Valley Collaborative

Financial Statements

For the Year Ended June 30, 2018

Valley Collaborative
Contents
For the Year Ended June 30, 2018

FRITZ DEGUGLIELMO LLC
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Valley Collaborative
Billerica, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Collaborative, a collaborative organized under the Laws of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Valley Collaborative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Collaborative, as of June 30, 2018, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, Schedule of Funding Progress – Other Postemployment Healthcare Benefits and pension schedules on pages 3-6 and 29-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, on our consideration of Valley Collaborative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Valley Collaborative's 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 Valley Collaborative's internal control over financial reporting and compliance.

Fritz DeGuglielmo LLC

Certified Public Accountants

Newburyport, Massachusetts
October 25, 2018

Our discussion and analysis of Valley Collaborative's ("The Collaborative") financial performance provides an overview of the Collaborative's financial activities for the fiscal year ended June 30, 2018 with comparative information from the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the financial statements that begin on page 7.

Overview of Financial Statements

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

Government-wide Statements:

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

- The **Statement of Net Position** presents information on all of the Collaborative's assets and liabilities with the difference between the two reported as net position. It is one way of measuring the Collaborative's financial health or position.

- The **Statement of Activities** presents information showing how the Collaborative's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

Fund Financial Statements:

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

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

- **Fiduciary fund –** 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 the Collaborative's own programs.

Notes to the Financial Statements:

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the information provided in the Collaborative's financial statements.

Valley Collaborative
Management's Discussion and Analysis
(unaudited)
June 30, 2018

Required Supplementary Information:

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

Government-Wide Financial Highlights

Collaborative's Net Position:

ASSETS

	2018	2017	2016
Current Assets	$ 8,697,091	$ 9,108,104	$ 6,849,842
Property & Equipment, net	7,452,044	7,662,561	7,728,024
	$16,149,135	$16,770,665	$14,577,866

LIABILITIES AND NET POSITION

	2018	2017	2016
Liabilities			
Current Liabilities	$ 3,134,663	$ 3,200,904	$ 1,257,449
Long Term Liabilities	491,676	-	-
Total Liabilities	$ 3,626,339	$ 3,200,904	$ 1,257,449
Net Position			
Unrestricted	$ 3,550,485	$ 4,378,081	$ 4,270,524
Restricted – grants and contributions	20,267	29,119	21,869
Restricted – renovation project/capital reserve	1,500,000	1,500,000	1,300,000
Invested in capital assets, net of related debt	7,452,044	7,662,561	7,728,024
	$12,522,796	$13,569,761	$13,320,417

During the fiscal year ended June 30, 2018, the Collaborative's overall net position decreased by approximately $1,047,000. The Collaborative realized an increase in net position from operations, including depreciation on capital assets and other postemployment benefits expense, of approximately $1,155,000, net of credits to member districts of $2,201,859.

During the fiscal year ended June 30, 2017, the Collaborative's overall net position increased by approximately $250,000, primarily due to increases in program revenue in excess of increases in operating expenditures. The increase in net position from operations, before credits to member districts, was approximately $2,250,000. The increase in unrestricted net position of approximately $107,000 was primarily due to increases in program participants causing significant increases in program revenue, net of $2,000,000 of member credits and a $500,000 transfer to the Collaborative's capital reserve fund.

SUMMARY OF ACTIVITIES

	2018	2017	2016
Revenues/Gains*	$19,892,921	$18,865,126	$17,226,154
Program Expenses/Losses*	16,303,259	14,590,439	13,571,760
Administrative Expenses/Losses*	1,943,092	2,025,343	1,954,416
Total Expense*	18,246,351	16,615,782	15,526,176
Change in net position, before increase in net retirement health benefit obligation	1,646,570	2,249,344	1,699,978
Increase in net retirement health benefit obligation	(491,676)	-	-
Change in net position	$ 1,154,894	$ 2,249,344	$ 1,699,978

* Excludes Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments, credits to members, and other postemployment benefits funding and expense.

Revenues

In the fiscal year ended June 30, 2018, revenues, excluding Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments, increased by approximately $1,028,000 (5%). In the fiscal year ended June 30, 2017, revenues, excluding Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments, increased by approximately $1,639,000 (10%). The changes within fiscal years are due primarily to consolidation of the Collaborative's programs and changes in student enrollment in the respective years. The Collaborative has not increased tuition rates since the fiscal year ended June 30, 2011, as other collaboratives have been required to do to fund increasing costs.

Operating Expenses

In the fiscal year ended June 30, 2018, operating expenses, excluding Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments, increased by approximately $1,631,000, or 10%, compared to the fiscal year ended June 30, 2017. Student enrollment in the fiscal year ended June 30, 2018 increased by approximately 5% and the increase in operating expenses was due primarily to increases in personnel and other program costs to cover the increased enrollment. Personnel costs increased by approximately $1,376,000 in the fiscal year ended June 30, 2018 as a result of increased staffing and cost of living adjustments. Materials, supplies and equipment costs increased by approximately $280,000 due to increases of approximately $98,000 in classroom supplies and approximately $186,000 in computer technology supplies.

In the fiscal year ended June 30, 2017, operating expenses, excluding Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments, increased by approximately $1,090,000, or 7%, compared to the fiscal year ended June 30, 2016. Student enrollment in the fiscal year ended June 30, 2017 increased by approximately 17% and the increase in operating expenses was due primarily to increases in personnel and other program costs to cover the increased enrollment. Personnel costs increased by approximately $935,000 in the fiscal year ended June 30, 2017 as a result of increased staffing and cost of living adjustments. Materials, supplies and equipment costs increased by approximately $130,000 due to increases of approximately $20,000 in therapists' supplies, approximately $15,000 in classroom supplies and approximately $93,000 in computer technology supplies.

Governmental Funds Financial Highlights

The Collaborative reported a total general fund balance of $4,042,161, all of which is unassigned. The fund balance decreased $335,920 over the prior fiscal year, primarily due to member credits issued in excess of net operating surplus. Accounts receivable decreased by $920,287, primarily due to the timing of invoicing and payments from districts. Cash increased $518,893.

Due to strong management, since the year ended June 30, 2013, the Collaborative has returned $6,575,355 from its general fund in the form of cash and tuition credits to its member districts, including $2,201,859 returned during the year ended June 30, 2018.

CAPITAL ASSETS AND OTHER OBLIGATIONS

During the fiscal year ended June 30, 2018, the Collaborative purchased and capitalized $229,701 of renovation costs to the building it purchased in the fiscal year ended June 30, 2014. The Collaborative also purchased and capitalized several vehicles, leasehold improvements and other equipment for use in its program with a total cost of $378,429.

During the fiscal year ended June 30, 2017, the Collaborative purchased and capitalized $281,984 of renovation costs to the building it purchased in the fiscal year ended June 30, 2014. The Collaborative also purchased and capitalized several vehicles, leasehold improvements and other equipment for use in its program with a total cost of $338,253.

During the fiscal year ended June 30, 2016, the Collaborative's Board of Directors approved a transfer of $1,050,000 to its capital reserve fund in accordance with state regulations. During the fiscal year ended June 30, 2017, the Collaborative's Board of Directors approved fully funding the capital reserve fund. As of June 30, 2018, the balance in the capital reserve fund was $1,500,000, which is the maximum balance as voted on by the Collaborative's member districts. This fund is considered restricted until utilized for its intended purpose.

During the fiscal year ended June 30, 2015, the Collaborative established a postemployment benefit plan, taking effect in fiscal 2016, and set aside initial funding for the plan of $1,750,000 into an irrevocable trust. During the year ended June 30, 2016, the Collaborative set aside additional funding of $1,400,000 into the trust. As of June 30, 2018, the balance in the trust was $3,779,108 and the plan is considered 88% funded.

BUDGETARY HIGHLIGHTS

The Collaborative's annual budget for the fiscal year ended June 30, 2018 was approved by its Board of Directors and then amended on March 1, 2018. For the fiscal year ended June 30, 2018, the Collaborative received operating revenues, excluding on-behalf payments by the Massachusetts Teachers' and State Employees' Retirement Systems, of approximately $19,790,000 compared to final budgeted revenues of approximately $19,337,000. The difference between actual revenues received and budgeted revenues is primarily due to higher than expected revenues from services the organization provides due to higher than expected enrollments.

The Collaborative's annual budget for the fiscal year ended June 30, 2017 was approved by its Board of Directors. For the fiscal year ended June 30, 2017, the Collaborative received operating revenues, excluding on-behalf payments by the Massachusetts Teachers' and State Employees' Retirement Systems, of approximately $18,812,000 compared to final budgeted revenues of approximately $16,892,000. The difference between actual revenues received and budgeted revenues is primarily due to higher than expected revenues from services the organization provides due to higher than expected enrollments.

CONTACTING THE COLLABORATIVE

This financial report is designed to provide readers of the financial statement an overview of the Collaborative's financial activities. If you have questions in regard to this report, contact Chris A. Scott, Ph.D., 40 Linnell Circle, Billerica, MA 01821, or at 978-528-7800.

Valley Collaborative

Statement of Net Position

June 30, 2018

Assets

Current Assets	
Cash and cash equivalents	$ 4,843,191
Accounts receivable, net	1,833,007
Prepaid expenses and other assets	21,319
Cash held for municipalities	1,999,574
Total Current Assets	8,697,091
Non-current Assets	
Furniture, equipment, vehicles and leasehold improvements, net	7,452,044
Total Non-current Assets	7,452,044
Total Assets	$ 16,149,135

Liabilities and Net Position

Current Liabilities	
Accounts payable and accrued liabilities	$ 1,135,089
Credits due to member districts	1,999,574
Total Current Liabilities	3,134,663
Non-current Liabilities	
Net OPEB liability	491,676
Total Non-current Liabilities	491,676
Total Liabilities	3,626,339
Net Position	
Unrestricted	3,550,485
Restricted - contributions and other	20,267
Restricted - capital reserve fund	1,500,000
Invested in capital assets, net of related debt	7,452,044
Total Net Position	12,522,796
Total Liabilities and Net Position	$ 16,149,135

Valley Collaborative
Statement of Activities
For the year ended June 30, 2018

Functions/ Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:				
Administration	$ 1,943,092	$ -	$ -	$ (1,943,092)
Education	15,575,161	17,314,864	2,455,893	4,195,596
Intergovernmental revenue and expense	3,366,087	-	3,366,087	-
Other postemployment benefits	491,676	-	-	(491,676)
Depreciation and amortization	728,098	-	-	(728,098)
Total Governmental Activities	$ 22,104,114	$ 17,314,864	$ 5,821,980	$ 1,032,730
General Revenue and Other:				
Interest				40,916
Other				49,340
Credits to member districts				(2,201,859)
Gain on disposal of assets				31,908
Total General Revenue and Other				(2,079,695)
Change in Net Position				(1,046,965)
Net Position, Beginning of Year				13,569,761
Net Position, End of Year				$ 12,522,796

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

Valley Collaborative
Balance Sheet
Governmental Funds
June 30, 2018

	General Fund	Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 3,322,924	$ 1,500,000	$ 20,267	$ 4,843,191
Accounts receivable, net	1,833,007	-	-	1,833,007
Prepaid expenses and other assets	21,319	-	-	21,319
Cash held for municipalities	1,999,574	-	-	1,999,574
Total Assets	$ 7,176,824	$ 1,500,000	$ 20,267	$ 8,697,091
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 1,135,089	$ -	$ -	$ 1,135,089
Credits due to member districts	1,999,574	-	-	1,999,574
Total Liabilities	3,134,663	-	-	3,134,663
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	1,500,000	20,267	1,520,267
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	4,042,161	-	-	4,042,161
Total Fund Balances	4,042,161	1,500,000	20,267	5,562,428
Total Liabilities and Fund Balances	$ 7,176,824	$ 1,500,000	$ 20,267	$ 8,697,091

Valley Collaborative

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

June 30, 2018

Total fund balances, governmental funds	$ 5,562,428
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Other postemployment benefit (OPEB) liability is not a current obligation and therefore is not reported in this fund financial statement, but is reported in the governmental activities of the Statement of Net Position.	(491,676)
Capital assets, net of related debt, used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position	7,452,044
Net position of governmental activities	$ 12,522,796

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

Valley Collaborative
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	General Fund	Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Tuition and service revenues	$ 17,314,864	$ -	$ -	$ 17,314,864
Grants and contributions	2,425,604	-	30,289	2,455,893
Intergovernmental revenue	3,366,087	-	-	3,366,087
Interest	40,916	-	-	40,916
Other	49,340	-	-	49,340
Insurance proceeds on disposal of asset	30,657	-	-	30,657
Credits to member districts	(2,201,859)	-	-	(2,201,859)
Total Revenues	21,025,609	-	30,289	21,055,898
Expenditures:				
Administration	1,903,951	-	39,141	1,943,092
Program payroll	11,432,674	-	-	11,432,674
Program fringe benefits and payroll taxes	2,081,408	-	-	2,081,408
Professional and consulting fees	11,747	-	-	11,747
Transportation and travel	129,740	-	-	129,740
Rent	393,841	-	-	393,841
Maintenance	248,889	-	-	248,889
Telephone, communications and utilities	136,646	-	-	136,646
Materials, supplies and equipment	762,083	-	-	762,083
Small business expenses	207,470	-	-	207,470
Field trips	88,590	-	-	88,590
Training programs	30,997	-	-	30,997
Other	50,965	-	-	50,965
Bad debt expense	111	-	-	111
Intergovernmental expense	3,366,087	-	-	3,366,087
Capital outlay, net of debt incurred	516,330	-	-	516,330
Total Expenditures	21,361,529	-	39,141	21,400,670
Excess of Revenues over Expenditures	(335,920)	-	(8,852)	(344,772)
Other Financing Sources:				
OPEB obligation funding	-	-	-	-
Net Change in Fund Balances	(335,920)	-	(8,852)	(344,772)
Fund Balances, Beginning of Year	4,378,081	1,500,000	29,119	5,907,200
Fund Balances, End of Year	$ 4,042,161	$ 1,500,000	$ 20,267	$ 5,562,428

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

Valley Collaborative

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

For the Year Ended June 30, 2018

Net change in fund balances of total governmental funds	$ (344,772)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital outlay purchases, net of debt incurred	516,330
Depreciation	(728,098)
Gain on disposal of assets	31,908
Insurance proceeds on disposal of asset	(30,657)

The change in accrual for other postemployment benefits reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.

Net change in other postemployment benefits (OPEB) accrual	(491,676)
Change in net position of governmental activities	$ (1,046,965)

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

Valley Collaborative

Statement of Fiduciary Net Position

Retirees' Health Insurance Trust Fund

June 30, 2018

Assets

Assets		
Investments	$	3,779,108
Total Assets	$	3,779,108

Net Position

Net Position		
Net position held in trust for retirees' health insurance	$	3,779,108
Total Net Position	$	3,779,108

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

Valley Collaborative

Statement of Changes in Fiduciary Net Position

Retirees' Health Insurance Trust Fund

For the year ended June 30, 2018

Additions:	
Contributions	$ -
Investment gain	236,892
Total Additions	236,892
Change in Net Position	236,892
Net Position – Beginning of Year	3,542,216
Net Position – End of Year	$ 3,779,108

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Collaborative

Valley Collaborative (The "Collaborative") is an educational collaborative of the school districts of Billerica, Chelmsford, Dracut, Groton-Dunstable Regional, Nashoba Valley Technical, North Middlesex Regional, Tewksbury, Tyngsborough, and Westford. The Collaborative is a public entity under the jurisdiction of its member school committees, whose appointees comprise its board of directors. The Collaborative provides high quality academic, therapeutic and vocational services to individuals referred by local school districts and social service agencies.

Basis of Presentation

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

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

Cumulative effect of change in accounting principle

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

Government-wide Statements

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

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

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

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

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

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

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

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

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

Capital reserve fund - used to account for and report financial resources that are restricted, committed, or assigned to be used for the acquisition, construction, or renovation of major capital facilities or equipment.

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

Fiduciary Funds:
Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Collaborative programs. The reporting focus is on net position and changes in net position presented in fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (retirees) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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

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

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

Cash and Cash Equivalents

The Collaborative considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Collaborative maintains its uncollateralized cash balances in two financial institutions, including an insured cash sweep account. The balance in the insured cash sweep account is fully insured by the Federal Deposit Insurance Company (FDIC). All other balances in the two financial institutions are insured by the Federal Deposit Insurance Company up to $250,000. From time to time, the Collaborative maintains bank account balances in excess of the federally insured limits. The Collaborative also maintains cash and cash equivalents at the Massachusetts Municipal Depository Trust which is collateralized by its underlying assets. At June 30, 2018, the Collaborative's uninsured cash balances totaled $6,006,632. The Collaborative monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Fair Value Measurements and Investments

The Collaborative has contributed $3,150,000 to a public employee retirement trust account with U.S Bank National Association as trustee, on behalf of its retirees' health insurance trust fund. The trustee invests the funds in Vanguard mutual funds. As of June 30, 2018, the balance in these investments consisted of the following:

	Cost	Fair Value	Unrealized Gain
Mutual Funds	$3,150,000	$3,779,108	$629,108

All investments of the Collaborative are measured at fair value, generally based on quoted market prices in accordance with level 1 of the Fair Value Hierarchy established under GASB Statement No. 72, *Fair Value Measurement and Application*.

Net increase in the fair value on investments for the year ended June 30, 2018 was $246,139. There were no realized gains or losses during the year ended June 30, 2018. Investment fees for the year ended June 30, 2018 were $9,247.

The Collaborative manages its investments in accordance with state public finance laws that require that all moneys held in the name of the Collaborative, which are not required to be kept liquid for purposes of distribution, shall be invested in such a manner as to require the payment of interest on the money at the highest possible rate reasonably available, taking account of safety, liquidity and yield. The Collaborative has directed a local investment management service to manage the funds as conservatively as possible. However, the investments are still subject to market risk of loss. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Collaborative will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Collaborative's investments are uninsured, not registered in the name of the Collaborative, and held by the counterparty's trust department or agent but not in the Collaborative's name.

Operating Revenues and Expenses

Operating revenues consist primarily of billings to member municipalities or other cities and towns for providing programs and services. The Collaborative also receives approximately 12% of its revenues under social service contracts issued by agencies of the Commonwealth of Massachusetts, excluding Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments. Operating expenses include educational costs, administrative expenses and depreciation on capital assets.

Accounts Receivable

Accounts receivable consist of all revenues earned at year end and not yet collected. Major receivable balances include tuitions and certain related charges. The Collaborative records its bad debts using the allowance method. As of June 30, 2018, there was an allowance for doubtful accounts of $13,524.

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

Credits Due to Member Districts

"Credits due to member districts" represent member district credits issued during the fiscal year but not utilized by the district during the fiscal year. The funds are to be applied against future Collaborative invoices or disbursed to the member district and are not considered an agency fund of the Collaborative. "Cash held for municipalities" represents amounts to be credited or distributed to the member municipalities.

Property and Equipment

Property and equipment are capitalized at historical cost. Depreciation is computed on the straight-line method using estimated useful lives of two to five years for websites, computer equipment, furniture, fixtures, vehicles and program equipment and five to ten years for leasehold improvements. The Collaborative has purchased and renovated a building. The building and renovations are depreciated using estimated useful lives of 40 and 20 years, respectively.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

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

Restricted - this component of net position consists of restricted net assets reduced by liabilities and deferred inflows or resources related to those assets. These assets may be restricted by constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

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

Fund Financial Statements

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

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

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

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

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

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

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

Use of Estimates
Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, and reported revenues and expenses. Actual results could vary from the estimates used.

Subsequent Events
Subsequent events have been evaluated through October 25, 2018, which is the date the financial statements were available to be issued.

NOTE B – CAPITAL ASSETS

A summary of depreciable capital assets follows:

	Buildings & Improvements	Furniture, Equipment & Software	Vehicles	Total
COST				
Balance, July 1, 2017	$6,941,325	$ 884,627	$1,293,883	$ 9,119,835
Additions	274,247	7,674	326,209	608,130
Disposals	—	—	(280,190)	(280,190)
	7,215,572	892,301	1,339,902	9,447,775
ACCUMULATED DEPRECIATION				
Balance, July 1, 2017	(972,359)	(443,443)	(718,972)	(2,134,774)
Additions	(309,956)	(154,536)	(263,606)	(728,098)
Disposals	—	—	189,641	189,641
	(1,282,315)	(597,979)	(792,937)	(2,673,231)
Net, June 30, 2018	$ 5,933,257	$ 294,322	$ 546,965	$ 6,774,544

Land in the amount of $677,500 is not being depreciated. In fiscal 2018, the Collaborative capitalized $274,247 for building improvements, $326,209 for vehicles, and $7,674 for office furniture and equipment. In fiscal 2018, the Collaborative disposed of vehicles and software. The gain on disposal of these assets was not allocated to governmental activities. It appears unallocated on the Statement of Activities. Depreciation expense of $728,098 was not allocated to governmental functions. It appears unallocated on the Statement of Activities.

NOTE C –LEASE OBLIGATIONS

The Collaborative leases various classroom and office spaces and office equipment under operating leases that expire at various times through June 2022. Classroom and office lease expense was $415,380 and equipment lease expense was $33,757 for the year ended June 30, 2018.

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

2019	$ 422,809
2020	170,073
2021	136,044
2022	140,146
	$ 869,072

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2018:

Tuition and services to districts	$1,551,316
Insurance claim	30,657
State contracts	264,558
	1,846,531
Allowance for doubtful accounts	(13,524)
	$1,833,007

The Collaborative has established an allowance for doubtful accounts in the amount of $13,524. The allowance is based on specific identification of probable losses and an estimate of additional losses based on historical experience. Account balances are charged off against the allowance when it is probable the receivable will not be recovered. For the year ended June 30, 2018, bad debt expense in the amount of $111 was recorded for uncollectible accounts.

NOTE E – MASSACHUSETTS TEACHERS' AND STATE EMPLOYEES' RETIREE SYSTEMS

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

Benefits Provided:
MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

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

MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

<u>Contributions:</u>

Member contributions for MSERS vary depending on the most recent date of membership:

<u>Hire Date % of Compensation</u>
Prior to 1975…………...5% of regular compensation
1975 - 1983…………..…7% of regular compensation
1984 to 6/30/1996……...8% of regular compensation
7/1/1996 to present…..…9% of regular compensation
1979 to present…………An additional 2% of regular compensation in excess of $30,000

Educational collaboratives contribute amounts equal to the normal cost of employees' benefits participating in MSERS at a rate established by the Public Employees' Retirement Administration Commission (PERAC), currently 5.6% of covered payroll. Legally, the collaboratives are only responsible for contributing the annual normal cost of their employees' benefits (i.e., the present value of the benefits earned by those employees in any given year) and are not legally responsible for the past service cost attributable to those employees or previously retired employees of the collaboratives. During fiscal year 2018, the Collaborative's contributions on behalf of employees totaled $303,173.

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date % of Compensation</u>
Prior to 1975…………...5% of regular compensation
1975 - 1983…………..…7% of regular compensation
1984 to 6/30/1996……...8% of regular compensation
7/1/1996 to present…..…9% of regular compensation
7/1/2001 to present……11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present…………An additional 2% of regular compensation in excess of $30,000

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

The Commonwealth is a nonemployer contributor in MTRS and is required by statute to make all actuarially determined employer contributions on behalf of the member employers participating in MTRS. Therefore, the Collaborative is considered to be in a 100% special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in under both MSERS and MTRS. Since the employers do not contribute directly to each system beyond the MSERS annual normal cost, there is no net pension liability to recognize. However, the notes to the financial statements must disclose the portion of the nonemployer contributing entities' share of the collective net pension liability that is associated with the employer. In addition, the Collaborative must recognize its portion of the collective pension expense as both a revenue and pension expense.

The nonemployer contributing entities' share of the collective net pension liability that is associated with the Collaborative was measured as of June 30, 2017 and was $10,410,850 and $19,344,064 under MSERS and MTRS, respectively. In fiscal 2018, the Collaborative recognized revenue and related expense of $1,347,091 (under GASB Statement No. 68) for its portion of the collective pension expense under MSERS. In fiscal 2018, the Collaborative recognized revenue and related expense of $2,018,996 (under GASB Statement No. 68), for its portion of the collective pension expense under MTRS. These amounts are recorded as Intergovernmental revenue and expense in the financial statements.

NOTE F – COMPENSATED ABSENCES

The Collaborative allows eligible employees to carryover unused vacation time up to 10 days per year and to accrue a maximum of 20 days total. At the end of the fiscal year, any unused vacation time in excess of the above amounts is forfeited. The Collaborative's vacation accrual for the year ended June 30, 2018 was $76,054.

NOTE G – RISK MANAGEMENT

The Collaborative is exposed to various risks of loss relating to torts, theft or damage of, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Collaborative has obtained a variety of commercial liability insurance policies that pass the risk of loss listed above to independent third parties. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Collaborative. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

The Collaborative offers eligible participants access to various health and life insurance. Payment, in the form of premiums, is generally made monthly. The payments are funded in part from the Collaborative and payroll withholdings from active employee participants or direct payments from certain other eligible participants. In general, the Collaborative pays 80% of the cost of health insurance and 100% of the cost of life insurance for those participants that qualify.

NOTE H – COMMITMENTS AND CONTINGENCIES

The Collaborative participates in state and federal contracts, which are governed by various rules and regulations of the agencies. Costs charged to the respective programs are subject to audit and adjustment by agencies; therefore, to the extent that the Collaborative has not complied with the rules and regulations governing the refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 may be impaired. In the opinion of the Collaborative, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective contracts; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

During the fiscal year 2015, the Collaborative's board members voted to enter into a line of credit agreement with a local bank. The maximum borrowing limit under the agreement is $1,500,000 and interest is charged at a fluctuating rate equal to the bank's base rate. As of June 30, 2018, the balance of the line of credit was $0.

NOTE I – POSTEMPLOYMENT HEALTHCARE PLAN

The Collaborative follows the provisions of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." The Collaborative has also established a trust that follows the provisions of GASB Statement No. 74 that is intended to set funds aside for future retiree health insurance. The trust does not issue a separate financial report and its financial activities are reported in the fiduciary financial statements

Description
At the board meeting on June 18, 2015, the Collaborative's board members implemented a postemployment health care plan and voted to create a trust fund for related retiree health benefits to take effect July 1, 2015. The trust fund is held for the benefit of a third party (retiree health insurance participants) and cannot be used to address activities or obligations of the Collaborative, therefore these funds are not incorporated into the government-wide financial statements. All funds of the trust are held at Public Agency Retirement Services and are held in mutual funds. The trust is irrevocable and is exempt from federal and state income taxes under Internal Revenue Code Section 115. The sole purpose of the trust is to provide funds to pay postemployment healthcare benefits to qualified retirees. The plan has the retirees pay for 20% of the premiums for the medical insurance. The plan currently has 258 participants, made up of 254 active employees and 4 retirees.

As a result of establishing the trust, the Collaborative's board members voted to transfer $3,150,000 to fund the trust.

Funding Policy
The Collaborative is the only party that is responsible for the funding of the OPEB Trust. Currently the trust has been adequately funded and there were no required contributions that needed to be made for the year ending June 30, 2018.

Annual OPEB Cost and Net OPEB Obligation
The following table shows the components of the Collaborative's annual OPEB costs for the fiscal year, the amount deemed to have been actually contributed to the plan, the percentage of annual OPEB cost contributed to the plan and changes in the Collaborative's net OPEB obligation to the plan as of the last actuarial valuation:

	Fiscal Year Ended June 30, 2018	
	Collaborative Employees and Retirees	**Total**
I. Total OPEB Liability	$ 4,270,784	$ 4,270,784
II. Fiduciary Net Position as of June 30, 2018	3,779,108	3,779,108
III. Net OPEB Liability (Asset) [I.-II.]	491,676	491,676
IV. Service Cost	608,129	608,129
V. Interest	299,048	299,048
VI. Difference in Experience - Amortization	-	-
VII. Change in Assumptions - Amortization	-	-
VIII. Changes in Plan Provisions	-	-
IX. Employee Contributions	-	-
X. Projected Earnings on Investments	(249,627)	(249,627)
XI. Administration Expense	8,754	8,754
XII. Other Changes in Fiduciary Net Position	-	-
XIII. Asset (Gain)/Loss Amortization	(39,533)	(39,533)
XIV. Net OPEB Expense [IV.+V.+VI.+VII.+VIII.+IX.+X.+XIII.]	$ 626,771	$ 626,771

NOTE I – POSTEMPLOYMENT HEALTHCARE PLAN - *continued*

Funded Status and Funding Progress
As of June 30, 2018, the most recent valuation date, the actual accrued liability for benefits was $4,270,784, and the actuarial value of plan assets was $3,779,108, resulting in an unfunded actuarial liability of $491,676.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the actuarially determined contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding process, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the Total OPEB Liabilities for benefits.

Effect of 1% Change in Discount Rates
If the discount rate were 1% higher than what was used in this valuation, the Total OPEB Liability would decrease to $3,624,172 or by 15.1%. If the discount rate were 1% lower than was used in this valuation, the Total OPEB Liability would increase to $5,078,754 or by 18.9%.

Effect of 1% Change in Healthcare Trend
In the event that healthcare trend rates were 1% higher than forecast and employee contributions were to increase at the forecast rates, the Total OPEB Liability would increase to $5,364,361 or by 25.6. If such healthcare trend rates were 1% less than forecast and employee contributions were to increase at the forecast rate, the Total OPEB Liability would decrease to $3,444,842 or by 19.3%.

Actuarial Methods and Assumptions

Interest: Full prefunding: 7.5% per year, net of investment expenses

Actuarial cost method: Entry Age Normal

Medical care inflation:

Year	Inflation Rate
2018	5.0%
2019 & after	4.5%

Participation: 95% of future retiree teachers and are assumed to participate in the retiree medical plan, 95% of future non-teacher retirees are expected to participate in the retiree medical plan and 100% of future retirees are expected to elect life insurance.

Marital status: 80% of male employees and 60% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

Current employees: Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average current cost. This weighted-average current cost is based on the medical plan coverage of current retirees under age 65.

At age 65, active participants are assumed to participate in the same manner as current retirees over age 65 in Medicare Supplemental plans.

Pre-age 65 retirees: Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65. Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees under age 65.

NOTE I – POSTEMPLOYMENT HEALTHCARE PLAN – ***continued***

Post-age 65 retirees: Current retirees over age 65 remain in their current medical plan until death for purposes of measuring their contributions. It is assumed that future retirees are Medicare eligible. It is furthermore assumed that all current retirees under 65 will participate in the Medex plan in the same proportion as current retirees over 65. Per capita costs were developed from the Collaborative developed monthly costs. Amounts to be received in the future for the Medicare Part D Retiree Drug Subsidy are not reflected in the valuation.

Termination benefit: 95% of current active teachers and 95% of current active non-teachers over age 50 with at least 10 years of service are expected to elect medical coverage starting at age 65.

Medical plan costs: The estimated gross per capita incurred claim costs for all retirees and beneficiaries for 2018 at ages prior to 65 and after 65 are $15,634 and $4,389, respectively. Medicare eligible retirees' per capita claims costs at age 65 is $2,633.

It is assumed that future retirees participate in the same manner as current retirees. Employee cost sharing is based on current rates. Future cost sharing is based on the weighted average of the current cost sharing of retirees and beneficiaries.

Age-based morbidity: Medical costs are adjusted to reflect expected cost increase related to age. The increase in the net costs assumed to be:

Age	Annual increase retiree
49 and below	2.6%
50-54	3.2%
55-59	3.4%
60-64	3.7%
65-69	3.2%
70-74	2.4%
75-79	1.8%
80 and over	0.0%

Mortality rates: It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2017, fully generational. Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and three years for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality table set forward two years. Generational adjusting is based on Scale MP-2017.

Retirement medical Insurance: Retirees contribute towards their coverage in the amount of 20% of stated premiums.

Spousal coverage: Current and future retirees may elect to include their spouses as part of their post-retirement benefits. There is lifetime spousal coverage for medical insurance.

Section 18 coverage: The Collaborative has elected to adopt Section 18 under Chapter 32B of the General Laws of Massachusetts, which requires that an employee or retiree must participate in the Medicare program as the primary payer once one reaches age 65 and is Medicare eligible.

NOTE I – POSTEMPLOYMENT HEALTHCARE PLAN – *continued*

Retirement Eligibility:	Age 55 with 10 years of service, or 20 years of service. For Group 1 employees hired after April 1, 2012, age 60 with 10 years of service or 20 years of service.
Ordinary disability eligibility:	10 years of service and under age 55.
Termination eligibility:	10 years of service.

NOTE J – TAX POSITION

The primary tax positions made by the Collaborative are the existence of Unrelated Business Income Tax and the Collaborative's status as an exempt organization under the Internal Revenue Code. The Collaborative currently evaluates all tax positions, and makes determinations regarding the likelihood of those positions being upheld under review. For the years presented, and as a result of adoption, the Collaborative has not recognized any tax benefits or loss contingencies for uncertain tax positions based on its evaluations. The Collaborative is not currently under examination by any taxing jurisdiction. As a Chapter 40 governmental entity, the Collaborative is exempt from filing certain non-profit filings and, accordingly, there are no returns currently open for examination.

NOTE K – COMMONWEALTH OF MASSACHUSETTS SURPLUS REVENUE RETENTION (OSD)

The excess (deficiency) of revenue received from departments of the Commonwealth of Massachusetts is the amount in accordance with the Commonwealth of Massachusetts Not-For-Profit Provider Surplus Revenue Retention Policy, pursuant to 808CMR 1.19(3) of the Pricing, Reporting, and Auditing for Social Programs, which allows a provider to retain, for future use, a portion of annual net surplus. Net surplus from the revenues and expenses with services provided to purchasing agencies, which are subject to 808CMR 1.00, may not exceed 20% of the provider's revenues derived from contracts with state departments annually. For fiscal 2016 and beyond, there is no limit on the cumulative amount of the provider's net surplus. For the year ended June 30, 2018, the Collaborative had no surplus revenue from contracts with state departments.

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

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

Name	Title	Total Compensation
Chris A. Scott, PhD	Executive Director	$196,093
Sean Glavin	Director of Finance and Operations	$112,970
Chris Cowan	Principal	$99,240
Nicole Noska	Principal	$92,150
Susan Donato	Occupational Therapist	$91,156

Executive Director:
Responsible for the proper fiscal management of Collaborative Programs. Administer and coordinate all programs and services offered by the Collaborative. Develop and propose an annual budget to the Board of Directors. Ensure Collaborative is operating within and in compliance with federal and state laws.

Director of Finance and Operations:
Responsible for managing Payroll, Human Resources, Accounts Payable and Accounts Receivable departments on a daily basis. Responsibilities include financial reporting, preparing annual financial audit, and cash management. Other responsibilities include supervising Operations Department; maintenance, custodial, safety, and Capital Projects.

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

Principal:
Responsible to ensure program curriculum is aligned with Massachusetts Curriculum Frameworks. Other responsibilities include, ensure safety and structure of program, coordination and review all IEPs, schedule and participate in IEP meetings, communicate with parents, LEAs and outside agencies, and interview student referrals.

Occupational Therapist:
Works with the students to help develop certain skills such as handwriting, fine motor skills, performance of activities of daily living, visual motor and perceptual skills and various other areas to assist with skills and functions.

Amounts expended on services for individuals aged 22 years and older
Total direct costs incurred by the Collaborative in its over 21 programs, funded in part by contracts with agencies of the Commonwealth of Massachusetts, totaled $2,453,517 for the year ended June 30, 2018, excluding Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments.

Amounts expended on administration and overhead
Administrative expenses of $1,943,092 for the year ended June 30, 2018, include all costs that cannot be directly or reasonably applied to a program of the Collaborative. Administrative expenses include salaries, related benefits and payroll taxes, associated with the Collaborative's administrative office (i.e., Executive Director, finance staff, human resources, etc.), as well as other costs associated with maintaining that office (i.e. occupancy, supplies, etc.). The Collaborative directly applies salaries, where appropriate, to its programs and allocates related employee benefits and taxes to those programs. Occupancy, supplies, maintenance and any other cost that can be directly applied, or reasonably allocated, are reported under program expense.

Accounts held by the Collaborative that may be spent at the discretion of another person or entity
The Collaborative does not hold any accounts that may be spent at the discretion of another person or entity.

Transactions between the Collaborative and any related for-profit or non-profit organization
Other than the leases described below, the Collaborative had no transactions between the Collaborative and any related for-profit or non-profit organization.

Transactions or contracts related to purchase, sale, rental or lease of real property
Transactions or contracts related to the purchase, sale, rental, or lease of real property are described in Notes B and C to the financial statements. The Collaborative leases classroom and other program space within Tyngsborough, a member district. For the year ended June 30, 2018, rent expense under this lease was $255,950.

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

Annual determination and disclosure of cumulative surplus

Cumulative Surplus Calculation - FY18							Page(s) in financial statements
(A)		Voted Cumulative Surplus as of 6/30/17			$ 4,378,081	(A)	p. 11
(B)	1	Amount of (A) used to support the FY18 Budget	(B)1	$ -			
	2	Amount of (A) returned to member districts	(B)2	$ 2,201,859			
		(B)1 + (B)2 = (B)			$ 2,201,859	(B)	p. 8
(C)		Unexpended FY18 General Funds			$ 1,865,939	(C)	p. 11
(D)		Cumulative Surplus as of 6/30/18 (A) - (B) + (C) = (D)			$ 4,042,161	(D)	
(E)		FY18 Total General Fund Expenditures*			$ 17,995,442	(E)	p. 11
(F)		Cumulative Surplus Percentage	(D) ÷ (E)		23%	(F)	
		Estimated Amount of Excess Cumulative Surplus as of 6/30/18			-		

***Excludes intergovernmental expense, includes transfers to postemployment benefits trust and Capital Reserve Fund.

Valley Collaborative

Statement of Revenues, Expenditures and Changes in Fund Balance
of the General Fund - Budget to Actual
For the year ended June 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Services	$ 15,260,680	$ 16,600,000	$ 17,061,469	$ 461,469
State contracts	2,290,000	2,290,000	2,425,604	135,604
Other	447,000	447,000	302,735	(144,265)
Interest	4,500	25,000	40,916	15,916
Insurance proceeds on disposal of asset	-	-	30,657	30,657
Intergovernmental revenue	-	-	3,366,087	3,366,087
Total revenue and other support	18,002,180	19,362,000	23,227,468	3,865,468
Expenses:				
Salaries	11,722,646	12,050,000	12,456,706	(406,706)
Employee benefits	2,210,000	2,267,070	2,276,301	(9,231)
Operating expenses	2,065,700	2,400,700	2,330,725	69,975
Leases and rentals	444,030	444,030	415,380	28,650
On-behalf retirement payment expense	-	-	3,366,087	(3,366,087)
Total expenses	16,442,376	17,161,800	20,845,199	(3,683,399)
Excess of revenues over expenses	$ 1,559,804	$ 2,200,200	$ 2,382,269	$ 182,069
Other Budget Items:				
Credits to member districts	$ -	$ -	$ 2,201,859	$ (2,201,859)
OPEB obligation funding	-	-	-	-
Capital Budget Items	425,000	780,000	516,330	263,670
	$ 425,000	$ 780,000	$ 2,718,189	$ (1,938,189)

Note: The schedule above is presented on the same basis used by the Collaborative to present its internal budget to actual comparison and account groupings are not necessarily consistent with the Statement of Revenue, Expenditures and Changes in Fund Balances presented on page 11. Also, capital budget items presented above include actual capital outlays and transfers made to the Capital Reserve Fund.

Valley Collaborative

Schedule of Funding Progress of Other Postemployment Healthcare Benefits

June 30, 2018

Actual Valuation Date	**Value of Assets (a)**	**Accrued Liability (b)**	**Unfunded AAL (UAAL) (b-a)**	**Funded Ratio (a/b)**	**Covered Payroll**	**UAAL as Percentage of Covered Payroll**
6/30/2018	$ 3,779,108	$ 4,270,784	$ 491,676	88.49%	$ 11,775,259	4.18%

See independent auditor's report.

Valley Collaborative

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

For the Year Ended June 30, 2018

		MTRS	MSERS
Collaborative's proportion of net pension liability	FY2014	0.10521%	0.02526%
	FY2015	0.07985%	0.02466%
	FY2016	0.08405%	0.07637%
	FY2017	0.08453%	0.08118%
Collaborative's proportionate share of net pension liability	FY2014	$ 16,724,835	$ 1,871,525
	FY2015	$ 16,360,313	$ 2,806,546
	FY2016	$ 18,790,793	$ 10,530,873
	FY2017	$ 19,344,064	$ 10,410,850
Collaborative's covered-employee payroll	FY2014	$ 6,277,563	$ 4,565,446
	FY2015	$ 5,347,143	$ 4,285,929
	FY2016	$ 5,527,894	$ 4,254,279
	FY2017	$ 5,762,613	$ 4,635,195
Collaborative's proportionate share of net pension liability as a percentage of its covered-employee payroll	FY2014	266.42%	40.99%
	FY2015	305.96%	65.48%
	FY2016	339.93%	247.54%
	FY2017	335.68%	224.60%
Plan fiduciary net position as a percentage of total pension liability	FY2014	61.64%	76.32%
	FY2015	55.38%	67.87%
	FY2016	52.73%	63.48%
	FY2017	54.25%	67.21%

Notes to Required Supplementary Information

MTRS is the Massachusetts Teachers' Retirement System

MSERS is the Massachusetts State Employees' Retirement System

Also, see Note E to financial statements

Measurement Date

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

Schedule Presentation

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

Valley Collaborative

Schedule of Pension Contributions

For the Year Ended June 30, 2018

	MTRS	MSERS
Fiscal 2014		
Contractually required contribution	$ -	$ 255,665
Contributions in relation to the contractually required contribution	$ -	$ 255,665
Contribution deficiency (excess)	$ -	$ -
Collaborative's covered-employee payroll	$ 6,277,563	$ 4,565,446
Contributions as a percentage of covered-employee payroll	0.00%	5.60%
Fiscal 2015		
Contractually required contribution	$ -	$ 240,012
Contributions in relation to the contractually required contribution	$ -	$ 240,012
Contribution deficiency (excess)	$ -	$ -
Collaborative's covered-employee payroll	$ 5,347,143	$ 4,285,929
Contributions as a percentage of covered-employee payroll	0.00%	5.60%
Fiscal 2016		
Contractually required contribution	$ -	$ 238,217
Contributions in relation to the contractually required contribution	$ -	$ 238,217
Contribution deficiency (excess)	$ -	$ -
Collaborative's covered-employee payroll	$ 5,527,894	$ 4,254,279
Contributions as a percentage of covered-employee payroll	0.00%	5.60%
Fiscal 2017		
Contractually required contribution	$ -	$ 259,571
Contributions in relation to the contractually required contribution	$ -	$ 259,571
Contribution deficiency (excess)	$ -	$ -
Collaborative's covered-employee payroll	$ 5,762,613	$ 4,635,195
Contributions as a percentage of covered-employee payroll	0.00%	5.60%

Notes to Required Supplementary Information

MTRS is the Massachusetts Teachers' Retirement System

MSERS is the Massachusetts State Employees' Retirement System

Also, see Note E to financial statements

Measurement Date

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

Schedule Presentation

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

Contributions

The Collaborative is required to pay an annual appropriation as established by the Public Employees' Retirement

FRITZ DEGUGLIELMO LLC
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Valley Collaborative
Billerica, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Collaborative (a collaborative organized under the Laws of the Commonwealth of Massachusetts), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Valley Collaborative's basic financial statements, and have issued our report thereon dated October 25, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Collaborative'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*.

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Purpose of this Report

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

Fritz DeGuglielmo LLC

Certified Public Accountants

Newburyport, Massachusetts
October 25, 2018

Central Administration

Valley
COLLABORATIVE

*25 Linnell Circle, Billerica MA 01821 * Tel: (978) 528-7800 * http://www.valleycollaborative.org*

ACCEPTANCE OF THE BOARD OF DIRECTORS

We, the Board of Directors of the Valley Collaborative, have voted to accept the representations of management and the expression of the opinions made by Fritz DeGuglielmo LLC as embodied in the financial statements, supplemental schedules and independent auditor's reports for the year ended June 30, 2018.

We also certify that the representations made by management and the disclosures in the financial statements are accurate and have been correctly and completely disclosed as required by accounting principles generally accepted in the United States of America and under Commonwealth of Massachusetts laws for the year ended June 30, 2018.

Board Chair

10/25/2018

Date