3,959)</u> |
| Total | <u>\$6,412,435</u> | <u>\$3,762,352</u> | <u>\$2,650,083</u> |

The General Fund is the chief operating fund for LEARN. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,257,956, which represented 100% of total fund balance. Fund balance in the general fund increased by \$1,701,648 during the current fiscal year. Key factors in this growth were as follows: During the 2014 fiscal year, LEARN's administrative team continued its focus on cost containment strategies and agency efficiencies. LEARN management continued to monitor program and agency operations for economies of scale and fiscal savings opportunities. Management continued formal, regularly scheduled meetings for budget review and a continual awareness of financial accountability to assist and maintain cost containment measures and goals. Resource sharing throughout the agency and across departments continued to assist in these efforts. The internal central purchasing program for typical and common office and program supplies was reviewed and expanded and has proven to be a program and agency wide cost savings measure. Management continued to review systems and strive for continued improvements and streamlining opportunities utilizing more scanning and electronic systems rather than paper, copying, mailing, etc.

The Special Revenue Fund had total fund balance of \$64,226 at the end of the fiscal year. Revenues in excess of expenditures along with a substantial transfer in from the general fund led to the elimination of the deficit fund balance.

Management's Discussion and Analysis (Continued)

The Capital Projects Fund had total fund balance of \$70,848 at the end of the fiscal year due to a significant transfer in from the general fund to cover overages on prior year construction projects.

Revenues

The governmental funds' total revenues increased 28.45% from fiscal year 2013 to fiscal year 2014 from \$37,671,536 to \$48,388,113. Participation and program fees for 2014 increased by \$3,896,045 to \$16,773,669 due to increased district requirements for various services as well as the addition of programs and enrollment increase at the Marine Science, CT River, DL&AA and 3Rivers Magnet Schools. State and other governmental revenue increased by \$4,049,409 to \$20,357,530 primarily due to increased funding for Magnet schools based on student enrollment growth on the way to capacity and the MSAP-Peace federal grant award. \$11,246,164 of revenues were derived from other grants, contributions and contracts, an increase of \$2,770,215 over the prior year. \$10,750 in revenue was generated from interest income, an increase of \$908 over the prior period.

The intergovernmental funds' total revenues increased 24.8% from fiscal year 2013 to fiscal year 2014 due in large part to the federal MSAP-Peace grant award which generated \$1.6M, the growth of the Magnet schools which generates state grant support on a per student count, as well as other state grants awarded on an annual basis. The distribution of revenue sources continues to modulate year after year. These changes continue based on the needs and services required by participating districts and various state initiatives.

Expenditures

Total expenditures for fiscal 2014 were \$46,625,489 and for fiscal 2013 were \$36,625,024, an increase of 27.3% mainly due to the salary and benefit staffing affects related to the growth in 5 magnet schools, as well as the expenses incurred in the MSAP grant work which caused increases in purchased services and personnel.

Proprietary Fund

LEARN maintained one proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among LEARN's various functions. LEARN uses an internal service fund to account for its self-insured dental and prescription benefits. Because these services predominantly benefit governmental functions, they have been included within governmental activities in the government-wide financial statements. The fund ceased operations in 2013/14 as LEARN has joined the Eastern Connecticut Health and Medical Cooperative initiative for its dental and prescription programs.

The data for the internal service fund is provided in Exhibits F, G, and H of this report.

Management's Discussion and Analysis (Continued)

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support LEARN's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to 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 financial statements can be found in Exhibit J.

Capital Assets

LEARN's investment in capital assets (net of accumulated depreciation) for its governmental activities as of June 30, 2014 amounted to \$47,104,672. This investment in capital assets includes land, buildings and improvements, vehicles, furniture, fixtures and equipment and construction in progress.

There was a slight decrease as a result of the Marine Science Magnet High School construction being near its completion with minimal expenditures in the current year. As part of the process for maintaining an effective and efficient fleet of vehicles, a number of older, high mileage vans were traded in or sold and replaced with newer, more economical vans. Additional items were necessary in response to enrollment increases at the Marine Science, CT River and DL&AA magnet schools.

Capital Assets (Net of Depreciation)

| | <u>2014</u> | <u>2013</u> |
|----------------------------|----------------------|----------------------|
| Land | \$ 1,116,268 | \$ 1,116,268 |
| Construction in progress | 222,038 | 343,280 |
| Buildings and improvements | 43,234,827 | 44,218,477 |
| Furniture and equipment | 2,219,704 | 1,900,771 |
| Vehicles | <u>311,835</u> | <u>250,562</u> |
| Total | <u>\$ 47,104,672</u> | <u>\$ 47,829,358</u> |

Additional information on LEARN's capital assets can be found in Note III. C of this report.

Management's Discussion and Analysis (Continued)

Long-Term Debt

Outstanding Debt June 30, 2014 and 2013

| | 2014 | 2013 |
|---------------------------------------|---------------------|---------------------|
| Bonds payable and related liabilities | \$ 210,000 | \$ 430,000 |
| Capital leases | 327,975 | 267,750 |
| Net OPEB obligation | 478,118 | 352,175 |
| Compensated absences | <u>374,174</u> | <u>374,840</u> |
| Total | <u>\$ 1,390,267</u> | <u>\$ 1,424,765</u> |

Additional information on LEARN's long-term debt and obligations can be found in Note III. E in the notes to financial statements.

Connecticut General Statute ("C.G.S.") Section 10-66c defines the borrowing authority for Regional Educational Service Centers ("RESCs"). LEARN was established and organized as a RESC under the provisions of C.G.S. Section 10-66a.-n. The statute does not define any limitations on the level or amount of debt which a RESC may borrow.

Economic Factors

- The unemployment rate for New London County as of June 2014 was 6.6%, which is a decrease from a rate of 8.2% a year ago. In comparison, the state's unemployment rate was 6.5% and the national average rate was 6.1% as of June 2014.
- Inflationary trends in the region compare favorably to national indices.

Requests for Information

This financial report is designed to provide a general overview of LEARN's finances for all readers of these statements. Questions concerning any of the information provided in this report or requests for additional information should be addressed to LEARN's Director of Business and Finance.

**Basic
Financial
Statements**

LEARN

Statement of Net Position
June 30, 2014

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| <u>Assets</u> | |
| Current assets: | |
| Cash and cash equivalents | \$ 9,139,929 |
| Investments | 179,004 |
| Receivables: | |
| Intergovernmental | 194,602 |
| Participant and program fees | 2,397,611 |
| Internal balances | 16,396 |
| Other assets | 2,950 |
| Total current assets | <u>11,930,492</u> |
| Capital assets (net of accumulated depreciation): | |
| Land | 1,116,268 |
| Construction in progress | 222,038 |
| Buildings and improvements | 43,234,827 |
| Furniture and equipment | 2,219,704 |
| Vehicles | 311,835 |
| Total capital assets (net of accumulated depreciation) | <u>47,104,672</u> |
| Total noncurrent assets | <u>47,104,672</u> |
| Total assets | <u>59,035,164</u> |
| <u>Deferred Outflows of Resources</u> | |
| Deferred charge on refunding | <u>15,115</u> |
| <u>Liabilities</u> | |
| Current liabilities: | |
| Accounts payable | 1,436,647 |
| Accrued payroll | 1,817,913 |
| Accrued interest payable | 3,938 |
| Unearned revenue | 2,160,547 |
| Current portion of long-term obligations: | |
| Bonds payable | 210,000 |
| Capital leases | 119,978 |
| Compensated absences | 37,522 |
| Total current liabilities | <u>5,786,545</u> |
| Noncurrent liabilities: | |
| Capital leases | 207,997 |
| Net OPEB obligation | 478,118 |
| Compensated absences | 336,652 |
| Total noncurrent liabilities | <u>1,022,767</u> |
| Total liabilities | <u>6,809,312</u> |
| <u>Net Position</u> | |
| Net investment in capital assets | 46,581,812 |
| Restricted for: | |
| Salaries | 84,268 |
| Unrestricted | 5,574,887 |
| Total net position | <u>\$ 52,240,967</u> |

See Notes to Financial Statements.

LEARN

Statement of Activities
Year Ended June 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|--|----------------------|-------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| Administrative services/development | \$ 4,000,473 | \$ 1,495,660 | \$ 3,934,387 | \$ - | \$ 1,429,574 |
| Early care and education | 1,561,247 | 48,071 | 1,533,272 | - | 20,096 |
| Partners B-3/family enhancement services | 1,122,284 | 94,426 | 1,018,665 | - | (9,193) |
| Magnet school programs | 27,964,277 | 4,179,328 | 22,998,224 | 401,786 | (384,939) |
| Special education services | 8,656,623 | 8,217,028 | 535,112 | - | 95,517 |
| Professional and career services | 2,095,784 | 104,224 | 2,060,040 | - | 68,480 |
| Instruction and technology services | 400,847 | 48,300 | 299,667 | - | (52,880) |
| Transportation | 1,315,851 | 1,286,992 | 23,935 | - | (4,924) |
| Interest expense | 36,422 | - | - | - | (36,422) |
| Total governmental activities | \$ 47,153,808 | \$ 15,474,029 | \$ 32,403,302 | \$ 401,786 | 1,125,309 |
| General revenues: | | | | | |
| Gain on sale of assets | | | | | 7,500 |
| Interest income | | | | | 10,889 |
| Change in net position | | | | | 1,143,698 |
| Net position - July 1, 2013 | | | | | 51,097,269 |
| Net position - June 30, 2014 | | | | | \$ 52,240,967 |

See Notes to Financial Statements.

LEARN
Balance Sheet
Governmental Funds
June 30, 2014

| | Governmental Fund Types | | | | |
|--|-------------------------|----------------------|-----------------------|--------------------------|--------------------------|
| | General Fund | Special Revenue Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
| <u>Assets</u> | | | | | |
| Cash and cash equivalents | \$ 693,982 | \$ 7,583,070 | \$ 580,766 | \$ 164,193 | \$ 9,022,011 |
| Investments | 179,004 | - | - | - | 179,004 |
| Receivables: | | | | | |
| Intergovernmental | - | 91,652 | - | - | 91,652 |
| Participant and program fees | 793,185 | 1,595,642 | - | 8,784 | 2,397,611 |
| Due from other funds | 7,616,550 | - | 75 | 690 | 7,617,315 |
| Prepaid expenses | 2,500 | 450 | - | - | 2,950 |
| Total assets | \$ 9,285,221 | \$ 9,270,814 | \$ 580,841 | \$ 173,667 | \$ 19,310,543 |
| <u>Liabilities</u> | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 539,278 | \$ 859,852 | \$ 32,448 | \$ 5,069 | \$ 1,436,647 |
| Accrued payroll | 865,146 | 952,767 | - | - | 1,817,913 |
| Due to other funds | - | 7,277,808 | 144,660 | 60,533 | 7,483,001 |
| Unearned revenue | 1,622,841 | 116,161 | 332,885 | 88,660 | 2,160,547 |
| Total liabilities | 3,027,265 | 9,206,588 | 509,993 | 154,262 | 12,898,108 |
| <u>Fund Balances</u> | | | | | |
| Restricted | - | 64,226 | - | 20,042 | 84,268 |
| Committed | - | - | 70,848 | - | 70,848 |
| Unassigned | 6,257,956 | - | - | (637) | 6,257,319 |
| Total fund balances | 6,257,956 | 64,226 | 70,848 | 19,405 | 6,412,435 |
| Total liabilities and fund balances | \$ 9,285,221 | \$ 9,270,814 | \$ 580,841 | \$ 173,667 | \$ 19,310,543 |

(Continued)

LEARN

Reconciliation of Fund Balances
to Net Position of Governmental Activities
June 30, 2014

Amounts reported for governmental activities in the statement of net position (Exhibit A) are different from the governmental fund balance sheet. The details of this difference are as follows:

| | |
|---|----------------------|
| Total fund balances (Exhibit C, Page 1) | \$ 6,412,435 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: | |
| Beginning net capital assets | 47,829,358 |
| Current year capital asset additions | 1,309,148 |
| Depreciation expense | (2,033,834) |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: | |
| School building grant receivable | 102,950 |
| Some liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds: | |
| Bonds payable | (210,000) |
| Capital lease obligations | (327,975) |
| Net OPEB obligation | (478,118) |
| Deferred charge on bond refunding | 15,115 |
| Compensated absences | (374,174) |
| Accrued interest payable | (3,938) |
| Net position of governmental activities | <u>\$ 52,240,967</u> |

(Concluded)

See Notes to Financial Statements.

LEARN

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014**

| | Governmental Fund Types | | | | |
|--|-------------------------|----------------------|-----------------------|--------------------------|--------------------------|
| | General Fund | Special Revenue Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
| Revenues: | | | | | |
| Participation and program fees | \$ 16,578,867 | \$ - | \$ - | \$ 194,802 | \$ 16,773,669 |
| Intergovernmental | 948,471 | 19,002,273 | 401,786 | 5,000 | 20,357,530 |
| Other grants, contributions and contracts | 3,021,428 | 8,194,417 | - | 30,319 | 11,246,164 |
| Interest income | 9,007 | - | 1,582 | 161 | 10,750 |
| Total revenues | 20,557,773 | 27,196,690 | 403,368 | 230,282 | 48,388,113 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Salaries, certified personnel | 3,668,190 | 9,508,437 | - | - | 13,176,627 |
| Salaries, noncertified personnel | 4,573,532 | 3,551,003 | - | 3,911 | 8,128,446 |
| Employee benefits | 3,995,472 | 5,453,645 | - | 1,712 | 9,450,829 |
| Purchased professional services | 1,074,972 | 2,478,268 | 49,376 | 218,538 | 3,821,154 |
| Administrative/management | 1,592,760 | 2,475,323 | - | 1,773 | 4,069,856 |
| Public utilities/property services | 434,449 | 1,007,360 | 172,661 | - | 1,614,470 |
| Maintenance | 246,046 | 31,401 | - | - | 277,447 |
| Rent | 207,489 | 223,344 | - | - | 430,833 |
| Transportation/travel | 310,194 | 544,727 | - | 320 | 855,241 |
| Advertising | 23,172 | 17,991 | - | - | 41,163 |
| Other purchased services | 1,224,498 | 1,245,832 | - | 562 | 2,470,892 |
| Insurance | 156,594 | 44,748 | - | - | 201,342 |
| Phone, postage and printing | 94,360 | 97,408 | - | 982 | 192,750 |
| Stipend for children | 4,939 | - | - | - | 4,939 |
| Books and instructional/office supplies | 167,577 | 303,656 | - | 6,199 | 477,432 |
| Interest expense | 9,874 | - | - | - | 9,874 |
| Food for programs | 23,152 | 28,506 | - | 244 | 51,902 |
| Organization dues | 12,380 | 4,581 | - | - | 16,961 |
| Equipment/capital outlay | 678,020 | 116,312 | 179,749 | - | 974,081 |
| Debt service | 359,250 | - | - | - | 359,250 |
| Total expenditures | 18,856,920 | 27,132,542 | 401,786 | 234,241 | 46,625,489 |
| Excess (deficiency) of revenues over expenditures | 1,700,853 | 64,148 | 1,582 | (3,959) | 1,762,624 |
| Other financing sources (uses): | | | | | |
| Transfers in | 694,986 | 721,671 | 164,993 | - | 1,581,650 |
| Transfers out | (886,664) | - | - | - | (886,664) |
| Capital leases | 184,973 | - | - | - | 184,973 |
| Proceeds from sale of assets | 7,500 | - | - | - | 7,500 |
| Total other financing sources (uses) | 795 | 721,671 | 164,993 | - | 887,459 |
| Net change in fund balances | 1,701,648 | 785,819 | 166,575 | (3,959) | 2,650,083 |
| Fund balances - July 1, 2013 | 4,556,308 | (721,593) | (95,727) | 23,364 | 3,762,352 |
| Fund balances - June 30, 2014 | \$ 6,257,956 | \$ 64,226 | \$ 70,848 | \$ 19,405 | \$ 6,412,435 |

See Notes to Financial Statements.

LEARN

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to Statement of Activities
Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of activities
(Exhibit B) are due to:

Net change in fund balances - total governmental funds (Exhibit D) \$ 2,650,083

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

| | |
|----------------------|----------------------|
| Capital outlay | 1,309,148 |
| Depreciation expense | <u>(2,033,834)</u> |
| Total | <u>(724,686)</u> |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds and revenues recognized in the funds are not reported in the statement of activities:

School building grant receipts (110,153)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences in the treatment of long-term debt and related items are as follows:

| | |
|---|--------------------|
| Debt issued or incurred: | |
| Issuance of capital leases | (184,973) |
| Principal repayments: | |
| Principal payments on general obligation bonds and capital leases | <u>344,748</u> |
| Total | <u>159,775</u> |

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

| | |
|---|----------------------|
| Net OPEB obligation | (125,943) |
| Compensated absences | 666 |
| Accrued interest payable | 3,989 |
| Amortization of deferred charge on bond refunding | <u>(25,909)</u> |
| Total | <u>(147,197)</u> |

Internal service funds are used by management to charge costs of medical insurance premiums to individual departments (684,263)

The net revenue of the activities of the internal service fund is reported with governmental activities 139

Change in net position of governmental activities (Exhibit B) \$ 1,143,698

See Notes to Financial Statements.

LEARN

Statement of Net Position
 Proprietary Fund
 June 30, 2014

| | <u>Governmental Activities</u> |
|---------------------------|------------------------------------|
| | <u>Internal Service Fund</u> |
| <u>Assets</u> | |
| Cash and cash equivalents | \$ 117,918 |
| | <hr/> |
| <u>Liabilities</u> | |
| Due to other funds | \$ 117,918 |
| | <hr/> <hr/> |

See Notes to Financial Statements.

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Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Fund
 Year Ended June 30, 2014

| | <u>Governmental Activities</u> |
|---------------------------------------|------------------------------------|
| | <u>Internal Service Fund</u> |
| Operating revenues: | |
| Charges for services | \$ 11,907 |
| Operating expenses: | |
| Administration | <u>1,184</u> |
| Operating income | <u>10,723</u> |
| Nonoperating revenues (expenses): | |
| Transfers out | (694,986) |
| Investment income | <u>139</u> |
| Total nonoperating revenue (expenses) | <u>(694,847)</u> |
| Change in net position | (684,124) |
| Net position - July 1, 2013 | <u>684,124</u> |
| Net position - June 30, 2014 | <u><u>\$ -</u></u> |

See Notes to Financial Statements.

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**Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2014**

| | Governmental Activities |
|---|----------------------------|
| | Internal Service Fund |
| Cash flows from operating activities: | |
| Receipts from customers | \$ 714,891 |
| Payments to suppliers and service providers | (31,003) |
| Claims paid | (8,000) |
| | 675,888 |
| Net cash provided by operating activities | 675,888 |
| Cash flows from noncapital financing activities: | |
| Transfers to other funds | (694,986) |
| Cash flows from investing activities: | |
| Investment income | 139 |
| | (18,959) |
| Net decrease in cash and cash equivalents | (18,959) |
| Cash and cash equivalents - July 1, 2013 | 136,877 |
| Cash and cash equivalents - June 30, 2014 | \$ 117,918 |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 10,723 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| (Increase) decrease in: | |
| Prepaid expenses | 1,185 |
| Due from other funds | 585,066 |
| Increase (decrease) in: | |
| Claims payable | (8,000) |
| Accounts payable | (31,004) |
| Due to other funds | 117,918 |
| | 117,918 |
| Net cash provided by operating activities | \$ 675,888 |

See Notes to Financial Statements.

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Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2014

| | <u>Agency Funds</u> |
|--------------------------|-------------------------|
| <u>Assets</u> | |
| Cash | \$ 500,794 |
| Accounts receivable | <u>21,000</u> |
| Total assets | <u>\$ 521,794</u> |
| <u>Liabilities</u> | |
| Deposits held for others | \$ 409,522 |
| Accounts payable | 95,876 |
| Due to other funds | <u>16,396</u> |
| Total liabilities | <u>\$ 521,794</u> |

See Notes to Financial Statements.

LEARN

Notes to Financial Statements
June 30, 2014**History and organization**

LEARN, a Connecticut Regional Educational Service Center (RESC), was organized under the provisions of the Connecticut General Statutes, Section 10-66a, as amended. LEARN operates under a Board of Directors and an Executive Director. LEARN serves as an educational center, facilitator, and service provider for local boards of education (LEA's), their towns, and regional boards of education with the purpose of establishing cooperative arrangements to provide special services, educational programs and services to enable such boards to carry out the duties specified in the General Statutes.

The accompanying financial statements have been prepared in conformity with the requirements of the statements issued by the Governmental Accounting Standards Board. The more significant of LEARN's accounting policies are described below.

I. Summary of significant accounting policies**A. Reporting entity**

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government and its component units, entities for which the government is considered to be financially accountable, all organizations for which the primary government is financially accountable and other organizations which by the nature and significance of their relationship with the primary government would cause the financial statements to be incomplete or misleading if excluded. Blended component units, although legally separate entities, are, in substance, part of the government's operations; therefore, data from these units are combined with data of the primary government.

The LEARN Project, Inc., a nonprofit organization, has been included as a blended component unit in the accompanying financial statements. Its Board of Directors is comprised of LEARN Board members, and its programs mirror those of LEARN. Separate financial statements are not available for the LEARN Project, Inc.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities* are normally supported by intergovernmental revenues and participant and program fees.

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

LEARN

**Notes to Financial Statements
June 30, 2014**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. 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*, as are the proprietary fund and fiduciary fund financial statements. Agency funds do not have a measurement focus but use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (generally within 60 days after year-end) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Expenditure reimbursement-type grants, certain intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by LEARN.

LEARN reports the following major governmental funds:

The *General Fund* is LEARN's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Special Revenue Fund* accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, typically state and federal grant awards used for educational programs. The types of revenues recorded in this fund are intergovernmental revenues and charges for services.

The *Capital Projects Fund* accounts for the financial revenues to be used for capital asset construction and/or purchases.

LEARN

**Notes to Financial Statements
June 30, 2014**

Additionally, LEARN reports the following fund types:

The *Internal Service Fund* is used to account for self-insured dental and prescription benefits for LEARN employees.

The *Agency Funds* are used to report the activity of the Eastern CT Health and Medical Cooperative and the student activity funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are charges between certain LEARN functions because elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of LEARN's internal service fund are charges to customers for dental insurance and prescription benefits. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, deferred outflows/inflows of resources and net position or equity**1. Deposits and investments**

Deposits - LEARN's cash and cash equivalents consists of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - In general, State of Connecticut Statutes allow LEARN to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. Investment income is recorded in the fund in which it was earned.

LEARN

Notes to Financial Statements
June 30, 2014

Investments for LEARN are reported at fair value. The State Treasurers Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27c - 3-27e. Investment guidelines are adopted by the State Treasurer.

The fair value of the position in the pool is the same as the value of the pool shares.

2. Receivables and payables

Interfunds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. Capital assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by LEARN as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 40 |
| Furniture and equipment | 3-10 |
| Vehicles | 3-5 |

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**Notes to Financial Statements
June 30, 2014****4. Deferred outflows/inflows of resources**

In addition to assets, the statement of net 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/ expenditure) until then. LEARN only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net 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. LEARN does not have any items that qualify for reporting in this category.

5. Compensated absences

LEARN employees are paid by a prescribed formula for absence due to vacation and sickness. The eligibility for vacation pay does not vest. In the event of death or retirement, teachers with 15 years of service are compensated for 25% of accumulated sick time, up to a maximum of 150 days at current salary rates.

Sick leave expenditures are recognized in the governmental funds in the current year to the extent they are paid during the year or the vested amount is expected to be paid with available resources. The liability for the remainder of the vested sick leave, and the nonvested portion expected to be paid in future periods, is accounted for in the government-wide financial statements as a noncurrent liability.

6. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities' statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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Notes to Financial Statements
June 30, 2014**7. Fund equity and net position**

In the government-wide financial statements, net position is classified into the following categories:

Net Investment in Capital Assets

This category presents the net position that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes, and unspent bond proceeds, are excluded.

Restricted Net Position

This category presents the net position restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Position

This category presents the net position of LEARN, which is not restricted.

In the fund financial statements, fund balances are classified into the following categories:

Nonspendable

This category presents amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted

This category presents amounts that can be spent only for specific purposes because of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed

This category presents amounts that can be used only for specific purposes determined by a formal action of the highest level of decision-making authority for LEARN. Commitments may be established, modified or rescinded only through resolutions approved by the Board of Directors.

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**Notes to Financial Statements
June 30, 2014**Assigned

This category presents amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Intent can be expressed by the Board of Directors.

Unassigned

This category presents amounts that do not meet the criteria above and are available for any purpose. This category is only reported in the general fund for positive amounts and in any other fund that has a fund balance deficit.

LEARN will sometimes fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is LEARN's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

LEARN will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is LEARN's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, LEARN considers amounts to have been spent first out of committed funds, then assigned funds and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

8. Use of estimates

The preparation of the 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 including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year. Accordingly, actual results could differ from those estimates.

9. Reclassifications

Certain amounts presented in the prior year's data have been reclassified in order to be consistent with the current year's presentation.

LEARN

Notes to Financial Statements
June 30, 2014

II. Stewardship, compliance and accountability

A. Budgets and budgetary accounting

LEARN receives revenues from members' dues as well as from fees for participation in special programs. Additionally, LEARN receives state and Federal grants for general use, as well as special programs. Comparisons of actual data to budget are not presented since LEARN's budget is not legally adopted.

B. Deficit fund balance

At June 30, 2014, LEARN had a deficit fund balance in the following fund:

| | |
|-----------------------------|-----------------------|
| Nonmajor Governmental Fund: | |
| School lunch fund | \$ <u> 637</u> |

The deficit will be eliminated by future program fees.

III. Detailed notes

A. Cash and investments

Custodial credit risk is the risk that, in the event of a bank failure, LEARN's deposits may not be returned to it. LEARN does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$8,898,791 of LEARN's bank balance of \$9,864,397 was exposed to custodial credit risk as follows:

| | |
|--|--------------------------|
| Uninsured and uncollateralized | \$ 7,574,914 |
| Uninsured and collateral held by pledging bank's trust department not in LEARN's name | <u> 1,323,877</u> |
| Total amount subject to credit risk | <u>\$ 8,898,791</u> |

Financial instruments that potentially subject LEARN to significant concentrations of credit risk consist primarily of cash. From time to time, LEARN's cash account balances exceed the Federal Deposit Insurance Corporation limit. LEARN reduces its credit risk by maintaining its cash deposits with major financial institutions and monitoring their credit ratings.

At June 30, 2014, LEARN's investments consisted of the following investment types and maturities. Specific identification was used to determine the maturities.

| <u>Type of Investment</u> | <u>Fair Value</u> | <u>Investment Maturities (in years)</u> <u>Less Than 1</u> |
|---------------------------|-------------------|---|
| Pooled fixed income | <u>\$ 179,004</u> | <u>\$ 179,004</u> |

The \$179,004 of pooled fixed income was invested in the Short Term Investment Fund ("STIF"). STIF is an investment pool managed by the State of Connecticut Office of the State Treasurer.

Interest rate risk - LEARN 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.

LEARN

**Notes to Financial Statements
June 30, 2014**

Credit risk - LEARN has no investment policy that would limit its investment choices due to credit risk other than State Statutes governing investments in obligations of any State or political subdivision or in obligations of the State of Connecticut or political subdivision. Pooled fixed income is rated AAA by Moody's.

Custodial credit risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, LEARN will not be able to recover the value of its investment or collateral securities that are in the possession of outside parties. LEARN did not have any investments that were subject to custodial credit risk at June 30, 2014.

B. Receivables

All receivables are considered fully collectible.

C. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

| | <u>Balance July 1, 2013</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2014</u> |
|--|---------------------------------|---------------------|-------------------|----------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,116,268 | \$ - | \$ - | \$ 1,116,268 |
| Construction in progress | <u>343,280</u> | <u>222,038</u> | <u>343,280</u> | <u>222,038</u> |
| Total capital assets, not being depreciated | <u>1,459,548</u> | <u>222,038</u> | <u>343,280</u> | <u>1,338,306</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 52,593,728 | 343,280 | | 52,937,008 |
| Furniture and equipment | 3,317,498 | 902,137 | 80,858 | 4,138,777 |
| Vehicles | <u>900,785</u> | <u>184,973</u> | <u>107,318</u> | <u>978,440</u> |
| Total capital assets, being depreciated | <u>56,812,011</u> | <u>1,430,390</u> | <u>188,176</u> | <u>58,054,225</u> |
| Total capital assets | <u>58,271,559</u> | <u>1,652,428</u> | <u>531,456</u> | <u>59,392,531</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 8,375,251 | 1,326,930 | | 9,702,181 |
| Furniture and equipment | 1,416,727 | 583,204 | 80,858 | 1,919,073 |
| Vehicles | <u>650,223</u> | <u>123,700</u> | <u>107,318</u> | <u>666,605</u> |
| Total accumulated depreciation | <u>10,442,201</u> | <u>2,033,834</u> | <u>188,176</u> | <u>12,287,859</u> |
| Total capital assets, being depreciated, net | <u>46,369,810</u> | <u>(603,444)</u> | | <u>45,766,366</u> |
| Governmental activities capital assets, net | <u>\$ 47,829,358</u> | <u>\$ (381,406)</u> | <u>\$ 343,280</u> | <u>\$ 47,104,672</u> |

LEARN

Notes to Financial Statements
June 30, 2014

Governmental activities

Depreciation expense was charged to functions/programs of LEARN as follows:

Governmental activities:

| | |
|--|----------------|
| Administrative services/development | \$ 104,856 |
| Early care and education | 7,093 |
| Partners B-3/family enhancement services | 11,349 |
| Magnet school programs | 1,734,349 |
| Special education services | 11,348 |
| Instruction and technology services | 41,139 |
| Transportation | <u>123,700</u> |

Total depreciation expense - governmental activities \$ 2,033,834

D. Interfund accounts

1. Interfund payables and receivables

A summary of interfund balances as of June 30, 2014 is as follows:

| | <u>Corresponding Fund</u> | <u>Due From</u> | <u>Due To</u> |
|---|--|------------------|------------------|
| Major funds: | | | |
| General fund: | | | |
| Special revenue fund | N/A | \$ 7,277,118 | \$ - |
| Capital projects fund | N/A | 144,660 | - |
| LEARN project special revenue fund | N/A | 24,671 | - |
| School lunch fund | N/A | 35,862 | - |
| Eastern CT Health and Medical Cooperative | N/A | 16,321 | - |
| Self-insurance fund | N/A | <u>117,918</u> | <u>-</u> |
| Total general fund | | <u>7,616,550</u> | <u>-</u> |
| Special revenue fund | General fund | - | 7,277,118 |
| Special revenue fund | School lunch fund | <u>-</u> | <u>690</u> |
| Total special revenue fund | | <u>-</u> | <u>7,277,808</u> |
| Capital projects fund | General fund | - | 144,660 |
| Capital projects fund | Eastern CT Health and Medical Cooperative | <u>75</u> | <u>-</u> |
| Total capital projects fund | | <u>75</u> | <u>144,660</u> |

LEARN

Notes to Financial Statements
June 30, 2014

Nonmajor governmental funds:

| | | | |
|---|-----------------------|---------------------|---------------------|
| LEARN project special revenue fund | General fund | \$ - | \$ 24,671 |
| School lunch fund | General fund | - | 35,862 |
| School lunch fund | Special revenue fund | <u>690</u> | <u>-</u> |
| Total nonmajor governmental funds | | <u>690</u> | <u>60,533</u> |
| Internal service fund: | | | |
| Self-insurance fund | General fund | <u>-</u> | <u>117,918</u> |
| Agency fund: | | | |
| Eastern CT Health and Medical Cooperative | General fund | - | 16,321 |
| Eastern CT Health and Medical Cooperative | Capital projects fund | <u>-</u> | <u>75</u> |
| Total Eastern CT Health and Medical Cooperative | | <u>-</u> | <u>16,396</u> |
| Grand total | | <u>\$ 7,617,315</u> | <u>\$ 7,617,315</u> |

All interfund balances resulted from the time lag between the dates payments occurred between funds for short-term internal financing.

2. Interfund transfers

A summary of interfund transfers for the year ended June 30, 2014 is as follows:

| | Corresponding <u>Fund</u> | Transfers <u>In</u> | Transfers <u>Out</u> |
|-----------------------|------------------------------|------------------------|-------------------------|
| Major funds: | | | |
| General fund: | | | |
| Special revenue fund | N/A | \$ - | \$ 721,671 |
| Capital projects fund | N/A | - | 164,993 |
| Internal service fund | N/A | <u>694,986</u> | <u>-</u> |
| Total general fund | | 694,986 | 886,664 |
| Special revenue fund | General fund | 721,671 | - |
| Capital projects fund | General fund | 164,993 | - |
| Internal service fund | General fund | <u>-</u> | <u>694,986</u> |
| Grand total | | <u>\$ 1,581,650</u> | <u>\$ 1,581,650</u> |

LEARN

Notes to Financial Statements
June 30, 2014

E. Changes in long-term obligations

1. Summary of changes

The following is a summary of changes in long-term obligations during the fiscal year:

| Description | Original Amount | Date of Issue | Date of Maturity | Interest Rate | Balance July 1, 2013 | Additions | Deductions | Balance June 30, 2014 | Current Portion |
|-----------------------------|-----------------|---------------|------------------|---------------|----------------------|-------------------|-------------------|-----------------------|-------------------|
| <u>Bonds/Notes</u> | | | | | | | | | |
| <u>General Purpose:</u> | | | | | | | | | |
| Improvements bonds | \$2,240,000 | 2/1/2004 | 2/1/2015 | 2.08% | \$ 430,000 | \$ - | \$ 220,000 | \$ 210,000 | \$ 210,000 |
| Capital leases | | | | | 267,750 | 184,973 | 124,748 | 327,975 | 119,978 |
| Net OPEB obligation | | | | | 352,175 | 133,706 | 7,763 | 478,118 | - |
| Compensated absences | | | | | <u>374,840</u> | <u>163,715</u> | <u>164,381</u> | <u>374,174</u> | <u>37,522</u> |
| Total long-term obligations | | | | | <u>\$ 1,424,765</u> | <u>\$ 482,394</u> | <u>\$ 516,892</u> | <u>\$ 1,390,267</u> | <u>\$ 367,500</u> |

All long-term liabilities are generally liquidated by the general fund.

The annual requirements to amortize bonds and notes payable and of amounts to be provided by the State of Connecticut for repayment of bonds as of June 30, 2014, are as follows:

| Year Ending June 30, | General Long-Term Bonds | | To Be Provided By State | |
|-------------------------|-------------------------|-----------------|-------------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2015 | <u>\$ 210,000</u> | <u>\$ 9,555</u> | <u>\$ 101,780</u> | <u>\$ 1,170</u> |

2. Authorized/unissued bonds

There are no authorized, unissued bonds at June 30, 2014.

3. Advance refunding

On February 1, 2004, LEARN advance refunded general obligation bond issues. As of June 30, 2014, the amount of in-substance defeased debt which remains outstanding but is not included in LEARN's financial statements is \$210,000.

LEARN

**Notes to Financial Statements
June 30, 2014**

4. Capital leases

At June 30, 2014, LEARN is committed under multiple leases for vehicles. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

Vehicles totaling \$680,112 and accumulated amortization of \$368,227 are recorded under capital leases as of June 30, 2014. Amortization of vehicles under capital leases is included with depreciation expense.

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments as of June 30, 2014:

| Year Ending June 30, | |
|---|-------------------|
| 2015 | \$ 135,333 |
| 2016 | 94,560 |
| 2017 | 69,918 |
| 2018 | 45,648 |
| 2019 | <u>14,031</u> |
| Total | 359,490 |
| Less amount representing interest | <u>31,515</u> |
| Present value of minimum lease payments | <u>\$ 327,975</u> |

F. Fund balance classifications

As of June 30, 2014, fund balances are composed of the following:

| Fund Balance Component | General Fund | Special Revenue Fund | Capital Projects Fund | Other Governmental Funds | Total |
|-------------------------------|---------------------|----------------------------|-----------------------------|--------------------------------|---------------------|
| <u>Restricted:</u> | | | | | |
| Salaries, certified personnel | \$ - | \$ 64,226 | \$ - | \$ 20,042 | \$ 84,268 |
| <u>Committed:</u> | | | | | |
| Construction contracts | - | - | 70,848 | - | 70,848 |
| <u>Unassigned</u> | <u>6,257,956</u> | <u>-</u> | <u>-</u> | <u>(637)</u> | <u>6,257,319</u> |
| Total | <u>\$ 6,257,956</u> | <u>\$ 64,226</u> | <u>\$ 70,848</u> | <u>\$ 19,405</u> | <u>\$ 6,412,435</u> |

LEARN

Notes to Financial Statements
June 30, 2014

IV. Other information**A. Risk management**

LEARN is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, natural disasters and protective liability.

Except for prescription and dental insurance, LEARN purchases commercial insurance for all other risks of loss, including blanket and umbrella policies. Settled claims have not exceeded commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

The LEARN Self-Insurance Fund (the "Fund") terminated as of June 30, 2014 and was an internal service fund established to provide prescription and dental health coverage for all employees. It was funded by participant co-pays and by contributions from LEARN. A third party administered each of the components (prescription and dental) of the plan for which the Fund paid a fee. The administrators were responsible for the approval, processing and payment of prescription and dental claims.

The following is a summary of changes in the claims liabilities:

| | Claims Payable <u>July 1</u> | Current Year Claims and Changes in <u>Estimates</u> | Claims Paid | Claims Payable <u>June 30</u> |
|-----------|------------------------------------|--|----------------|-------------------------------------|
| 2012-2013 | \$ 16,000 | \$ 345,311 | \$ 353,311 | \$ 8,000 |
| 2013-2014 | 8,000 | - | 8,000 | - |

The claims liability reported in the internal service fund is based on the requirements of GASB Statements No. 10 and 30, which require that a liability for estimated claims incurred but not reported be recorded. The amount of claim accrual is based on the ultimate costs of settling the claim, which include past experience data, inflation and other future economic and societal factors and incremental claim adjustment expenses, net of estimated subrogation recoveries. The claim accrual does not include other allocated or unallocated claims adjustment expenses.

As of July 1, 2013, LEARN participates in the Eastern CT Healthcare Cooperative (the "Cooperative") to provide prescription and dental health coverage for all employees. The Cooperative was established in June 2013 by several eastern Connecticut entities under the provisions of Connecticut Public Act 10-174 for the purpose of providing one or more health care benefits as allowed by such act for their employees. The Cooperative is a public entity risk pool operating as a common risk management and insurance program for its members. The Cooperative covers approximately 900 participants in its prescription drug plan and approximately 930 participants in the dental plan. The Cooperative is designed to be self-sustaining through actuarially determined premiums established annually to cover expected claims, administration and a margin for unexpected losses or expenses. The Cooperative reinsures for dental and prescription drug claims in excess of \$1,000,000 maximum aggregate benefit. The members are not subject to supplemental assessments in the event of deficiencies.

LEARN

Notes to Financial Statements
June 30, 2014

B. Commitments and litigation

LEARN has been named as defendant in several claims and legal actions. LEARN's attorney estimates that the potential claims against LEARN not covered by insurance resulting from such claims and legal actions would not materially affect the financial condition of LEARN.

LEARN has received Federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under terms of the grant. Based upon prior experience, LEARN's management believes such disallowances, if any, will not be material.

C. Operating lease commitments

LEARN leases facilities and office equipment to operate some of its programs under various operating leases. Minimum lease commitments under leases with a remaining term of over one year are as follows:

| | | |
|------|--|-------------------|
| 2015 | | \$ 99,679 |
| 2016 | | 98,449 |
| 2017 | | 72,004 |
| 2018 | | 47,310 |
| 2019 | | <u>11,420</u> |
| | | <u>\$ 328,862</u> |

Rent expenditures under operating leases totaled \$235,791 for the year ended June 30, 2014.

D. Other post-employment benefits plan**1. Plan description**

LEARN administers one single-employer, post retirement healthcare plan for Other Post Employment Benefits ("OPEB"). The plan provides medical and dental benefits to eligible retirees and their spouses. The plan does not issue a stand alone financial report.

2. Classes of employees covered

As of July 1, 2012, the plan's membership consisted of:

| | | |
|---|--|------------|
| Retirees and beneficiaries currently receiving benefits | | 2 |
| Active plan members | | <u>100</u> |
| Total | | <u>102</u> |

3. Benefit provisions**a. Benefit provisions**

LEARN's plan provides for medical and dental benefits for all eligible retirees. Benefits and contributions are established by contract and may be amended by union negotiations. Administration costs are financed from current operations.

LEARN

**Notes to Financial Statements
June 30, 2014**

b. Employer contributions

LEARN's contributions are actuarially determined on an annual basis using the entry age normal method. LEARN's total plan contribution was \$7,763.

c. Employee contributions

There are no employee contributions to the plan.

4. Funded status and funding progress

The funded status of the plan as of July 1, 2012 was as follows:

| Actuarial Valuation Date | (A) Actuarial Value of Assets | (B) Actuarial Accrued Liability (AAL) | (B-A) Unfunded AAL | (A/B) Funded AAL Ratio | (C) Covered Payroll | [(B-A)/C] Unfunded AAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|--------------------------|---------------------------------|---------------------------|---|
|--------------------------------|--|---|--------------------------|---------------------------------|---------------------------|---|

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| | | | | | | |
|--------------|------|------------|------------|------|--------------|-------|
| July 1, 2012 | \$ - | \$ 617,723 | \$ 617,723 | 0.0% | \$ 5,973,186 | 10.3% |
|--------------|------|------------|------------|------|--------------|-------|

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress ("RSI") immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

5. Actuarial methods and assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

LEARN

Notes to Financial Statements
June 30, 2014

The data presented in the schedules of funding progress and employer contributions were determined as part of the actuarial valuation at the date indicated. Additional information for all plans as of the latest valuation date is as follows:

| | |
|-------------------------------|------------------|
| Valuation date | July 1, 2012 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 27 years closed |

Actuarial Assumptions:

| | |
|--|------|
| Interest rate | 4.0% |
| 2012 medical trend rate | 9.0% |
| Ultimate medical trend rate | 5.0% |
| Year ultimate medical trend rate reached | 2016 |
| Annual payroll increase | 2.5% |

6. Annual OPEB cost and net OPEB obligation (“NOO”)

The changes in the NOO were as follows:

| | |
|--|-------------------|
| Annual required contribution | \$ 135,488 |
| Interest on net OPEB obligation | 14,087 |
| Adjustment to annual required contribution | <u>(15,869)</u> |
| Annual OPEB cost (“AOC”) | 133,706 |
| Contributions made | <u>(7,763)</u> |
| Change in net OPEB obligation | 125,943 |
| Net OPEB obligation - July 1, 2013 | <u>352,175</u> |
| Net OPEB obligation - June 30, 2014 | <u>\$ 478,118</u> |

7. Three year trend information

| <u>Year</u> <u>Ending</u> <u>June 30</u> | <u>Annual</u> <u>OPEB</u> <u>Cost</u> <u>(AOC)</u> | <u>Percentage</u> <u>of AOC</u> <u>Contributed</u> | <u>Net</u> <u>OPEB</u> <u>Obligation</u> |
|--|---|--|--|
| 2014 | \$ 133,706 | 5.8% | \$ 478,118 |
| 2013 | 126,199 | 4.5% | 352,175 |
| 2012 | 86,693 | 7.4% | 231,690 |

F. On-behalf payments

The amount recognized for revenues and expenditures for contributions made by the State to the State Teachers’ Retirement Plan on behalf of LEARN for the year ended June 30, 2014 was \$3,119,000.

**Required
Supplementary
Information**

LEARN

Required Supplementary Information

LEARN OPEB Plan

Schedule of Funding Progress

| Actuarial Valuation Date July 1 | A Actuarial Value of Assets | B Actuarial Accrued Liability (AAL) Projected Unit Credit | (A-B) Over (Under) Funded AAL | (A/B) Funded AAL Ratio | C Covered Payroll | [(A-B)/C] Over (Under) Funded AAL as a Percentage of Covered Payroll |
|--|--|--|---|-------------------------------------|-----------------------------|--|
| 2009 | \$ | \$ 310,532 | \$ (310,532) | 0.0% | \$ 5,645,385 | (5.5%) |
| 2012 | | 617,723 | (617,723) | 0.0% | 5,973,186 | (10.3%) |

Schedule of Employer Contributions

| | Annual Required Contributions | Actual Contributions | Percentage Contributed |
|------|-------------------------------------|-------------------------|---------------------------|
| 2010 | \$ 76,754 | \$ 2,804 | 3.7% |
| 2011 | 81,785 | 4,223 | 5.2% |
| 2012 | 87,082 | 6,387 | 7.3% |
| 2013 | 127,189 | 5,714 | 4.5% |
| 2014 | 135,448 | 7,763 | 5.7% |

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LEARN Other OPEB Plan

Notes to Required Supplementary Information
Year Ended June 30, 2014

| | |
|--------------------------|------|
| Changes of benefit terms | None |
|--------------------------|------|

| | |
|------------------------|------|
| Changes of assumptions | None |
|------------------------|------|

The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

| | |
|-----------------------|------------------|
| Actuarial Cost Method | Entry Age Normal |
|-----------------------|------------------|

| | |
|---------------------|--------------|
| Amortization Method | Level dollar |
|---------------------|--------------|

| | |
|-------------------------------|----------|
| Remaining Amortization Period | 27 years |
|-------------------------------|----------|

| | |
|---------------|-------|
| Interest Rate | 4.00% |
|---------------|-------|

| | |
|-------------------------|------|
| 2012 Medical Trend Rate | 9.0% |
|-------------------------|------|

| | |
|-----------------------------|------|
| Ultimate Medical Trend Rate | 5.0% |
|-----------------------------|------|

Supplemental Schedules

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

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**Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2014**

| | <u>Special Revenue Funds</u> | | |
|-------------------------------------|--|-------------------------|----------------------------|
| | LEARN Project Special Revenue Fund | School Lunch Fund | Total Nonmajor Funds |
| | <u>Fund</u> | <u>Fund</u> | <u>Funds</u> |
| <u>Assets</u> | | | |
| Cash and cash equivalents | \$ 131,217 | \$ 32,976 | \$ 164,193 |
| Receivables: | | | |
| Participation and program fees | - | 8,784 | 8,784 |
| Due from other funds | - | 690 | 690 |
| | <u>-</u> | <u>690</u> | <u>690</u> |
| Total assets | <u>\$ 131,217</u> | <u>\$ 42,450</u> | <u>\$ 173,667</u> |
| <u>Liabilities</u> | | | |
| Accounts payable | \$ 244 | \$ 4,825 | \$ 5,069 |
| Due to other funds | 24,671 | 35,862 | 60,533 |
| Unearned revenue | 86,260 | 2,400 | 88,660 |
| | <u>86,260</u> | <u>2,400</u> | <u>88,660</u> |
| Total liabilities | <u>111,175</u> | <u>43,087</u> | <u>154,262</u> |
| <u>Fund Balances</u> | | | |
| Restricted | 20,042 | - | 20,042 |
| Unassigned | - | (637) | (637) |
| | <u>-</u> | <u>(637)</u> | <u>(637)</u> |
| Total fund balances | <u>20,042</u> | <u>(637)</u> | <u>19,405</u> |
| Total liabilities and fund balances | <u>\$ 131,217</u> | <u>\$ 42,450</u> | <u>\$ 173,667</u> |

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Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2014

| | <u>Special Revenue Funds</u> | | |
|---|--|-------------------------|----------------------------|
| | LEARN Project Special Revenue Fund | School Lunch Fund | Total Nonmajor Funds |
| Revenues: | | | |
| Participation and program fees | \$ - | \$ 194,802 | \$ 194,802 |
| Intergovernmental | - | 5,000 | 5,000 |
| Other grants, contributions and contracts | 30,319 | - | 30,319 |
| Interest income | 161 | - | 161 |
| Total revenues | <u>30,480</u> | <u>199,802</u> | <u>230,282</u> |
| Expenditures: | | | |
| Current: | | | |
| Salaries, noncertified personnel | 3,911 | - | 3,911 |
| Employee benefits | 1,712 | - | 1,712 |
| Purchased professional services | 14,616 | 203,922 | 218,538 |
| Administrative/management | 1,773 | - | 1,773 |
| Other purchased services | 562 | - | 562 |
| Phone, postage and printing | 982 | - | 982 |
| Books and instructional/office supplies | 6,199 | - | 6,199 |
| Transportation/travel | 320 | - | 320 |
| Food for programs | 244 | - | 244 |
| Total expenditures | <u>30,319</u> | <u>203,922</u> | <u>234,241</u> |
| Net change in fund balances | 161 | (4,120) | (3,959) |
| Fund balances - July 1, 2013 | <u>19,881</u> | <u>3,483</u> | <u>23,364</u> |
| Fund balances - June 30, 2014 | <u>\$ 20,042</u> | <u>\$ (637)</u> | <u>\$ 19,405</u> |

Fiduciary Funds

Fiduciary funds are used to account for assets held by LEARN in a trustee capacity for individuals, private organizations or other governments.

Agency Funds

Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

LEARN
Agency Funds
Combining Statement of Changes in Assets and Liabilities
Year Ended June 30, 2014

| | Balance July 1, 2013 | Additions | Deductions | Balance June 30, 2014 |
|---|-------------------------|---------------------|---------------------|--------------------------|
| <u>Assets</u> | | | | |
| Cash: | | | | |
| RMMS library fund | \$ 7,850 | \$ 3,547 | \$ 11,397 | \$ - |
| RMMS programs fund | 31,461 | 34,891 | 40,094 | 26,258 |
| RMMS school fund | 25,959 | 82,409 | 105,495 | 2,873 |
| DLAA activity fund | 2,063 | 6,325 | 7,620 | 768 |
| Friendship school activity fund | 12,426 | 17,812 | 18,518 | 11,720 |
| Marine Science Magnet HS fund | 18,015 | 70,116 | 44,929 | 43,202 |
| Three Rivers Middle College Magnet School | - | 9,854 | 7,487 | 2,367 |
| Eastern CT Health and Medical Cooperative | - | 2,565,622 | 2,152,016 | 413,606 |
| Total cash | 97,774 | 2,790,576 | 2,387,556 | 500,794 |
| Accounts receivable: | | | | |
| Eastern CT Health and Medical Cooperative | - | 21,000 | - | 21,000 |
| Total assets | <u>\$ 97,774</u> | <u>\$ 2,811,576</u> | <u>\$ 2,387,556</u> | <u>\$ 521,794</u> |
| <u>Liabilities</u> | | | | |
| Deposits held for others: | | | | |
| RMMS library fund | \$ 7,850 | \$ 3,547 | \$ 11,397 | \$ - |
| RMMS programs fund | 31,461 | 34,891 | 40,094 | 26,258 |
| RMMS school fund | 25,959 | 82,409 | 105,495 | 2,873 |
| DLAA activity fund | 2,063 | 6,325 | 7,620 | 768 |
| Friendship school activity fund | 12,426 | 17,812 | 18,518 | 11,720 |
| Marine Science Magnet HS fund | 18,015 | 70,116 | 44,929 | 43,202 |
| Three Rivers Middle College Magnet School | - | 9,854 | 7,487 | 2,367 |
| Eastern CT Health and Medical Cooperative | - | 2,474,350 | 2,152,016 | 322,334 |
| Total deposits held for others | 97,774 | 2,699,304 | 2,387,556 | 409,522 |
| Accounts payable: | | | | |
| Eastern CT Health and Medical Cooperative | - | 95,876 | - | 95,876 |
| Due to other funds: | | | | |
| Eastern CT Health and Medical Cooperative | - | 16,396 | - | 16,396 |
| Total liabilities | <u>\$ 97,774</u> | <u>\$ 2,811,576</u> | <u>\$ 2,387,556</u> | <u>\$ 521,794</u> |

**Federal
Single
Audit**

LEARN

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|---|-------------------------|
| <u>U.S. Department of Education:</u> | | | |
| Passed through the State Department of Education: | | | |
| Title I Cluster: | | | |
| Title I Grants to Local Educational Agencies | | 12060-20679-2013-82070-170002 | \$ 7,452 |
| Title I Grants to Local Educational Agencies | | 12060-20679-2014-82070-170002 | <u>278,107</u> |
| Total Title I Grants to Local Educational Agencies | 84.010 | | <u>285,559</u> |
| Career and Technical Education - Basic Grants to States | 84.048 | 12060-20742-2014-84010-170002 | <u>115,300</u> |
| International Education - Technological Innovation and Cooperation for Foreign Information Access | | 12060-20868-2012-82075-170002 | 40,116 |
| International Education - Technological Innovation and Cooperation for Foreign Information Access | | 12060-20868-2013-82075-170002 | 18,300 |
| International Education - Technological Innovation and Cooperation for Foreign Information Access | | 12060-20868-2013-82075-170002-SDE00005 | 62,589 |
| International Education - Technological Innovation and Cooperation for Foreign Information Access | | 12060-20868-2014-82075-170002 | <u>25,675</u> |
| Total International Education - Technological Innovation and Cooperation for Foreign Information Access | 84.337 | | <u>146,680</u> |
| Improving Teacher Quality State Grants | | 12060-20858-2013-84131-170002 | 1,416 |
| Improving Teacher Quality State Grants | | 12060-20858-2014-84131-170002 | <u>15,058</u> |
| Total Improving Teacher Quality State Grants | 84.367 | | <u>16,474</u> |
| Passed through the State Department of Developmental Services: | | | |
| Special Education - Grants for Infants and Families | 84.181 | 12060-20513-53039-2014 | <u>68,924</u> |
| Direct Program: | | | |
| Magnet Schools Assistance | 84.165 | | <u>1,592,178</u> |
| Total U.S. Department of Education | | | <u>2,225,115</u> |
| Total Federal Awards | | | <u>\$ 2,225,115</u> |

See Notes to Schedule of Expenditures of Federal Awards.

LEARN

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

1. Significant accounting policy

The accounting policies of LEARN conform to accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The following is a summary of the more significant policy relating to Federal awards:

Basis of Presentation

The accompanying schedule of expenditures of Federal awards is presented on the modified accrual basis of accounting and a current financial resources measurement focus. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Prior year findings and questioned costs

There were no prior year audit findings or questioned costs.

LEARN

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

I. Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes x no
Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes x no
Significant deficiency(ies) identified? yes x none reported

Type of auditor's report issued on compliance
for major programs: Unmodified

Any audit findings disclosed that are required
to be reported in accordance with OMB
Circular A-133, Section .510(a)? yes x no

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--------------------------------|
| 84.165 | Magnet Schools Assistance |

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? x yes no

II. Financial Statement Findings:

None

III. Federal Award Findings and Questioned Costs:

There were no findings or questioned costs reported relating to Federal Award programs.

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*

Board of Directors
LEARN
Old Lyme, Connecticut

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 LEARN, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise LEARN's basic financial statements, and have issued our report thereon dated December 16, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LEARN'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 LEARN's internal control. Accordingly, we do not express an opinion on the effectiveness of LEARN'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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

New London, Connecticut
December 16, 2014

Independent Auditor's Report on Compliance for Each
Major Federal Program and Report on Internal Control over
Compliance Required by OMB Circular A-133

Board of Directors
LEARN
Old Lyme, Connecticut

Report on Compliance for Each Major Federal Program

We have audited LEARN'S compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of LEARN's major Federal programs for the year ended June 30, 2014. LEARN's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LEARN's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about LEARN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of LEARN's compliance.

Opinion on Each Major Federal Program

In our opinion, LEARN complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of LEARN is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LEARN's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LEARN's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



New London, Connecticut
December 16, 2014

**State
Single
Audit**

LEARN

Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2014

| State Grantor/Pass-through Grantor/Program Title | State Grant Program Core-CT Number | State Project Number | Expenditures |
|---|---|--|------------------|
| <u>State Department of Education:</u> | | | |
| Regional Educational Service Centers | 11000-SDE64000-16062 | 11000-16062-2014-82048-55070 | \$ 120,994 |
| Family Resource Centers | 11000-SDE64000-16110 | 11000-16110-2014-82079-170003 | 104,500 |
| Bilingual Education | 11000-SDE64000-17042 | 11000-17042-2014-82079-170002 | 7,101 |
| Special Master New London | 11000-SDE64105-12568 | 11000-10020-2013-84164-170004-SDE00005 | 900,512 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82065-SDE00005 | 48,818 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00005 | 48,006 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00006 | 52,673 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00007 | 46,705 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00008 | 59,763 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00009 | 44,999 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00010 | 47,156 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00011 | 106,114 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00012 | 57,105 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00013 | 46,379 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00017 | 58,697 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00118 | 61,824 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00119 | 56,379 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00120 | 50,927 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00121 | 22,261 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00122 | 91,378 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-SDE00123 | 51,110 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00005 | 48,092 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00006 | 105,598 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00007 | 58,395 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00008 | 54,776 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00009 | 79,078 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00010 | 54,083 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00011 | 57,962 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00012 | 58,310 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00013 | 87,138 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00117 | 53,058 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00118 | 51,452 |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | 11000-17045-2014-82066-170102-SDE00119 | 54,406 |
| Total Interdistrict Cooperative Grant | | | <u>1,712,642</u> |
| Open Choice | 11000-SDE64000-17053 | 11000-17053-2014-82059 | 3,250 |
| Primary Mental Health | 11000-SDE64000-12198 | 11000-12198-2014-82079-170036 | 21,250 |

(Continued)

LEARN

Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2014

| State Grantor/Pass-through Grantor/Program Title | State Grant Program Core-CT Number | State Project Number | Expenditures |
|---|---|--|----------------------|
| Magnet Schools | 11000-SDE64000-17057 | 11000-17057-2014-82062-170031-SDE00076 | \$ 4,210,700 |
| Magnet Schools | 11000-SDE64000-17057 | 11000-17057-2014-82062-170031-SDE00136 | 3,973,700 |
| Magnet Schools | 11000-SDE64000-17057 | 11000-17057-2014-82062-170031-SDE00142 | 932,200 |
| Magnet Schools | 11000-SDE64000-17057 | 11000-17057-2014-82062-170031-SDE00172 | 1,998,700 |
| Magnet Schools | 11000-SDE64000-17057 | 11000-17057-2014-82062-170031-SDE00196 | 481,900 |
| Magnet Schools | 11000-SDE64000-17057 | 11000-17057-2014-82061 | 8,665 |
| Magnet Schools | 11000-SDE64000-17057 | 11000-17057-2013-83004-170002-SDE00136 | <u>722,324</u> |
| Total Magnet Schools | | | <u>12,328,189</u> |
| After School Program | 11000-SDE64000-17084 | 11000-17084-2014-82079-170003 | <u>82,348</u> |
| Tech Assistance - Regional Coop | 11000-SDE64251-12548 | 11000-12548-2014-84131 | <u>95,000</u> |
| Total State Department of Education | | | <u>15,375,786</u> |
| <u>Department of Developmental Services</u> | | | |
| Birth to Three Program | 11000-DDS50150-12192 | 11000-12192-53029-2013-52742 | <u>885,280</u> |
| <u>Office of Early Childhood</u> | | | |
| Community Plans For Early Childhood | 11000-OEC64840-12495 | 11000-12495-2014-83004 | 15,789 |
| Community Plans For Early Childhood | 11000-OEC64840-12495 | 11000-12495-2014-83004-SDE00005 | <u>15,789</u> |
| Total Community Plans for Early Childhood | | | 31,578 |
| School Readiness | 11000-OEC64850-16158 | 11000-16158-2014-84117 | 51,449 |
| School Readiness and Child Care in Priority School Districts | 11000-OEC64840-17096 | 11000-17101-2014-82056-170002 | 1,259,157 |
| School Readiness Quality Enhancement | 12060-OEC64840-17097 | 11000-17097-2014-82079-170018 | <u>17,226</u> |
| Total Office of Early Childhood | | | <u>1,359,410</u> |
| Total State Financial Assistance Before Exempt Programs | | | <u>17,620,476</u> |
| <u>Exempt Programs:</u> | | | |
| <u>Department of Construction Services:</u> | | | |
| School Construction Grants - Progress | 13010-DCS28000-40901 | 13010-40901-82007-2013-170001 | 401,786 |
| School Construction Grants - Principal | 13010-DCS28000-40901 | 13010-40901-82003-2014-170001 | 106,627 |
| School Construction - Interest | 13009-DCS28000-40896 | 13009-40896-82004-2014-170063 | <u>3,526</u> |
| Total Exempt Programs | | | <u>511,939</u> |
| Total State Financial Assistance | | | <u>\$ 18,132,415</u> |

(Concluded)

See Notes to Schedule of Expenditures of State Financial Assistance.

LEARN

Notes to Schedule of Expenditures of State Financial Assistance Year Ended June 30, 2014

The accompanying schedule of expenditures of state financial assistance includes state grant activity of LEARN under programs of the State of Connecticut for the fiscal year ended June 30, 2014. Various departments and agencies of the State of Connecticut have provided financial assistance to LEARN through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund numerous education based programs.

1. Summary of significant accounting policies

The accounting policies of LEARN conform to accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

The information in the schedule of expenditures of state financial assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of Accounting

The expenditures reported on the schedule of expenditures of state financial assistance are reported on the modified accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

2. Prior year findings and questioned costs

There were no prior year audit findings or questioned costs.

LEARN

Schedule of Findings and Questioned Costs Year Ended June 30, 2014

I. Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

State Financial Assistance

Internal control over major programs:

Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified? yes x none reported

Type of auditor's report issued on compliance
 for major programs: Unmodified

Any audit findings disclosed that are required
 to be reported in accordance with
 Section 4-236-24 of the Regulations to the
 State Single Audit Act? yes x no

The following schedule reflects the major programs included in the audit:

| <u>State Grantor and Program</u> | <u>State Core-CT Number</u> | <u>Expenditures</u> |
|--|-----------------------------|---------------------|
| <u>Department of Education:</u> | | |
| Interdistrict Cooperative Grant | 11000-SDE64000-17045 | \$ 1,712,642 |
| Magnet Schools | 11000-SDE64000-17057 | 12,328,189 |
| Special Master New London | 11000-SDE64105-12568 | 900,512 |
| <u>Department of Developmental Services:</u> | | |
| Birth to Three Program | 11000-DDS50150-12192 | 885,280 |
| <u>Office of Early Childhood:</u> | | |
| School Readiness and Child Care In Priority School Districts | 11000-OEC64840-17096 | 1,259,157 |
| Dollar threshold used to distinguish between Type A and Type B programs: | | \$ 352,410 |

LEARN

Schedule of Findings and Questioned Costs Year Ended June 30, 2014

II. Financial Statement Findings:

There were no findings reported relating to the Town's financial statements.

III. State Financial Assistance Findings and Questioned Costs:

There were no findings or questioned costs reported relating to State Financial Assistance programs.

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*

Board of Directors
LEARN
Old Lyme, Connecticut

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 LEARN, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise LEARN's basic financial statements, and have issued our report thereon dated December 16, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LEARN'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 LEARN's internal control. Accordingly, we do not express an opinion on the effectiveness of LEARN'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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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.

A handwritten signature in cursive script that reads "CohnReznick LLP".

New London, Connecticut
December 16, 2014

Independent Auditor's Report on Compliance for Each Major
State Program and Report on Internal Control over Compliance
Required by the State Single Audit Act

Board of Directors
LEARN
Old Lyme, Connecticut

Report on Compliance for Each Major State Program

We have audited LEARN's compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of LEARN's major state programs for the year ended June 30, 2014. LEARN's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LEARN's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about LEARN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of LEARN's compliance.

Opinion on Each Major State Program

In our opinion, LEARN complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of LEARN is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LEARN's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LEARN's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.



New London, Connecticut
December 16, 2014