

**MASSACHUSETTS EDUCATION AND CAREER
OPPORTUNITIES, INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

AND

INDEPENDENT AUDITOR'S REPORT

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Massachusetts Education and Career Opportunities, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Massachusetts Education and Career Opportunities, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Education and Career Opportunities, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bollus Lynch, LLP

Worcester, Massachusetts
November 2, 2017

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 390,858	\$ 481,780
Federal grants receivable	1,055,129	848,693
Accounts receivable	8,501	7,768
Prepaid expenses	25,957	31,132
Investments	368,240	322,648
Annuity contract deposits	<u>263,757</u>	<u>258,585</u>
Total current assets	2,112,442	1,950,606
Property and equipment, net	<u>79,943</u>	<u>89,130</u>
Total assets	<u>\$ 2,192,385</u>	<u>\$ 2,039,736</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 353,836	\$ 392,685
Accrued and other liabilities	84,957	77,457
Grant funds received in advance	<u>869,634</u>	<u>666,745</u>
Total current liabilities	<u>1,308,427</u>	<u>1,136,887</u>
Net assets		
Unrestricted	869,910	863,988
Temporarily restricted	<u>14,048</u>	<u>38,861</u>
Total net assets	<u>883,958</u>	<u>902,849</u>
Total liabilities and net assets	<u>\$ 2,192,385</u>	<u>\$ 2,039,736</u>

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

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Changes in unrestricted net assets		
Revenue and other support		
Federal grants	\$ 3,377,499	\$ 3,925,078
Grants and contracts - other	48,004	58,157
Interest income	5,654	5,744
Sponsorships and contributions	32,422	10,519
Other	63,335	63,281
Net investment return	30,582	24,640
Net assets released from restrictions		
Satisfaction of purpose restrictions	<u>130,325</u>	<u>145,781</u>
Total	<u>3,687,821</u>	<u>4,233,200</u>
Expenses		
Educational access programs	3,469,178	3,998,127
General and administrative	<u>212,721</u>	<u>208,022</u>
Total	<u>3,681,899</u>	<u>4,206,149</u>
Change in unrestricted net assets	<u>5,922</u>	<u>27,051</u>
Changes in temporarily restricted net assets		
Contributions	105,512	174,875
Net assets released from restrictions		
Satisfaction of purpose restrictions	<u>(130,325)</u>	<u>(145,781)</u>
Change in temporarily restricted net assets	<u>(24,813)</u>	<u>29,094</u>
Change in net assets	(18,891)	56,145
Net assets, beginning of year	<u>902,849</u>	<u>846,704</u>
Net assets, end of year	<u>\$ 883,958</u>	<u>\$ 902,849</u>

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

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Educational Access					General & Administrative	Total
	Educational Opportunity Center	Talent Search	Gear Up	Other	Total		
Salaries, wages and benefits	\$ 298,342	\$ 234,502	\$ 428,063	\$ 114,792	\$ 1,075,699	\$ 65,009	\$ 1,140,708
Payments to sub-grantees	726,980	108,742	1,158,986	-	1,994,708	-	1,994,708
Operations	66,497	32,525	96,111	46,765	241,898	88,387	330,285
Professional services	299	299	148,334	400	149,332	39,441	188,773
Insurance expense	1,804	1,434	3,390	913	7,541	4,269	11,810
Depreciation expense	-	-	-	-	-	15,393	15,393
Other expenses	-	-	-	-	-	222	222
Total expenses	1,093,922	377,502	1,834,884	162,870	3,469,178	212,721	3,681,899
Indirect cost allocation							
Federal grants	26,400	10,351	34,437	-	71,188	(71,188)	-
	<u>\$ 1,120,322</u>	<u>\$ 387,853</u>	<u>\$ 1,869,321</u>	<u>\$ 162,870</u>	<u>\$ 3,540,366</u>	<u>\$ 141,533</u>	<u>\$ 3,681,899</u>

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

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Educational Access					General & Administrative	Total
	Educational Opportunity Center	Talent Search	Gear Up	Other	Total		
Salaries, wages and benefits	\$ 278,530	\$ 144,720	\$ 471,174	\$ 215,442	\$ 1,109,866	\$ 63,896	\$ 1,173,762
Payments to sub-grantees	621,780	120,965	1,304,233	87,895	2,134,873	-	2,134,873
Operations	77,093	31,303	339,485	66,499	514,380	90,910	605,290
Professional services	5,306	3,080	217,897	2,787	229,070	22,651	251,721
Insurance expense	1,865	902	5,623	1,548	9,938	4,518	14,456
Depreciation expense	-	-	-	-	-	25,682	25,682
Other expenses	-	-	-	-	-	365	365
Total expenses	984,574	300,970	2,338,412	374,171	3,998,127	208,022	4,206,149
Indirect cost allocation							
Federal grants	34,819	10,828	62,652	6,589	114,888	(114,888)	-
	<u>\$ 1,019,393</u>	<u>\$ 311,798</u>	<u>\$ 2,401,064</u>	<u>\$ 380,760</u>	<u>\$ 4,113,015</u>	<u>\$ 93,134</u>	<u>\$ 4,206,149</u>

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

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (18,891)	\$ 56,145
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,393	25,682
Net unrealized investment gains	(19,317)	(11,155)
(Increase) decrease in operating assets:		
Federal grants receivable	(206,436)	(177,247)
Accounts receivable	(733)	3,708
Prepaid expenses	5,175	(4,287)
Increase (decrease) in operating liabilities:		
Accounts payable	(38,849)	94,342
Accrued and other liabilities	7,500	13,885
Grant funds received in advance	<u>202,889</u>	<u>80,733</u>
Net cash provided by (used in) operating activities	<u>(53,269)</u>	<u>81,806</u>
Cash flows from investing activities:		
Purchases of investments	(26,275)	(73,485)
Expenditures for property and equipment	(6,206)	-
Annuity contract deposits	<u>(5,172)</u>	<u>(5,084)</u>
Net cash used in investing activities	<u>(37,653)</u>	<u>(78,569)</u>
Net increase (decrease) in cash	(90,922)	3,237
Cash and cash equivalents, beginning of year	<u>481,780</u>	<u>478,543</u>
Cash and cash equivalents, end of year	<u>\$ 390,858</u>	<u>\$ 481,780</u>

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

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Massachusetts Education and Career Opportunities, Inc. ("MassEdCO") provides services for continuing educational opportunities across Massachusetts.

Method of accounting

The financial statements of MassEdCO have been prepared on the accrual basis of accounting. Accordingly, assets are recorded when MassEdCO obtains the rights of ownership or is entitled to claims for receipt and liabilities are recorded when the obligation is incurred.

Accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

MassEdCO has evaluated the financial statement impact of subsequent events occurring through November 2, 2017, the date that the financial statements were available to be issued.

Financial statement presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of MassEdCO and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of MassEdCO and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by MassEdCO. Generally, the donors of these assets permit MassEdCO to use all or part of the income earned on any related investments for general or specific purposes.

Cash and cash equivalents

For purposes of these financial statements, MassEdCO considers all short-term investments with original maturities of three months or less to be cash equivalents.

MassEdCO maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. MassEdCO has not experienced any losses in such accounts. MassEdCO believes it is not exposed to any significant credit risk on cash.

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for doubtful accounts

Management determines the allowance for doubtful accounts by regularly evaluating individual receivables and considering the financial condition, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There was no allowance at June 30, 2017 and 2016.

Investments

Investments in mutual funds and equity securities with readily determinable fair values and all debt securities are reported at fair value. Investment return, including income, gains and losses, is considered unrestricted unless its use is temporarily or permanently restricted by law or explicit donor stipulations.

MassEdCO transferred \$15,000 to the Greater Worcester Community Foundation (“GWCF”) to establish a managed investment fund. MassEdCO has reserved the right to request a full distribution of the funds. The amounts transferred are considered unrestricted. The investment return on this fund is recorded as an increase in unrestricted net assets.

Property and equipment

Property and equipment are recorded at cost and depreciated using the straight-line method. Acquisitions greater than \$5,000 are capitalized.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their estimated fair value on the date of the gift. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction. Restrictions on contributions related to the acquisition of long-lived assets are considered satisfied at the time the asset is acquired.

Allocation of expenses

Direct program expenses are charged to the specific program. Overhead expenditures are allocated to the various programs based upon management's estimate of the percentage of general and administrative costs attributable to each program. Indirect expenses are charged to the programs funded by government grants based upon contract terms.

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - PROPERTY AND EQUIPMENT

Property and equipment, together with estimated useful lives, consists of the following:

	<u>Estimated Useful Lives</u>	<u>2017</u>	<u>2016</u>
Building	14 years	\$ 221,548	\$ 221,548
Building improvements	3 - 14 years	131,419	131,419
Computer and office equipment	3 - 7 years	<u>57,250</u>	<u>51,044</u>
		410,217	404,011
Less: Accumulated depreciation		<u>330,274</u>	<u>314,881</u>
		<u>\$ 79,943</u>	<u>\$ 89,130</u>

Depreciation expense for property and equipment was \$15,393 and \$25,682 in 2017 and 2016, respectively.

3 - ANNUITY CONTRACT DEPOSITS

MassEdCO entered into an annuity contract with MassMutual Financial Group, a AAA rated insurance company, in August 2009. MassEdCO made an initial contract deposit of \$220,754. Per the terms of the contract, MassEdCO will earn a guaranteed minimum interest rate of 2% for the first 10 years and 3% thereafter. As of August 2014, funds can be withdrawn at any point by MassEdCO. The agreement is carried at contract value in the financial statements.

4 - INVESTMENTS

Investments are comprised of the following:

	<u>2017</u>	<u>2016</u>
Mutual funds:		
Equity based	\$ 123,080	\$ 103,870
Fixed income	229,803	218,778
Managed investments	<u>15,357</u>	<u>-</u>
	<u>\$ 368,240</u>	<u>\$ 322,648</u>

The following schedule summarizes the investment return in the statement of activities:

	<u>2017</u>	<u>2016</u>
Investment income	\$ 11,265	\$ 13,485
Net unrealized investment gains	<u>19,317</u>	<u>11,155</u>
	<u>\$ 30,582</u>	<u>\$ 24,640</u>

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - GRANTS

Federal

MassEdCO received funding of three grants from the Department of Education for \$3,215,284 in 2017. The grants are subject to certain spending restrictions and are to be applied over annual fiscal periods beginning in September of each year. Total funds expended with regard to these grants were \$3,377,499 in 2017, including unexpended funds of \$1,157,850 as of June 30, 2016. The unexpended balance of \$995,635 represents funds available for periods after fiscal year ended June 30, 2017.

MassEdCO is supported primarily through federal grants and programs. Approximately 92% and 93% of MassEdCO's support came from federal grants in 2017 and 2016, respectively. A significant reduction in the level of any of this support and revenue, if this were to occur, may have an adverse effect on MassEdCO's programs and services.

Other

Other grants and contracts totaling \$48,004 were received from private foundations and state agencies for various educational purposes in 2017. The grants are subject to spending restrictions. Total funds expended with regard to these grants were \$48,004 in 2017. There is no unexpended balance remaining for periods after fiscal year ended June 30, 2017.

6 - NOTE PAYABLE

MassEdCO has a \$300,000 line of credit with a bank. The line of credit is unsecured. Interest is charged at the prime rate (4.25% as of June 30, 2017). There were no amounts outstanding on this line of credit as of June 30, 2017 and 2016. MassEdCO has agreed to various affirmative and financial covenants.

7 - NON-CASH DONATIONS

During fiscal 2007, MassEdCO received a non-cash donation of an office condominium. Presently, MassEdCO is not able to estimate the extent of the marketing period or the ultimate disposition price of this asset. Due to this situation, combined with the existence of condominium fees and other executory costs being incurred during the marketing period, MassEdCO believes it is not currently able to estimate the fair value of this donated property. As such, the financial statements do not include any contribution revenue associated with this donation. MassEdCO is currently leasing certain floors of the condominium on a tenant-at-will basis.

8 - PENSION PLAN

MassEdCO has a defined contribution plan for certain employees. Contributions to the plan are based on a percentage of payroll. Contributions were \$52,043 and \$55,177 in 2017 and 2016, respectively.

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - TAX-EXEMPT STATUS

MassEdCO qualifies as a tax-exempt, nonprofit Organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is required.

Management annually reviews for uncertain tax positions along with any related interest and penalties and believes that MassEdCO has no uncertain tax positions that would have a material adverse effect, individually or in the aggregate, upon MassEdCO's statements of financial position, or the related statements of activities or cash flows.

MassEdCO files income tax returns in the U.S. federal jurisdiction. MassEdCO is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2014.

10 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Restricted for special purposes		
CSI Worcester Program	\$ 14,048	\$ 12,032
On Our Way Program	-	20,829
Property and equipment	-	6,000
	<u>\$ 14,048</u>	<u>\$ 38,861</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or use specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Purpose of restriction accomplished		
CSI Worcester Program	\$ 62,284	\$ 54,361
On Our Way Program	62,041	85,797
Financial Literacy Summit	-	5,623
Property and equipment	6,000	-
	<u>\$ 130,325</u>	<u>\$ 145,781</u>

11 - FAIR VALUE MEASUREMENTS

MassEdCO follows the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820) which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

11 - FAIR VALUE MEASUREMENTS (Continued)

The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Managed investments: MassEdCO estimates the fair value of its managed investments based on the value of original deposits plus allocated income as calculated and reported by GWCF. MassEdCO has evaluated the valuation policies of GWCF and the reported value of its holdings as of the balance sheet date and believes that the reported value is reasonable and reflects the value at which MassEdCO can redeem its holdings. Classification within the fair value hierarchy is based on the existence of restrictions on MassEdCO's ability to access its holdings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although MassEdCO believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

MASSACHUSETTS EDUCATION AND CAREER OPPORTUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

11 - FAIR VALUE MEASUREMENTS (Continued)

MassEdCO's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy as of June 30, 2017 and 2016 as follows:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds	\$ 352,883	\$ -	\$ -	\$ 352,883
Managed investments	-	-	15,357	15,357
Total	<u>\$ 352,883</u>	<u>\$ -</u>	<u>\$ 15,357</u>	<u>\$ 368,240</u>
	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds	\$ 322,648	\$ -	\$ -	\$ 322,648
Total	<u>\$ 322,648</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 322,648</u>

There are no liabilities measured at fair value on a recurring basis.

The following is a reconciliation of level 3 assets:

Beginning balance	\$ -
Purchases	15,000
Net unrealized investment gain	<u>357</u>
Ending balance	<u>\$ 15,357</u>