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**LEARN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**LEARN  
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JUNE 30, 2016**

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## **Introductory Section**

# LEARN

## Principal Officials

<b>Office</b>	<b>Name</b>	<b>Manner of Selection/Term</b>	<b>District</b>
Board of Directors:			
Chairperson	Craig L. Esposito	Appointed to Board Elected to office annually	Stonington
Vice Chairperson	Tim Hagen	Appointed to Board Elected to office annually	East Lyme
Fiscal Officer	Chris Goff	Appointed to Board Elected to office annually	East Hampton
Secretary	Rita Volkmann	Appointed to Board Elected to office annually	Groton
Executive Director	Eileen Howley	Appointed to Board Elected to office annually	LEARN
Committee Member	Abby Dolliver	Appointed to Board Elected to office annually	Norwich
Committee Member	Paul Freeman	Appointed to Board Elected to office annually	Guilford
Committee Member	Sheri Cote	Appointed to Board Elected to office annually	Chamber of Commerce of Eastern Connecticut

**Financial Section**

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## Independent Auditors' Report

To the 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 as of and for the year ended June 30, 2016, 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.

#### ***Auditors' 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 auditors' 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 auditors consider 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, 2016 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 and OPEB and Pension schedules on pages 35 through 36 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, which 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, combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and 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 combining and individual nonmajor fund financial statements and 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 November 11, 2016 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.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
November 11, 2016

# LEARN

## Management's Discussion and Analysis

June 30, 2016

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LEARN is a Connecticut Regional Education Service Center, and was established in 1967 by Section 10-66a of the Connecticut General Statutes. LEARN serves as an educational center facilitator and service provider for local boards of education, their towns and regional boards of education with the purpose of establishing cooperative arrangements to provide special services, educational programs and services. LEARN currently owns and operates five magnet schools for its member towns and serves as an operator only for two magnet schools outside of the LEARN district.

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, 2016. 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 \$11,574,303 at June 30, 2016.
- On a government-wide basis, LEARN's assets exceeded its liabilities at the close of the most recent fiscal year by \$56,138,261.
- On a government-wide basis, LEARN's total net position increased by \$878,823. The growth in net position is a result of increased tuition received as a result of higher enrollment in student support services programs, fees and tuition received for magnet school operations and the administration of the MSAP-Peace Federal grant program.
- The General Fund experienced a positive change of \$2,607,612 resulting in an ending fund balance of \$12,291,886 at June 30, 2016. LEARN continues to implement cost containment and revenue enhancing strategies. Management is proactive in program and departmental budget monitoring, and the standard for operation is to continuously review, refine, and improve resource sharing within the agency and take advantage of opportunities when there are economies of scale. Senior management view adaptability and flexibility in operations and response to customer needs as a crucial component leading to LEARN's success.
- At the close of the fiscal year, LEARN's governmental funds reported a combined ending fund balance of \$12,667,507, which represents a positive change of \$2,724,743 over the prior year. With no major construction project or program start-up expenses in 2016, the ability to concentrate resources and operations on standard programs and services contributed to cost efficiencies and a more stable operating result than in prior years.

### **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 are 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. 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, operating grants and contributions and capital grants and contributions) 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 I and II 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. For the year ended June 30, 2016, assets exceeded liabilities by \$56,138,261.

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), less any related debt used to acquire those assets that is still outstanding. LEARN uses these capital assets to provide educational services to students; 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.

### Summary Statement of Net Position

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b> <b>As restated</b>
Current and other assets	\$ 17,816,894	\$ 14,712,869
Capital assets, net of accumulated depreciation	44,676,440	46,443,608
Total assets	62,493,334	61,156,477
Current liabilities	5,149,387	5,192,698
Long-term liabilities	1,205,686	704,341
Total liabilities	6,355,073	5,897,039
Net Position:		
Invested in capital assets, net of related debt	44,563,958	46,235,611
Unrestricted	11,574,303	9,023,827
Total net position	\$ 56,138,261	\$ 55,259,438

### Change in Net Position

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
Revenues:		
Program revenues:		
Charges for services	\$ 18,644,249	\$ 17,225,707
Operating grants and contributions	34,481,230	37,192,372
Capital grants and contributions	109,275	728,947
General revenues:		
Unrestricted investment earnings	17,226	12,340
Gain on sale of assets		8,934
Total revenues	53,251,980	55,168,300
Expenses:		
Administrative services / development	2,417,453	4,678,794
Early care and education	1,800,847	1,720,220
Partners B-3 / family enhancement services	1,049,728	1,102,521
Magnet school programs	33,240,109	32,477,370
Special education services	10,288,969	9,037,680
Professional and career services	2,133,281	2,169,906
Instruction and technology services	151,522	232,962
Transportation	1,281,930	1,131,937
Interest expense	9,318	11,430
Total expenses	52,373,157	52,562,820
Change in net position	878,823	2,605,480
Net position at beginning of year	55,259,438	52,240,967
Restatement		412,991
Net position at end of year	\$ 56,138,261	\$ 55,259,438

Approximately 35% of revenues came from charges for services and approximately 65% came from grants (operating and capital) and contributions. Both of these sources have been significant contributors to revenue in past fiscal years.

Charges for services increased 8.2% compared to the prior year. An increase in the number of students enrolled in tuition-based services offered through Student Support Services and tuition rate increases for LEARN magnet schools represent most of the increase in charges for services. Operating grants and contributions decreased 7.3% over the prior year. Most of the decrease in operating grants and contributions was the result of reductions in state funding for interdistrict grants as well as the conclusion of the Special Master Grant program.

The decrease in capital grants and contributions is a result of the completion of construction for the Marine Science Magnet School.

Operational expenditures decreased slightly, and generally mirror the fluctuations in revenue noted above, which drive spending for LEARN programs and tuition programs. Salaries and benefits are the primary expense drivers organization wide and represent approximately 70% of all expenditures. The remaining expenditure categories including utilities, property maintenance and purchased services are consistent with the prior year.

The \$412,991 restatement in fiscal year 2015 was the result of an error recording the long-term portion of compensated balances and resulted in an increase in net position to \$55,259,438 at June 30, 2015.

### **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, 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.

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 III and IV 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 2014 - June 2015 the project has not been closed by the state. There is currently an uncommitted balance of construction funds remaining from prior construction projects under review for potential use to enhance other facility related items. Although there are no additional significant construction projects under way, the facility that houses the Dual Language and Arts Magnet School is under review for its suitability and continued use.

**Fund Balances**

As of the end of the current fiscal year, LEARN's governmental funds reported a combined ending fund balance of \$12,667,507, a positive change of \$2,724,743 over the prior year. In excess of 94% 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. In fiscal year 2017 management plans to seek Board approval for a capital improvement plan for maintenance of LEARN's facilities, in the amount of approximately \$3 to \$4 million, thereby reducing unassigned fund balance by that amount.

**Governmental Fund Balances**

	<u>Fiscal Year Ended June 30,</u>		<u>Increase</u>
	<u>2016</u>	<u>2015</u>	<u>(Decrease)</u>
General Fund	\$ 12,291,886	\$ 9,684,274 *	\$ 2,607,612
Special Revenue Fund	267,069	190,539	76,530
Nonmajor Governmental Funds:			
Special Revenue Funds	36,895	(3,652)	40,547
Capital Projects Fund	<u>71,657</u>	<u>71,603</u>	<u>54</u>
Total	<u>\$ 12,667,507</u>	<u>\$ 9,942,764</u>	<u>\$ 2,724,743</u>

\* as restated

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 \$11,971,457, which represented 97% of total fund balance. Fund balance in the General Fund increased by \$2,607,612 during the current fiscal year. Key factors in this growth have been previously discussed. During the 2016 fiscal year, LEARN's administrative team continued its focus on cost containment strategies and agency efficiencies. Management monitors programs and agency operations to take advantage of economies of scale and conducts formal, regularly scheduled meetings for budget and administrative review in order to support continual awareness of financial accountability. Resource sharing throughout the agency and across departments continued to assist in these efforts.

The Special Revenue Fund had a total fund balance of \$267,069 the end of the fiscal year. The fund balance is the result of transfers made to cover expected shortfalls in various programs.

The Nonmajor Governmental Funds had a total fund balance of \$108,552. Of this amount, \$71,657 represents the remaining balances of projects closed in prior periods.

### **Revenues**

The governmental funds' total revenues decreased 3.6% from fiscal year 2015 to fiscal year 2016 to \$53,251,980. There was a slight increase in participation and program fees. The sum of intergovernmental revenue and other grants and contributions decreased \$2,023,868. The total reduction in revenue in these categories is due to a decrease in interdistrict grants and the Special Master grant as previously discussed. Fluctuations between intergovernmental revenue and other grants and contributions during the year also occurred as the result of a reclassification of revenue.

### **Expenditures**

Total expenditures for fiscal year 2016 were \$50,527,237, compared to \$52,054,559 for fiscal year 2015, a decrease of 2.9%. The reduction was primarily due to decreased spending for equipment of \$793,648, a total decrease for utilities, rent and maintenance of \$321,307 and a decrease in debt service of \$225,398, which was the result of the payoff of the bond during fiscal year 2015 for the Hatchedts Hill main office.

### **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. Fiduciary funds include student activity funds and the Eastern CT Health and Medical Cooperative.

### **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 following Exhibits I - V.

### **Capital Assets**

LEARN's investment in capital assets (net of accumulated depreciation) for its governmental activities as of June 30, 2016 is \$44,676,440. Investment in capital assets includes land, buildings and improvements, vehicles, furniture, fixtures and equipment and construction in progress. There was a slight overall decrease in capital assets, primarily the result of asset depreciation. As part of the process for maintaining an effective and efficient fleet of vehicles, two older, high mileage vans were traded in or sold and replaced with newer, more economical vans. Additional furniture and equipment are purchased on an as needed basis for various student support service locations and the magnet schools.

### Capital Assets (Net of Depreciation)

	Governmental Activities	
	2016	2015
Land	\$ 1,116,268	\$ 1,116,268
Construction in progress	109,275	728,947
Buildings and improvements	40,917,627	42,124,384
Furniture and equipment	2,328,131	2,237,472
Vehicles	205,139	236,537
Total	\$ <u>44,676,440</u>	\$ <u>46,443,608</u>

Additional information on LEARN's capital assets can be found in Note 5 of this report.

### Long-Term Debt

#### Outstanding Debt June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Capital leases	\$ 112,482	\$ 207,997
Net OPEB obligation	775,275	608,065
Compensated absences	317,929	310,872
Total	\$ <u>1,205,686</u>	\$ <u>1,126,934</u>

\* as restated

LEARN's total long-term debt is consistent with the prior period. Additional information on LEARN's long-term debt and obligations can be found in Note 8 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 2016 was 6%, compared to a rate of 5.8% a year ago. The state's unemployment rate was 5.9% and the national average rate was 4.9% at June 2016. 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, 2016**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 13,348,112
Receivables:	
Intergovernmental	1,988,880
Participant and program fees	2,187,532
Due from Eastern CT Health and Medical Cooperative	289,870
Other assets	2,500
Total current assets	<u>17,816,894</u>
Noncurrent assets:	
Capital assets, not being depreciated	1,225,543
Capital assets being depreciated, net of depreciation	43,450,897
Total noncurrent assets	<u>44,676,440</u>
Total assets	<u>62,493,334</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued items	1,624,846
Accrued payroll	1,719,407
Due to other governments	51,264
Unearned revenue	1,753,870
Total current liabilities	<u>5,149,387</u>
Noncurrent liabilities:	
Due within one year	74,785
Due in more than one year	1,130,901
Total noncurrent liabilities	<u>1,205,686</u>
Total liabilities	<u>6,355,073</u>
Net Position:	
Net investment in capital assets	44,563,958
Unrestricted	11,574,303
Total Net Position	<u>\$ 56,138,261</u>

The accompanying notes are an integral part of the financial statements

**LEARN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Administrative services / development	\$ 2,417,453	\$ 1,273,374	\$ 1,117,180	\$ (26,899)
Early care and education	1,800,847	193,640	1,754,048	146,841
Partners B-3 / family enhancement services	1,049,728	10,960	1,037,739	(1,029)
Magnet school programs	33,240,109	5,127,908	27,573,291	109,275
Special education services	10,288,969	10,675,026	561,795	(429,635)
Professional and career services	2,133,281	182,951	2,113,478	947,852
Instruction and technology services	151,522		156,504	163,148
Transportation	1,281,930	1,180,390	167,195	4,982
Interest expense	9,318			65,655
				(9,318)
Total Governmental Activities	\$ <u>52,373,157</u>	\$ <u>18,644,249</u>	\$ <u>34,481,230</u>	\$ <u>109,275</u>
General Revenues:				
Interest income				<u>17,226</u>
Change in Net Position				878,823
Net Position at Beginning of Year, as Restated				<u>55,259,438</u>
Net Position at End of Year				\$ <u><u>56,138,261</u></u>

The accompanying notes are an integral part of the financial statements

**LEARN  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,996,844	\$ 10,562,544	\$ 788,724	\$ 13,348,112
Receivables:				
Intergovernmental		1,340,031	648,849	1,988,880
Participant and program fees	1,049,485	1,134,891	3,156	2,187,532
Due from other funds	12,471,851		1,009,588	13,481,439
Prepaid items	2,500			2,500
<b>Total Assets</b>	<b>\$ 15,520,680</b>	<b>\$ 13,037,466</b>	<b>\$ 2,450,317</b>	<b>\$ 31,008,463</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued items	\$ 968,449	\$ 648,950	\$ 7,447	\$ 1,624,846
Accrued payroll	690,483	1,028,924		1,719,407
Due to other funds		10,935,275	2,256,294	13,191,569
Due to other governments		51,264		51,264
Unearned revenue	1,569,862	105,984	78,024	1,753,870
<b>Total liabilities</b>	<b>3,228,794</b>	<b>12,770,397</b>	<b>2,341,765</b>	<b>18,340,956</b>
<b>Fund Balances:</b>				
Nonspendable	2,500			2,500
Restricted		267,069	36,895	303,964
Committed			71,657	71,657
Assigned	317,929			317,929
Unassigned	11,971,457			11,971,457
<b>Total fund balances</b>	<b>12,291,886</b>	<b>267,069</b>	<b>108,552</b>	<b>12,667,507</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 15,520,680</b>	<b>\$ 13,037,466</b>	<b>\$ 2,450,317</b>	<b>\$ 31,008,463</b>

The accompanying notes are an integral part of the financial statements

**LEARN**  
**BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)**  
**JUNE 30, 2016**

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

Amounts reported for governmental activities in the statement of net assets (Exhibit I) are  
different because of the following:

Fund balances - total governmental funds (Exhibit III)	\$ 12,667,507
--	---------------

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds:

Governmental capital assets	\$ 61,494,467	
Less accumulated depreciation	<u>(16,818,027)</u>	
Net capital assets		44,676,440

Long-term liabilities are not due and payable in the current period  
and, therefore, are not reported in the funds:

Capital lease	(112,482)
Net OPEB obligation	(775,275)
Compensated absences	<u>(317,929)</u>

Net Position of Governmental Activities (Exhibit I)	\$ <u><u>56,138,261</u></u>
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The accompanying notes are an integral part of the financial statements

**LEARN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Participation and program fees	\$ 17,594,539	\$ 1,125	\$ 275,702	\$ 17,871,366
Intergovernmental revenues	2,374,332	23,133,017	808,048	26,315,397
Other grants, contributions and contracts	1,160,484	7,856,593	30,385	9,047,462
Interest income	17,226		529	17,755
Total revenues	<u>21,146,581</u>	<u>30,990,735</u>	<u>1,114,664</u>	<u>53,251,980</u>
Expenditures:				
Current:				
Salaries, certified personnel	4,353,542	11,243,929		15,597,471
Salaries, noncertified personnel	4,250,256	3,742,627	13,500	8,006,383
Employee benefits	4,695,616	5,193,533	2,638	9,891,787
Purchased professional services	884,693	3,651,945	267,983	4,804,621
Administrative / management	1,685,616	2,742,929	4,534	4,433,079
Public utilities / property services	152,449	948,164		1,100,613
Maintenance	73,824	231,658		305,482
Rent	366,451	180,076		546,527
Transportation / travel	219,905	652,565	485	872,955
Advertising	40,280	11,876		52,156
Other purchased services	324,051	1,499,888	320,617	2,144,556
Insurance	618,674	86,041		704,715
Phone, postage and printing	125,140	95,299	3,110	223,549
Books and instructional / office supplies	199,284	281,736	6,221	487,241
Food for programs	61,369	11,891	392,097	465,357
Organizational dues	5,553	5,333		10,886
Debt service:				
Principal retirement	95,515			95,515
Interest and other charges	9,318			9,318
Capital outlay	358,296	319,375	97,355	775,026
Total expenditures	<u>18,519,832</u>	<u>30,898,865</u>	<u>1,108,540</u>	<u>50,527,237</u>
Excess of Revenues over Expenditures	<u>2,626,749</u>	<u>91,870</u>	<u>6,124</u>	<u>2,724,743</u>
Other Financing Sources (Uses):				
Transfers in from other funds			34,477	34,477
Transfers out to other funds	(19,137)	(15,340)		(34,477)
Total other financing sources (uses)	<u>(19,137)</u>	<u>(15,340)</u>	<u>34,477</u>	<u>-</u>
Net Change in Fund Balances	2,607,612	76,530	40,601	2,724,743
Fund Balances at Beginning of Year, as Restated	<u>9,684,274</u>	<u>190,539</u>	<u>67,951</u>	<u>9,942,764</u>
Fund Balances at End of Year	<u>\$ 12,291,886</u>	<u>\$ 267,069</u>	<u>\$ 108,552</u>	<u>\$ 12,667,507</u>

The accompanying notes are an integral part of the financial statements

**LEARN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because of the following:

Net change in fund balances - total governmental funds (Exhibit IV)	\$ 2,724,743
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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.

Capital outlay	538,613
Depreciation expense	(2,305,781)

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 has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized and deferred in the statement of activities. The details of these differences in the long-term debt and related items are as follows:

Capital lease payments	95,515
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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.

Change in net OPEB obligation	(167,210)
Change in long-term compensated absences	<u>(7,057)</u>

Change in Net Position of Governmental Activities (Exhibit II)	<u>\$ 878,823</u>
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The accompanying notes are an integral part of the financial statements

**LEARN**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2016**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,539,691
Accounts receivable	<u>296,437</u>
Total Assets	<u>\$ 1,836,128</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 109,246
Due to other funds	289,870
Deposits held for others	<u>1,437,012</u>
Total Liabilities	<u>\$ 1,836,128</u>

The accompanying notes are an integral part of the financial statements



## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of LEARN, a Connecticut Regional Educational Service Center (LEARN) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies of LEARN are described below.

### **A. Reporting Entity**

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 educations (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 financial statements include all funds of LEARN that meet criteria for defining the reporting entity as set forth by governmental accounting principles.

### **Blended Component Unit**

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.

Separate financial statements are provided for governmental 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. LEARN has no proprietary funds.

### **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.

Additionally, LEARN reports the following fund types:

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.

### **D. 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.

**LEARN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**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.

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.

**E. Receivables and Payables**

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 noncurrent portion of interfund loans).

**F. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**G. 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

## **H. 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.

## **I. 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.

## **J. Fund Equity**

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 noncapital 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 that is not restricted.

The equity of the fund financial statements is defined as "fund balance" and is classified in 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.

**LEARN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**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.

**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 (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.

**K. 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.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

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.

### 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

#### Deposits

##### Deposit Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, LEARN'S deposit will not be returned. LEARN does not have a deposit policy for custodial credit risk. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the state of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk-based capital ratio.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$14,651,443 of LEARN's bank balance of \$15,135,400 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 9,512,891
Uninsured and collateral held by the pledging bank's trust department, not in LEARN's name	<u>5,138,552</u>
Total Amount Subject to Custodial Credit Risk	<u>\$ 14,651,443</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.

#### Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2016, LEARN's cash equivalents amounted to \$179,793 and consisted of investment in the State Short-Term Investment Fund (STIF). STIF is a fixed income investment pool of high-quality, short-term money market instruments managed by the State of Connecticut Office of the State Treasurer. STIF is rated AAAM by Standard & Poor's and has an average maturity of under 60 days.

#### 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.

#### 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.

#### 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, 2016.

**LEARN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**4. RECEIVABLES**

Receivables as of year-end for LEARN's individual major funds, nonmajor governmental funds and fiduciary funds in the aggregate are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:				
Intergovernmental	\$	\$ 1,340,031	\$ 648,849	\$ 1,988,880
Participant and program fees	1,049,485	1,134,891	3,156	2,187,532
Other			296,437	296,437
Total Receivables	<u>\$ 1,049,485</u>	<u>\$ 2,474,922</u>	<u>\$ 948,442</u>	<u>\$ 4,472,849</u>

All receivables are considered fully collectible.

**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 1,116,268	\$	\$	\$	\$ 1,116,268
Construction in progress	728,947	(728,947)	109,275		109,275
Total capital assets not being depreciated	<u>1,845,215</u>	<u>(728,947)</u>	<u>109,275</u>	<u>-</u>	<u>1,225,543</u>
Capital assets being depreciated:					
Buildings and improvements	53,159,046	128,947			53,287,993
Furniture and equipment	4,971,842	600,000	372,198		5,944,040
Vehicles	998,441		57,140	(18,690)	1,036,891
Total capital assets being depreciated	<u>59,129,329</u>	<u>728,947</u>	<u>429,338</u>	<u>(18,690)</u>	<u>60,268,924</u>
Less accumulated depreciation for:					
Buildings and improvements	11,034,662		1,335,704		12,370,366
Furniture and equipment	2,734,370		881,539		3,615,909
Vehicles	761,904		88,538	(18,690)	831,752
Total accumulated depreciation	<u>14,530,936</u>	<u>-</u>	<u>2,305,781</u>	<u>(18,690)</u>	<u>16,818,027</u>
Total capital assets being depreciated, net	<u>44,598,393</u>	<u>728,947</u>	<u>(1,876,443)</u>	<u>-</u>	<u>43,450,897</u>
Total Capital Assets, Net of Depreciation	<u>\$ 46,443,608</u>	<u>\$ -</u>	<u>\$ (1,767,168)</u>	<u>\$ -</u>	<u>\$ 44,676,440</u>

**LEARN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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Depreciation expense for fiscal year 2016 was charged to functions/programs of LEARN as follows:

Governmental Activities:	
Administrative services/development	\$ 249,577
Magnet school programs	1,946,568
Special education services	4,537
Instruction and technology services	16,561
Transportation	<u>88,538</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,305,781</u>

**6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of interfund balances as of June 30, 2016 is presented below:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue	\$ 9,925,687
	Eastern CT Health and Medical Cooperative	289,870
	LEARN Project Special Revenue Fund	134,142
	School Lunch	1,654,035
	Capital Projects	468,117
School Lunch	Special Revenue	<u>1,009,588</u>
		<u>\$ 13,481,439</u>

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

Interfund transfers during the year ended June 30, 2016 were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>
	<u>School Lunch Fund</u>
General Fund	\$ 19,137
Special Revenue Fund	<u>15,340</u>
Total	<u>\$ 34,477</u>



**LEARN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**7. LEASES**

**Operating Leases**

LEARN's operating leases consist of classroom space and copiers. Operating lease payments for the year ended June 30, 2016 amounted to \$307,715. The following schedule reflects the annual amounts of operating leases in effect at June 30, 2016:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2017	\$ 70,235
2018	47,048
2019	26,562
2020	16,020

**Capital Lease**

LEARN has capital leases agreement for various vehicles. This lease agreement qualifies as a capital lease for accounting purposes, and, therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception.

Assets:	
Vehicles	\$ 408,645
Less accumulated depreciation	<u>(297,524)</u>
Total	<u>\$ 111,121</u>

The following is a schedule of future minimum lease payments under this capital lease and the present value of the net minimum lease payments at June 30, 2016:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 62,579
2018	42,017
2019	<u>14,031</u>
Total future minimum lease payments	118,627
Interest on future lease payments	<u>(6,145)</u>
Principal Balance of Future Minimum Payments	<u>\$ 112,482</u>

**8. LONG-TERM DEBT**

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital leases	\$ 207,997	\$	\$ 95,515	\$ 112,482	\$ 58,374
Net OPEB obligation	608,065	167,210		775,275	
Compensated absences	<u>310,872</u>	<u>33,633</u>	<u>26,576</u>	<u>317,929</u>	<u>16,411</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 1,126,934</u>	<u>\$ 200,843</u>	<u>\$ 122,091</u>	<u>\$ 1,205,686</u>	<u>\$ 74,785</u>

All long-term liabilities are generally liquidated by the General Fund.

**9. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**Teachers' Retirement System**

**A. Plan Description**

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers Retirement Board issues a publicly available financial report that can be obtained at [www.ct.gov](http://www.ct.gov).

**B. Benefit Provisions**

The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

**Normal Retirement**

Retirement benefits for employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary).

**Early Retirement**

Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

**LEARN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**Disability Retirement**

Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

**C. Contributions**

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are approved, amended and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

*Employer (School Districts)*

School District employers are not required to make contributions to the plan.

The statutes require the State of Connecticut to contribute 100% of each school districts' required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

*Employees*

Effective July 1, 1992, each teacher is required to contribute 6% of salary for the pension benefit.

**D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, LEARN reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows, due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by LEARN as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with LEARN were as follows:

LEARN's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with LEARN	<u>37,255,461</u>
Total	<u>\$ 37,255,461</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. At June 30, 2016, LEARN has no proportionate share of the net pension liability.

For the year ended June 30, 2016, LEARN recognized pension expense and revenue of \$2,985,101 in Exhibit II for on-behalf amounts for the benefits provided by the State.

**LEARN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**E. Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increase	3.75-7.00%, including inflation
Investment rate of return	8.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected 19 years using scale AA, with a two-year setback for males and females for the period after service retirement and for dependent beneficiaries.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010.

Future cost-of-living increases for members who retire on or after September 1, 1992 are assumed to be an annual cost-of-living adjustment of 2%.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (Non-U.S.)	9.0%	8.3%
Core fixed income	7.0%	1.3%
Inflation linked bond fund	3.0%	1.0%
Emerging market bond	5.0%	3.7%
High yield bonds	5.0%	3.9%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Cash	6.0%	0.4%
Total	<u>100.0%</u>	

**LEARN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**F. Discount Rate**

The discount rate used to measure the total pension liability was 8.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined contribution rates in the future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

LEARN's proportionate share of the net pension liability is \$0 and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

**H. Other Information**

Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as LEARN has no obligation to contribute to the plan.

**10. OTHER POSTEMPLOYMENT BENEFITS**

**A. Plan Description**

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

At June 30, 2016, plan membership consisted of the following:

	<b>Retiree Healthcare Plan</b>
Retired members	2
Active plan members	<u>156</u>
Total Participants	<u><u>158</u></u>

**B. Funding Policy**

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's contributions are actuarially determined on an annual basis using the entry age normal method. LEARN's total plan contribution was \$13,806. There are no employee contributions to the plan.

**LEARN  
NOTES TO FINANCIAL STATEMENTS  
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**C. Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2015 was as follows:

Actuarial Valuation Date	(A) Actuarial values 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
7/1/2015	\$ 0	\$ 609,519	\$ 609,519	0%	N/A	N/A

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.

**D. Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits 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.

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, 2015
Actuarial cost method	Entry age normal
Remaining amortization period	24.59
Actuarial Assumptions:	
Interest rate	4%
2015 medical trend rate	9%
Ultimate medical trend rate	5%
Year ultimate medical trend rate reached	2019
Annual payroll increase	2.5%

**LEARN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**E. Annual OPEB Cost and Net OPEB Obligation (NOO)**

The changes in the NOO were as follows:

	<b>Retiree Healthcare Plan</b>
Annual required contribution (ARC)	\$ 186,068
Interest on net OPEB obligation	24,323
Adjustment to annual required contribution	<u>(29,375)</u>
Annual OPEB cost	181,016
Contributions made	<u>(13,806)</u>
Increase in net OPEB obligation	167,210
Net OPEB obligation, beginning of year	<u>608,065</u>
Net OPEB Obligation, End of Year	<u><u>\$ 775,275</u></u>

**F. Three Year Trend Information**

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2016	\$ 181,016	\$ 7.6%	\$ 775,275
2015	141,439	8.1%	608,065
2014	133,706	5.8%	478,118

**11. LITIGATION AND CONTINGENCIES**

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 request 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.

**LEARN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**12. 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.

LEARN purchases commercial insurance for all 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.

As of July 1, 2013, LEARN participates in the Eastern CT Healthcare Cooperative (the Cooperative) to provide medical, 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 920 participants in its medical plan, 550 participants in its prescription drug plan and approximately 960 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 medical, dental and prescription drug claims in excess of \$1,000,000 maximum aggregate benefit. The members are subject to supplemental assessments in the event of deficiencies.

**13. FUND BALANCE**

The components of fund balance for the governmental funds at June 30, 2016 are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund balances:				
Nonspendable for:				
Prepaid expenses	\$ 2500	\$	\$	\$ 2,500
Restricted for:				
Salaries, certified personnel		267,069	36,895	303,964
Committed to:				
Construction contracts			71,657	71,657
Assigned for:				
Compensated absences	317,929			317,929
Unassigned	<u>11,971,457</u>			<u>11,971,457</u>
Total Fund Balance	<u>\$ 12,291,886</u>	<u>\$ 267,069</u>	<u>\$ 108,552</u>	<u>\$ 12,667,507</u>



**LEARN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**14. PRIOR PERIOD ADJUSTMENT AND RESTATEMENT**

The following restatements were recorded to the beginning net position of the governmental activities and fund balance of the governmental funds:

**Governmental Activities:**

Net position at June 30, 2015, as previously reported	\$ 54,846,447
Adjustments:	
Long-term compensated balances recorded in error	<u>412,991</u>
Net Position at July 1, 2015, as Restated	<u>\$ 55,259,438</u>

**General Fund:**

Fund balance at June 30, 2015, as previously reported	\$ 9,373,402
Adjustments:	
Eliminate balance of long-term portion of compensated absences	<u>310,872</u>
Fund Balance at July 1, 2015, as Restated	<u>\$ 9,684,274</u>

**Required Supplementary Information**

**LEARN  
REQUIRED SUPPLEMENTARY INFORMATION - LEARN OPEB PLAN  
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

<b>Actuarial Valuation Date July 1,</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
2009	\$ -	\$ 310,532	\$ 310,532	0%	\$ 5,645,385	5.5%
2012	-	617,723	617,723	0%	5,973,186	10.3%
2015	-	609,519	609,519	0%	N/A	N/A

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended June 30,</b>	<b>Annual Required Contribution</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
2011	\$ 81,785	\$ 4,223	5.16%
2012	87,082	6,387	7.33%
2013	127,189	5,714	4.49%
2014	135,448	7,763	5.73%
2015	144,228	11,492	7.97%
2016	186,068	13,806	7.42%

**Notes to Schedule**

Changes of benefit terms	None
Changes of assumptions	None
Actuarial cost method	Entry age normal cost
Amortization method	Level Dollar, Closed
Remaining amortization period	24.59
Investment rate of return	4%
2015 medical trend rate	9%
Ultimate medical trend rate	5%

**LEARN  
SCHEDULE OF LEARN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHERS RETIREMENT PLAN  
LAST TWO FISCAL YEARS**

	<u>2015</u>	<u>2016</u>
LEARN's proportion of the net pension liability	0.00%	0.00%
LEARN's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with LEARN	<u>34,435,208</u>	<u>37,255,461</u>
Total	<u>\$ 34,435,208</u>	<u>\$ 37,255,461</u>
LEARN's covered-employee payroll	\$ N/A	\$ N/A
LEARN's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	0%
Plan fiduciary net position as a percentage of the total pension liability	61.51%	59.50%

**Note:**

1. Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**Notes to Schedule**

Changes in benefit terms	None
Changes of assumptions	During 2011, rates of withdrawal, retirement and assumed rates of salary increases were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2010.
Actuarial cost method	Entry age
Amortization method	Level percent of salary, closed
Remaining amortization period	22.4 years
Asset valuation method	4-year smoothed market
Inflation	3%
Salary increases	3.75%-7.00%, average, including inflation
Investment rate of return	8.5%, net of pension plan investment expense, including inflation

**Supplemental and Combining  
Fund Statements and Schedules**

## **Nonmajor Governmental Funds**

## **Nonmajor Governmental Funds**

### ***Special Revenue Funds***

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

**LEARN Project Special Revenue:** Accounts for all grants applicable to non-for-profit entities only.

**School Lunch Fund:** Accounts for revenue and expenditures of the food service operations for LEARN schools.

### ***Capital Project Funds***

Capital project funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes

**Capital Projects Fund:** Accounts for revenue and expenditures of the capital projects at LEARN schools.

**LEARN  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<b>Special Revenue Funds</b>			<b>Total Nonmajor Funds</b>
	<b>LEARN Project Special Revenue Fund</b>	<b>School Lunch Fund</b>	<b>Capital Projects Fund</b>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 222,912	\$ 531,375	\$ 34,437	\$ 788,724
Intergovernmental receivables		143,512	505,337	648,849
Participation and program fees receivable		3,156		3,156
Due from other funds		1,009,588		1,009,588
<b>Total Assets</b>	<b>\$ 222,912</b>	<b>\$ 1,687,631</b>	<b>\$ 539,774</b>	<b>\$ 2,450,317</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued items	\$ 1,115	\$ 6,332	\$	\$ 7,447
Unearned revenue	67,456	10,568		78,024
Due to other funds	134,142	1,654,035	468,117	2,256,294
<b>Total liabilities</b>	<b>202,713</b>	<b>1,670,935</b>	<b>468,117</b>	<b>2,341,765</b>
<b>Fund Balances:</b>				
Restricted	20,199	16,696		36,895
Committed			71,657	71,657
<b>Total fund balances</b>	<b>20,199</b>	<b>16,696</b>	<b>71,657</b>	<b>108,552</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 222,912</b>	<b>\$ 1,687,631</b>	<b>\$ 539,774</b>	<b>\$ 2,450,317</b>



## LEARN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue Funds			Total Nonmajor Funds
	LEARN Project Special Revenue Fund	School Lunch Fund	Capital Projects Fund	
Revenues:				
Participation and program fees	\$	\$ 275,702	\$	\$ 275,702
Intergovernmental fees		698,773	109,275	808,048
Other grants, contributions and contracts	30,385			30,385
Interest income	476		53	529
Total revenues	<u>30,861</u>	<u>974,475</u>	<u>109,328</u>	<u>1,114,664</u>
Expenditures:				
Current:				
Salaries, noncertified personnel	2,633	10,867		13,500
Employee benefits	1,373	1,265		2,638
Purchased professional services	2,830	247,391	17,762	267,983
Administrative / management	4,534			4,534
Transportation / travel	485			485
Other purchased services	7,876	312,741		320,617
Phone, postage and printing	2,152	958		3,110
Books and instructional / office supplies	1,463	4,758		6,221
Food for programs	1,197	390,900		392,097
Capital outlay	5,843		91,512	97,355
Total expenditures	<u>30,386</u>	<u>968,880</u>	<u>109,274</u>	<u>1,108,540</u>
Excess (Deficiency) of Revenues over Expenditures	475	5,595	54	6,124
Other Financing Sources (Uses):				
Transfers in	-	34,477	-	34,477
Net Change in Fund Balances	475	40,072	54	40,601
Fund Balances at Beginning of Year	<u>19,724</u>	<u>(23,376)</u>	<u>71,603</u>	<u>67,951</u>
Fund Balances at End of Year	\$ <u>20,199</u>	\$ <u>16,696</u>	\$ <u>71,657</u>	\$ <u>108,552</u>

**Fiduciary Funds**

## **Fiduciary Funds**

Fiduciary funds are used to account for assets held in a trustee capacity for others, and include and Agency Funds.

### ***Agency Funds***

Agency funds are custodial in nature (assets equal liabilities). LEARN's agency funds are used to report the activity of the Eastern CT Health and Medical Cooperative and the student activity funds.

**LEARN  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
<b>RMMMS Programs Fund</b>				
Assets:				
Cash and cash equivalents	\$ 20,588	\$ 44,425	\$ 53,713	\$ 11,300
Liabilities:				
Fiduciary deposits	\$ 20,588	\$ 44,425	\$ 53,713	\$ 11,300
<b>RMMS School Fund</b>				
Assets:				
Cash and cash equivalents	\$ 18,632	\$ 121,527	\$ 96,659	\$ 43,500
Liabilities:				
Fiduciary deposits	\$ 18,632	\$ 121,527	\$ 96,659	\$ 43,500
<b>DLAA Activity Fund</b>				
Assets:				
Cash and cash equivalents	\$ 1,298	\$ 5,444	\$ 5,758	\$ 984
Liabilities:				
Fiduciary deposits	\$ 1,298	\$ 5,444	\$ 5,758	\$ 984
<b>Friendship School Activity Fund</b>				
Assets:				
Cash and cash equivalents	\$ 9,421	\$ 9,248	\$ 7,433	\$ 11,236
Liabilities:				
Fiduciary deposits	\$ 9,421	\$ 9,248	\$ 7,433	\$ 11,236
<b>Marine Science Magnet HS Fund</b>				
Assets:				
Cash and cash equivalents	\$ 54,254	\$ 92,422	\$ 83,381	\$ 63,295
Liabilities:				
Fiduciary deposits	\$ 54,254	\$ 92,422	\$ 83,381	\$ 63,295
<b>Three River Middle College Magnet School</b>				
Assets:				
Cash and cash equivalents	\$ 4,200	\$ 9,065	\$ 10,634	\$ 2,631
Liabilities:				
Fiduciary deposits	\$ 4,200	\$ 9,065	\$ 10,634	\$ 2,631

**LEARN**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
<b>Eastern CT Health and Medical Cooperative</b>				
Assets:				
Cash and cash equivalents	\$ 935,227	\$ 16,827,062	\$ 16,355,544	\$ 1,406,745
Accounts receivable		296,437		296,437
Total Assets	<u>\$ 935,227</u>	<u>\$ 17,123,499</u>	<u>\$ 16,355,544</u>	<u>\$ 1,703,182</u>
Liabilities:				
Accounts payable	\$ 119,345		\$ 10,099	\$ 109,246
Due to other funds	26,791	263,079		289,870
Fiduciary deposits	789,091	16,685,644	16,170,669	1,304,066
Total Liabilities	<u>\$ 935,227</u>	<u>\$ 16,948,723</u>	<u>\$ 16,180,768</u>	<u>\$ 1,703,182</u>
<b>Total</b>				
Assets:				
Cash and cash equivalents	\$ 1,043,620	\$ 17,109,193	\$ 16,613,122	\$ 1,539,691
Accounts receivable		296,437		296,437
Total Assets	<u>\$ 1,043,620</u>	<u>\$ 17,405,630</u>	<u>\$ 16,613,122</u>	<u>\$ 1,836,128</u>
Liabilities:				
Accounts payable	\$ 119,345		\$ 10,099	\$ 109,246
Due to other funds	26,791	263,079		289,870
Fiduciary deposits	897,484	16,967,775	16,428,247	1,437,012
Total Liabilities	<u>\$ 1,043,620</u>	<u>\$ 17,230,854</u>	<u>\$ 16,438,346</u>	<u>\$ 1,836,128</u>

**Other Schedules**

**LEARN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

<b>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>United States Department of Education</b>				
<i>Passed Through the State of Connecticut Office of Early Childhood:</i>				
Special Education Cluster (IDEA):				
Special Education Grants to States	84.027	12060-OEC64855-26227		\$ <u>23,199</u>
<i>Passed Through the State of Connecticut Department of Education:</i>				
Title I Grants to Local Educational Agencies	84.010	12060-SDE64370-20679-2016	\$ 312,508	
Title I Grants to Local Educational Agencies	84.010	12060-SDE64370-20679-2015	<u>5,910</u>	318,418
Career and Technical Education -- Basic Grants to States	84.048	12060-SDE64370-20742-2016	\$ 60,057	86,468
Education for Homeless Children and Youth	84.196	12060-SDE64370-20770		15,000
Improving Teacher Quality State Grants	84.367	12060-SDE64370-20858-2016		10,280
English Language Acquisition State Grants	84.365	12060-SDE64370-20868-2016	23,778	28,356
English Language Acquisition State Grants	84.365	12060-SDE64370-20868-2015	46,050	<u>98,604</u>
				126,960
<i>Direct:</i>				
Magnet School Assistance	84.165A		<u>2,294,421</u>	<u>4,358,657</u>
Total United States Department of Education			<u>2,424,306</u>	<u>4,938,982</u>
<b>United States Department of Agriculture</b>				
<i>Passed Through the State of Connecticut Department of Education:</i>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	12060-SDE64370-20508		159,563
National School Lunch Program	10.555	12060-SDE64370-20560		<u>496,339</u>
				<u>655,902</u>
Total United States Department of Agriculture				<u>655,902</u>
<b>Total Federal Awards</b>			\$ <u>2,424,306</u>	\$ <u>5,594,884</u>

The accompanying notes are an integral part of this schedule

**LEARN**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of LEARN under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of LEARN, it is not intended to, and does not, present the financial position, changes in fund balance, changes in net position or cash flows of LEARN.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**3. INDIRECT COST RECOVERY**

LEARN did not recover its indirect costs using the 10% de minimis indirect cost rate provided under Section 200.414 of the Uniform Guidance.



**LEARN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' 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 auditors' report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? \_\_\_\_\_ yes   X   no

Major programs:

CFDA #	Name of Federal Program or Cluster
84.165A	Magnet Schools Assistance

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   yes \_\_\_\_\_ no

**II. FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.



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## **Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance**

To the Members of the 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 Compliance Supplement* that could have a direct and material effect on LEARN's major federal program for the year ended June 30, 2016. LEARN's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for LEARN's major federal program 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 the 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 the major federal program for the year ended June 30, 2016.

## 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
November 11, 2016

**LEARN**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**FOR THE YEAR ENDED JUNE 30, 2016**

State Grantor/Pass-Through Grantor/ Program Title	State Grant Program Core-CT Number	Expenditures
<b>Department of Emergency Services and Public Protection</b>		
School Security Competitive Grant Program	12052-DPS32161-43546	\$ <u>8,312</u>
<b>Office of Early Childhood</b>		
Community Plans For Early Childhood	11000-OEC64845-12495	37,688
School Readiness Quality Enhancement	11000-OEC64845-17097	17,226
School Readiness and Child Care in Priority School Districts	11000-OEC64845-17101	1,491,510
School Readiness	11000-OEC64850-16158	51,449
Birth to Three Program	11000-OEC64855-12192	\$ 694,740
Birth to Three Program	12060-OEC64855-90667	<u>233,451</u>
		<u>928,191</u>
Total Office of Early Childhood		<u>2,526,064</u>
<b>Department of Education</b>		
Common Core	11000-SDE64220-12566	134,260
Bilingual Education	11000-SDE64230-17042	150,000
Primary Mental Health	11000-SDE64370-12198	16,009
Regional Education Services	11000-SDE64370-16062	98,308
Family Resource Centers	11000-SDE64370-16110	108,518
Child Nutrition State Matching Grant	11000-SDE64370-16211	7,057
Healthy Foods Initiative	11000-SDE64370-16212	20,408
Bilingual Education	11000-SDE64370-17042	6,361
Interdistrict Cooperative Grant	11000-SDE64370-17045	1,252,932
School Breakfast Program	11000-SDE64370-17046	15,407
Magnet Schools	11000-SDE64370-17057	13,093,461
High Quality Schools & Common Core Implementation Bonds	12052-SDE64370-43538	<u>49,940</u>
Total Department of Education		<u>14,952,661</u>
<b>Total State Financial Assistance</b>		<u>\$ <u>17,487,037</u></u>

The accompanying notes are an integral part of this schedule

**LEARN**  
**NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state grant activity of LEARN under programs of the State of Connecticut for the year ended June 30, 2016. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. Because the Schedule presents only a selected portion of the operations of LEARN, it is not intended to, and does not, present the financial position, changes in fund balance, changes in net position or cash flows of LEARN.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of LEARN conform to accounting principles generally accepted in the United States of America as applicable to governmental organizations. The information in the Schedule is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Expenditures reported on the Schedule are presented 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.

**LEARN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' 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 auditors' 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:

State Grantor and Program	State Core-CT Number	Expenditures
Department of Education: Magnet Schools	11000-SDE64370-17057	\$ 13,093,461
Office of Early Childhood: Birth to Three Program	11000-OEC64855-12192	694,740
Birth to Three Program	12060-OEC64855-90667	233,451
Dollar threshold used to distinguish between type A and type B programs:		\$ 200,000

**II. FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS**

No matters were reported.



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## **Independent Auditors' Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance Required by the State Single Audit Act**

To the Members of the 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, 2016. LEARN's major state programs are identified in the summary of auditors' 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.

#### ***Auditors' 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, 2016.

## 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 an 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.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
November 11, 2016





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**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Members of the 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, 2016, and the related notes to the financial statements, which collectively comprise LEARN's basic financial statements, and have issued our report thereon dated November 11, 2016.

**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 result of that testing, and not to provide an opinion on the effectiveness of LEARN's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LEARN's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
November 11, 2016