Valley Collaborative

Financial Statements

For the Year Ended June 30, 2016

Valley Collaborative

Contents

For the Year Ended June 30, 2016

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, 2016, 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, 2016, 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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Emphasis of Matter

As discussed in Note A to the financial statements, in fiscal 2016, the Collaborative fully implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as required by Massachusetts law regarding Collaboratives. Our opinion is not modified with respect to this matter.

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 28-31 be presented to supplement the basic financial statements. Such information, although not 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 November 17, 2016, 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 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
November 17, 2016

Valley Collaborative
Management's Discussion and Analysis
(unaudited)
June 30, 2016

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, 2016 with comparative information from the fiscal years ended June 30, 2015 and 2014. 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.

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

	2016	2015	2014
Current Assets	$ 6,849,842	$ 6,245,285	$ 7,300,106
Pre-funded OPEB obligation	-	1,750,000	-
Property & Equipment, net	7,728,024	8,275,238	7,817,084
	$14,577,866	$16,270,523	$15,117,190

LIABILITIES AND NET POSITION

	2016	2015	2014
Liabilities			
Current Liabilities	$ 1,257,449	$ 1,276,586	$ 1,580,264
Long Term Liabilities	-	-	-
Total Liabilities	$ 1,257,449	$ 1,276,586	$ 1,580,264
Net Position			
Unrestricted	$ 4,270,524	$ 4,700,489	$ 5,394,776
Restricted – grants and contributions	21,869	18,210	-
Restricted – OPEB obligations	-	1,750,000	-
Restricted – renovation project/capital budget	1,300,000	250,000	464,507
Invested in capital assets, net of related debt	7,728,024	8,275,238	7,677,643
	$13,320,417	$14,993,937	$13,536,926

During the fiscal year ended June 30, 2016, the Collaborative's overall net position decreased by approximately $1,674,000, primarily due to funding the other postemployment benefits trust. The increase in net position from operations, before other postemployment benefits funding and credits to member districts, was approximately $1,700,000. The decrease in unrestricted net position of approximately $430,000 was primarily due to the Collaborative's contributions of funds to the postemployment benefit trust and the capital budget fund, net of operating funds received.

During the fiscal year ended June 30, 2015, the Collaborative's overall net position increased by approximately $1,457,000, primarily due to operations. The decrease in unrestricted net position of approximately $694,000 was primarily due to the Collaborative's contribution of funds to a postemployment benefit trust and a capital budget account, net of operating funds received. As a result of incurring additional renovations on a building, purchasing additional capital assets, and funding the postemployment benefit trust, the Collaborative had a significant decrease in its cash balance in the fiscal year ended June 30, 2015. Current liabilities decreased by approximately $304,000, primarily due to member district credits applied to current year tuition and services invoices.

Valley Collaborative
Management's Discussion and Analysis
(unaudited)
June 30, 2016

SUMMARY OF ACTIVITIES

	2016	2015	2014
Revenues/Gains*	$17,226,154	$17,964,974	$21,519,169
Program Expenses/Losses*	13,571,760	14,477,492	17,842,571
Administrative Expenses/Losses*	1,954,416	2,030,471	1,954,364
Total Expense	15,526,176	16,507,963	19,796,935
Change in net position*	$ 1,699,978	$ 1,457,011	$ 1,722,234

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

Revenues

In the fiscal year ended June 30, 2016, revenues, excluding Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments, decreased by approximately $739,000 (4%) and in the fiscal year ended June 30, 2015, decreased by approximately $3,554,000 (17%). 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 did not increase tuition rates during the fiscal year ended June 30, 2016, as other collaboratives were required to do to fund increasing costs.

Operating Expenses

In the fiscal year ended June 30, 2016, operating expenses, excluding Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments and other postemployment benefits funding, decreased by approximately $982,000, or 6%, compared to the fiscal year ended June 30, 2015. The decrease was due primarily to significant reductions in personnel and other program costs. Personnel costs decreased by approximately $845,000 in the fiscal year ended June 30, 2016 as a result of continued internal evaluation and staffing plan implementation. Other program costs, decreased by approximately $167,000 in the fiscal year ended June 30, 2016.

In the fiscal year ended June 30, 2015, operating expenses, excluding Massachusetts Teachers' and State Employees' Retirement Systems "on-behalf" payments, decreased by approximately $3,289,000, or 17%, compared to the fiscal year ended June 30, 2014. The decrease was due primarily to significant reductions in personnel, facilities and transportation costs. Personnel costs decreased by approximately $1,661,000 in the fiscal year ended June 30, 2015 as a result of an internal evaluation and staffing plan implemented for the fiscal year ended June 30, 2015 year. Transportation, rent and maintenance costs, decreased by approximately $1,267,000 in the fiscal year ended June 30, 2015, net of increases in depreciation expense, due to the Collaborative purchasing its own van fleet and building.

Governmental Funds Financial Highlights

The Collaborative reported a total general fund balance of $4,270,524, all of which is unassigned. The fund balance decreased $429,965 over the prior fiscal year, primarily due to the Collaborative's contributions of funds to the postemployment benefit trust and the capital budget account, net of operating funds received. Accounts receivable increased by $966,021, primarily due to the timing of invoicing and payments from districts. Cash decreased $427,871.

CAPITAL ASSETS AND OTHER OBLIGATIONS

During the fiscal year ended June 30, 2016, the Collaborative purchased and capitalized leasehold improvements and other equipment for use in its programs with a total cost of $188,008.

During the fiscal year ended June 30, 2015, the Collaborative incurred and capitalized $278,556 of renovation costs related to the building 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 programs with a total cost of $788,657. In addition, the Collaborative paid invoices for capital assets of $139,441 incurred and capitalized in the fiscal year ended June 30, 2014.

During the fiscal year ended June 30, 2015, the Collaborative's Board of Directors approved a transfer of $250,000 to its capital reserve fund in accordance with state regulations. During the fiscal year ended June 30, 2016, the Collaborative's Board of Directors approved an additional $1,050,000 funding of the capital reserve fund. 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.

BUDGETARY HIGHLIGHTS

The Collaborative's annual and amended budgets for the fiscal year ended June 30, 2016 were approved by its Board of Directors. For the fiscal year ended June 30, 2016, the Collaborative received operating revenues, excluding on-behalf payments by the Massachusetts Teachers' and State Employees' Retirement Systems, of approximately $17,228,000 compared to final budgeted revenues of approximately $16,937,000. The difference between actual revenues received and budgeted revenues is primarily due to higher than expected revenues from state contracts.

For the fiscal year ended June 30, 2016, the Collaborative incurred actual expenses, excluding on-behalf payments by the Massachusetts Teachers' and State Employees' Retirement Systems, of approximately $14,797,000 compared to final budgeted expenses of approximately $15,074,000. The difference between actual expenses incurred and budgeted expenses is primarily due to lower than expected personnel costs and operating expenses.

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, 2016

Assets

Current Assets	
Cash and cash equivalents	$ 3,298,118
Accounts receivable, net	3,309,875
Prepaid expenses and other assets	21,366
Cash held for municipalities	220,483
Total Current Assets	6,849,842
Non-current Assets	
Furniture, equipment, vehicles and leasehold improvements, net	7,728,024
Total Non-current Assets	7,728,024
Total Assets	$ 14,577,866

Liabilities and Net Position

Current Liabilities	
Accounts payable and accrued liabilities	$ 1,036,966
Deferred revenue - member districts	220,483
Total Current Liabilities	1,257,449
Total Liabilities	1,257,449
Net Position	
Unrestricted	4,270,524
Restricted - contributions and other	21,869
Restricted - capital budget	1,300,000
Invested in capital assets, net of related debt	7,728,024
Total Net Position	13,320,417
Total Liabilities and Net Position	$ 14,577,866

Valley Collaborative
Statement of Activities
For the year ended June 30, 2016

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	$ 1,954,416	$ -	$ -	$ (1,954,416)
Education	12,862,540	14,922,890	2,253,113	4,313,463
Intergovernmental revenue and expense	2,321,453	-	2,321,453	-
Other postemployment benefits	3,150,000	-	-	(3,150,000)
Depreciation and amortization	683,131	-	-	(683,131)
Total Governmental Activities	$ 20,971,540	$ 14,922,890	$ 4,574,566	$ (1,474,084)
General Revenue:				
Interest				3,636
Other				46,515
Credits to member districts				(223,498)
Loss on disposal of assets				(26,089)
Total General Revenue				(199,436)
Change in Net Position				(1,673,520)
Net Position, Beginning of Year				14,993,937
Net Position, End of Year				$ 13,320,417

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

Valley Collaborative
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,976,249	$ 1,300,000	$ 21,869	$ 3,298,118
Accounts receivable, net	3,309,875	-	-	3,309,875
Prepaid expenses and other assets	21,366	-	-	21,366
Cash held for municipalities	220,483	-	-	220,483
Total Assets	$ 5,527,973	$ 1,300,000	$ 21,869	$ 6,849,842
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 1,036,966	$ -	$ -	$ 1,036,966
Deferred revenue - member districts	220,483	-	-	220,483
Total Liabilities	1,257,449	-	-	1,257,449
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	1,300,000	21,869	1,321,869
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	4,270,524	-	-	4,270,524
Total Fund Balances	4,270,524	1,300,000	21,869	5,592,393
Total Liabilities and Fund Balances	$ 5,527,973	$ 1,300,000	$ 21,869	$ 6,849,842

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

Valley Collaborative

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

June 30, 2016

Total fund balances, governmental funds	$ 5,592,393
Amounts reported for governmental activities in the Statement of Net Position are different because:	
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	7,728,024
Net position of governmental activities	$ 13,320,417

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, 2016

	General Fund	Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Tutition and service revenues	$ 14,922,890	$ -	$ -	$ 14,922,890
Grants and contributions	2,229,444	-	23,669	2,253,113
Intergovernmental revenue	2,321,453	-	-	2,321,453
Interest	3,636	-	-	3,636
Other	46,515	-	-	46,515
Insurance proceeds on disposal of asset	26,002	-	-	26,002
Credits to member districts	(223,498)	-	-	(223,498)
Total Revenues	19,326,442	-	23,669	19,350,111
Expenditures:				
Administration	1,934,406	-	20,010	1,954,416
Program payroll	9,449,658	-	-	9,449,658
Program fringe benefits and payroll taxes	1,775,417	-	-	1,775,417
Professional and consulting fees	21,414	-	-	21,414
Transportation and travel	103,836	-	-	103,836
Rent	396,535	-	-	396,535
Maintenance	197,523	-	-	197,523
Telephone, communications and utilities	177,891	-	-	177,891
Materials, supplies and equipment	357,934	-	-	357,934
Small business expenses	191,229	-	-	191,229
Field trips	87,307	-	-	87,307
Training programs	27,155	-	-	27,155
Other	32,341	-	-	32,341
Bad debt expense	44,300	-	-	44,300
Intergovernmental expense	2,321,453	-	-	2,321,453
Capital outlay, net of debt incurred	188,008	-	-	188,008
Total Expenditures	17,306,407	-	20,010	17,326,417
Excess of Revenues over Expenditures	2,020,035	-	3,659	2,023,694
Other Financing Sources:				
Transfer to restricted funds	(1,050,000)	1,050,000	-	-
OPEB obligation funding	(1,400,000)	-	-	(1,400,000)
Net Change in Fund Balances	(429,965)	1,050,000	3,659	623,694
Fund Balances, Beginning of Year - cumulative effect of a change in accounting principle (see Note A)	4,700,489	250,000	18,210	4,968,699
Fund Balances, End of Year	$ 4,270,524	$ 1,300,000	$ 21,869	$ 5,592,393

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, 2016

Net change in fund balances of total governmental funds	$ 623,694

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	188,008
Depreciation	(683,131)
Loss on disposal of assets	(26,089)
Insurance proceeds on disposal of asset	(26,002)

Other postemployment benefits reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds unless actually transferred into trust.

Other postemployment benefits	(3,150,000)
OPEB obligation funding	1,400,000
Change in net position of governmental activities	$ (1,673,520)

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, 2016

<u>Assets</u>

Assets		
Investments	$	3,234,508
Total Assets	$	3,234,508

<u>Net Position</u>

Net Position		
Net position held in trust for retirees' health insurance	$	3,234,508
Total Net Position	$	3,234,508

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, 2016

Additions:	
Contributions	$ 3,150,000
Investment gain	99,902
Total Additions	3,249,902
Change in Net Position	3,249,902
Net Position – Beginning of Year	(15,394)
Net Position – End of Year	$ 3,234,508

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

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 Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as required by Massachusetts law regarding Collaboratives. This statement requires both government-wide and fund financial statements. Previously, the Collaborative presented only enterprise fund financial statements. There was no change in the beginning net position on the government-wide financial statements. The opening balance in the governmental fund balance as a result of the cumulative effect of this change in accounting principle was $4,968,699 as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances.

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.

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.

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

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 three financial institutions. The balances in two of the 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, 2016, the Collaborative's uninsured cash balances totaled $3,257,907. 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, 2016, the balance in these investments consisted of the following:

	Cost	Fair Value	Unrealized Gain
Mutual Funds	$3,150,000	$3,234,508	$84,508

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, 2016 was $103,562. There were no realized gains or losses during the year ended June 30, 2016. Investment fees for the year ended June 30, 2016 were $3,660.

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 11% of its revenues under social service contracts issued by agencies of the Commonwealth of Massachusetts. 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, 2016 there was an allowance for doubtful accounts of $45,000.

Deferred Revenue – Member Districts

"Deferred revenue – member districts" represent member funds held by the Collaborative for use as directed by the individual member municipalities for use in the Collaborative's various programs and services. The funds are considered deferred revenue as they are to be applied against future Collaborative invoices and are not considered an agency fund of the Collaborative. "Cash held for municipalities" represents amounts to be distributed to the member municipalities. See Note L for more information on funds held on behalf of member municipalities.

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

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. As described in Note B, the Collaborative purchased and started renovating 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.

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 November 17, 2016, 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, 2015	$6,630,188	$1,384,360	$1,217,713	$ 9,232,261
Additions	83,695	104,313	—	188,008
Disposals	(77,295)	—	(26,887)	(104,182)
	6,636,588	1,488,673	1,190,826	9,316,087
ACCUMULATED DEPRECIATION				
Balance, July 1, 2015	(425,314)	(195,940)	(335,769)	(957,023)
Additions	(294,768)	(144,820)	(243,543)	(683,131)
Disposals	38,647	—	13,444	52,091
	(681,435)	(340,760)	(565,868)	(1,588,063)
Net, June 30, 2016	$5,955,153	$ 1,147,913	$ 624,958	$7,728,024

Land in the amount of $677,500 is not being depreciated. In fiscal 2016, the Collaborative paid $83,695 for building improvements and $104,313 for office furniture and equipment. In fiscal 2016, the Collaborative disposed of leasehold improvements for program space it no longer occupies and a vehicle. The loss on disposal of these assets was not allocated to governmental activities. It appears unallocated on the Statement of Activities. Depreciation expense of $683,131 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 2019. Classroom and office lease expense was $415,312 and equipment lease expense was $43,148 for the year ended June 30, 2016.

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

2017	$427,883
2018	260,204
2019	256,610
	$944,697

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2016:

Tuition and services to districts	$3,003,037
State contracts	351,838
	3,354,875
Allowance for doubtful accounts	(45,000)
	$3,309,875

The Collaborative has established an allowance for doubtful accounts in the amount of $45,000. 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, 2016, bad debt expense in the amount of $44,300 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.

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.

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

Contributions:

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

Hire Date	% of Compensation
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
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 2016, the Collaborative's contributions on behalf of employees totaled $238,240.

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

Hire Date	% of Compensation
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% 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

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, 2015 and was $8,913,953 and $16,360,313 under MSERS and MTRS, respectively. In fiscal 2016, the Collaborative recognized revenue and related expense of $994,486 (under GASB Statement No. 68) for its portion of the collective pension expense under MSERS. In fiscal 2016, the Collaborative recognized revenue and related expense of $1,326,967 (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, 2016 was $101,753.

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, 2016 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, 2016, the balance of the line of credit was $0.

NOTE I – POSTEMPLOYMENT HEALTHCARE PLAN

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. 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 benefits to qualified retirees.

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

NOTE I – POSTEMPLOYMENT HEALTHCARE PLAN - *continued*

Annual OPEB Cost and Net OPEB Obligation

The Collaborative's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Collaborative has engaged an actuary to calculate the ARC and related information. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfounded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

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 date, January 1, 2016:

Annual OPEB Cost and Net OPEB Obligation

Discount rate	8.0%
Actuarial valuation date	January 1, 2016
Actuarial value of assets	$1,715,790
Actuarial accrued liability	
Active participants	$3,060,309
Retired participants	93,773
Total AAL	$3,154,082
Unfunded actuarial liability	$1,438,292
Funded ratio	54.4%
Annual covered payroll	9,686,160
UAL as percental of covered payroll	14.8%
Normal cost the fiscal year end 2016	$ 626,156
Amortization of UAL for fiscal year 2016	$ 87,756
Interest to middle of fiscal year	$ 0
Annual required contribution for fiscal year 2016	$ 713,912
Expected benefit payments 2016	17,720

Funded Status and Funding Progress

As of January 1, 2016, the most recent valuation date, the actual accrued liability for benefits was $3,154,082, and the actuarial value of plan assets was $1,715,790, resulting in an unfunded actuarial liability of $1,438,292. The schedule of Annual OPEB Cost and Net OPEB Obligation has not been adjusted to reflect the contribution to the OPEB trust during the year ended June 30, 2016 as those amounts were not factored into the actuarial calculation.

The projection of future benefit payments for an ongoing plan involves 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 annual required 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.

NOTE I – POSTEMPLOYMENT HEALTHCARE PLAN - *continued*

The Collaborative's annual net OPEB obligations for fiscal year 2016 and thereafter are as follows:

Year Ending June 30	Annual Required Contribution	Interest on NOO	Amortization of NOO	Annual OPEB Cost	Contribution	Change in NOO	NOO Balance
2015	0	0	0	0	1,750,000	(1,750,000)	(1,750,000)
2016	713,912	0	0	713,912	1,400,000	(686,088)	(2,436,088)
2017	728,845	0	0	728,845	0	728,845	(1,707,243)
2018	764,401	0	0	764,401	0	764,401	(942,842)

The schedule above has not been actuarially adjusted for the Collaborative's actual contribution made in fiscal year 2016.

<u>Actuarial Methods and Assumptions</u>

Interest:	Full prefunding: 8.0% per year, net of investment expenses
Actuarial cost method:	Projected unit credit. Benefits are attributed ratably to service from date of hire until full eligibility date. Full eligibility date is assumed to be the first eligibility for retiree medical benefits.
Healthcare cost trend rate:	<u>Year</u> <u>Inflation Rate</u> 2016 6.0% 2017 5.5% 2018 5.0% 2019 & after 4.5%
Amortization period:	30-year level percent of assuming 3.0% aggregate annual payroll growth, open basis for Pay-as-You-Go. The amortization period is 30 years for all future valuations. Under full prefunding, a 30-year closed basis was used for the amortization. The amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.
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.
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.
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.

NOTE I – POSTEMPLOYMENT HEALTHCARE PLAN - *continued*

Medical plan costs:	The estimated gross per capita incurred claim costs for all retirees and beneficiaries for 2016 at ages prior to 65 and after 65 are $10,131 and $4,904, respectively. Medicare eligible retirees' per capita claims costs at age 65 is $4,867. 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.
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.
Administrative costs:	The Collaborative pays administrative costs for each member of the plan as part of the monthly premium.
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 reach age 65 and is Medicare eligible.
Retirement Eligibility:	Age 55 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. However, the Collaborative's accumulated surplus as of June 30, 2016 was $1,232,617. Surplus revenue retention decreased $380,842 in fiscal year 2016.

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 2016 were as follows:

Name	Title	Total Compensation
Chris A. Scott, PhD	Executive Director	$184,966
Curt Malonson	Business Manager	$113,873
Chris Cowan	Principal	$94,604
Joia Mercurio	Assistant Director	$94,535
Sean Glavin	Director of Facilities and Operations	$90,889

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.

Business Manager:

Responsible for the Finance & Payroll Department. Responsibilities include financial reporting and preparing annual financial audit. Other responsibilities include, cash management and payroll.

Principal:

Responsible to ensure program curriculum is aligned with the 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.

Assistant Director

Supervise the effective and efficient implementation of the educational and instructional programs in compliance with local, state, and federal regulations. Be responsible for the adherence to District Improvement Planning annual goals and action planning. Coordinate and conduct professional development activities for all staff working with students with special needs and disabilities, including the Mentor and Induction Program.

Director of Facilities and Operations

Organizes, administers, and leads the daily operations and routine of the Operations and Facilities department so that all students, staff, and the community are assured of clean, safe, attractive, and healthy places in which to learn and work. Lead the daily maintenance of Valley Collaborative Safety Initiatives and Fleet.

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 $1,790,802 for the year ended June 30, 2016.

Amounts expended on administration and overhead

Administrative expenses of $1,954,416 for the year ended June 30, 2016, 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

As disclosed in Note A to the financial statements, the Collaborative holds funds on behalf of certain member districts, for use in Collaborative program activities or services as directed by the member district. During fiscal year 2016, the Collaborative approved distribution of surplus funds in the amount of $223,498 back to the members. As of June 30, 2016, $220,483 remains to be credited to member invoices. Since the amounts held are to be applied against future Collaborative invoices, the funds held are considered deferred revenue.

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

Transactions between the Collaborative and any related for-profit or non-profit organization
Cash held for municipalities (member districts) is disclosed above. The Collaborative leases classroom and other program space within member districts. For the year ended June 30, 2016, rent expense under these leases was $415,312. The leases are held with Billerica, North Middlesex Regional, and Tyngsborough.

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.

Annual determination and disclosure of cumulative surplus

Cumulative Surplus Calculation - FY16							Page(s) in financial statements
(A)		Voted Cumulative Surplus as of 6/30/15			$ 4,700,489	(A)	p. 11
(B)	1	Amount of (A) used to support the FY16 Budget	(B)1	$ -			
	2	Amount of (A) returned to member districts	(B)2	$ 223,498			
		(B)1 + (B)2 = (B)			$ 223,498	(B)	p. 8
(C)		Unexpended FY16 General Funds			$ (206,467)	(C)	p. 11
(D)		Cumulative Surplus as of 6/30/16 (A) - (B) + (C) = (D)			$ 4,270,524	(D)	
(E)		FY16 Total General Fund Expenditures*			$ 17,434,954	(E)	p. 11
(F)		Cumulative Surplus Percentage	(D) ÷ (E)		24%	(F)	
		Estimated Amount of Excess Cumulative Surplus as of 6/30/16			$ -		

*****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, 2016

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Services	$ 15,700,990	$ 14,690,990	$ 14,729,283	$ 38,293
State contracts	1,547,500	1,770,000	1,984,411	214,411
Other	471,000	471,000	485,155	14,155
Interest	5,000	5,000	3,636	(1,364)
Insurance proceeds on disposal of asset	-	-	26,002	26,002
Intergovernmental revenue	-	-	2,321,453	2,321,453
Total revenue and other support	17,724,490	16,936,990	19,549,940	2,612,950
Expenses:				
Salaries	10,774,016	10,265,016	10,393,080	(128,064)
Employee benefits	2,806,726	2,299,641	2,014,859	284,782
Operating expenses	2,264,170	2,090,770	1,973,695	117,075
Leases and rentals	558,861	418,450	415,312	3,138
On-behalf retirement payment expense	-	-	2,321,453	(2,321,453)
Total expenses	16,403,773	15,073,877	17,118,399	(2,044,522)
Excess of revenues over expenses	$ 1,320,717	$ 1,863,113	$ 2,431,541	$ 568,428
Other Budget Items:				
Credits to member districts	$ -	$ -	$ 223,498	$ (223,498)
OPEB obligation funding	-	-	1,400,000	(1,400,000)
Capital Budget Items	600,000	300,000	1,238,008	(938,008)
	$ 600,000	$ 300,000	$ 2,861,506	$ (2,561,506)

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, 2016

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
1/1/2016	$ 1,715,790 *	$ 3,154,082	$ 1,438,292	54.40%	$ 9,686,160	14.85%

* Does not include a transfers made by the Collaborative to the OPEB Trust Fund during the year ended June 30, 2016 or investment gains/(losses) on those funds. As of June 30, 2016, the total amount of funding in th trust was $3,234,508.

Valley Collaborative

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

For the Year Ended June 30, 2016

		MTRS	MSERS
Collaborative's proportion of net pension liability	FY2014	0.10521%	0.02526%
	FY2015	0.07985%	0.02466%
Collaborative's proportionate share of net pension liability	FY2014	$ 16,724,835	$ 1,871,525
	FY2015	$ 16,360,313	$ 2,806,546
Collaborative's covered-employee payroll	FY2014	$ 6,277,563	$ 4,565,446
	FY2015	$ 5,347,143	$ 4,285,929
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%
Plan fiduciary net position as a percentage of total pension liability	FY2014	61.64%	76.32%
	FY2015	55.38%	67.87%

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, 2015.

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, 2016

	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%

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, 2015.

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.

Contributions
The Collaborative is required to pay an annual appropriation as established by the Public Employees' Retirement Administration Commission (PERAC) for MSERS. No contribution is required for MTRS. The Commonwealth of Massachusetts as a nonemployer is legally responsible for the entire past service cost related to the Collaborative and therefore has a 100% special funding situtation.

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, 2016, and the related notes to the financial statements, which comprise Valley Collaborative's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 17, 2016.

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 opinion 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*.

We noted certain other matters that we reported to management of Valley Collaborative in a separate letter dated November 17, 2016.

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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
November 17, 2016

Valley COLLABORATIVE

Central Administration Office

40 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, 2016.

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, 2016.

Board Chair

11/17/2016

Date