

LABBB Collaborative

Financial Statements

June 30, 2015

LABBB Collaborative

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FRITZ DEGUGLIELMO LLC
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
LABBB Collaborative
Bedford, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of LABBB Collaborative (a collaborative organized under the Laws of the Commonwealth of Massachusetts), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LABBB Collaborative as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited LABBB Collaborative's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 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 the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise LABBB Collaborative's basic financial statements. The accompanying budgetary comparison information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015, on our consideration of LABBB 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 LABBB Collaborative's internal control over financial reporting and compliance.



Certified Public Accountants

Newburyport, Massachusetts

December 17, 2015

**LABBB Collaborative
Management's Discussion and Analysis
June 30, 2015**

Our discussion and analysis of LABBB Collaborative's ("LABBB") financial performance provides an overview of LABBB's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the financial statements that begin on page 6.

This financial report consists of several financial statements:

Statement of Net Position – The Statement of Net Position provides a presentation of LABBB's assets and liabilities, as well as remaining net position, as of the date of the financial statements. The purpose of the Statement of Net Position is to present a fiscal snapshot of LABBB to the readers of the financial statements and includes year-end information concerning current and noncurrent assets, current and noncurrent liabilities, and net position and deferred inflows and outflows, if any.

Statement of Revenues, Expenses and Changes in Net Position – The Statement of Revenues, Expenses and Changes in Net Position presents the results of the operations of LABBB, providing information of the revenue sources and related expenses during the year. This statement helps users to determine whether LABBB had sufficient revenues to cover expenses during the year and its net increase or decrease in net position based on current year operations.

Statement of Cash Flows – The Statement of Cash Flows provides information on the cash receipts and cash disbursements during the year and the changes in working capital components. This statement is an important tool in assisting users in assessing LABBB's cash flow sources and uses. This statement also assists users in assessing LABBB's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

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 LABBB's financial statements.

FINANCIAL HIGHLIGHTS

Revenue and Other Support

Operating revenue and other support for the fiscal year ended June 30, 2015 increased \$272,542 or 1.4% from the prior fiscal year, excluding retirement systems on-behalf revenue. The tuition, industry and transportation programs experienced increases in revenue. Also, contributions increased from the prior fiscal year, while home services and grants revenue decreased.

Member credits can be used to reduce amounts due to LABBB Collaborative from member districts for special education services provided by LABBB. No member credits were issued in fiscal year 2015. At June 30, 2015, five member districts had available credits totaling \$1,745,831.

Interest income increased \$1,460. The increase is related to the increase in funds at the Massachusetts Municipal Depository Trust (MMDT) during fiscal year 2015.

Expenses

Expenses for the fiscal year ended June 30, 2015 decreased \$51,261 or 0.3% from the prior fiscal year, excluding retirement systems on-behalf expense. Instructional and other program and transportation expenses increased due to higher personnel costs, while management and general expenses and the costs for the postemployment benefit obligation decreased.

Expenses for both fiscal years include the annual postemployment benefit cost accrued for the retiree healthcare plan; the costs were \$556,780 in fiscal year 2015 and \$1,195,622 in fiscal year 2014. The amounts were determined by an actuarial study, as of July 1, 2014. The plan is offered to retired LABBB employees who meet specific eligibility requirements.

**LABBB Collaborative
Management's Discussion and Analysis
June 30, 2015**

Change in Net Position

The change in net position or net assets for the fiscal year ended June 30, 2015 is \$1,642,890, an increase of \$1,025,263 from the prior fiscal year change in net position. An increase in tuition and transportation revenues and a decrease in management and general expenses as well as postemployment benefit costs contributed to the increase in fiscal year 2015. In addition, no credits were issued to members during the fiscal year ended June 30, 2015.

Total Assets

Total assets as of June 30, 2015 increased \$1,684,426 or 14.7% from June 30, 2014. Cash decreased \$48,860 and accounts receivable increased \$1,586,908. The decrease in cash is due to the purchase of capital assets during fiscal year 2015. The increase in accounts receivable is due to the change to monthly billing from quarterly pre-billing during fiscal year 2015. LABBB maintains cash balances with Rockland Trust and the MMDT. Cash balances at Rockland Trust are maintained at levels that at times exceed FDIC protection. Cash balances at the MMDT are not FDIC insured.

The MMDT is managed by the Massachusetts State Treasurer and Federated Investors, Inc. and offers investors a stable investment option, competitive yields, low cost, liquidity, and professional management. The MMDT investment objectives are the preservation of capital, maintaining a high level of portfolio liquidity, and to attain the highest level of current income consistent with the objectives of preservation of capital and liquidity. To achieve the investment objectives the MMDT limits investments to the highest quality U.S. dollar-denominated money market instruments of domestic and foreign issuers, U.S. government securities, and repurchase agreements. LABBB had an average of \$6,387,005 invested with the MMDT during fiscal year 2015 and the largest investment during that period was \$8,701,937.

Prepaid expenses increased \$58,109 from the prior year. The increase is related primarily to an increase in the cost of workers compensation from the prior fiscal year.

LABBB capitalizes assets purchased which equal or exceed \$5,000 in value. These assets are depreciated over lives of three to five years on the straight-line method. During fiscal year 2015, leasehold improvements in the amount of \$101,746 were purchased and capitalized. Depreciation expense for the year ended June 30, 2015 was \$13,477.

Liabilities and Net Position

Total liabilities as of June 30, 2015 increased \$41,536 or 0.4% from June 30, 2014. All liabilities are considered to be current with the exception of the accrued compensated absences and the accrued postemployment obligation. Accounts payable decreased \$9,171. All accounts payable in fiscal year 2015 and fiscal year 2014 were current. Accrued expenses decreased \$98,844. The decrease relates to a decrease in employee withholdings from the prior fiscal year.

Member credits decreased \$218,305. The decrease is related to the use of \$218,305 in member credits by member districts.

Budgetary Highlights

LABBB's annual budget for fiscal 2015 was approved by its Board of Directors. During fiscal 2015, actual revenues, excluding retirement systems on-behalf revenue, exceeded the budget by \$1,930,355. The tuition revenue was higher than projected by \$1,495,669, due to higher than projected enrollments. Also, the budget excluded some non-tuition based revenues, including industry, recreation, contributions, grants and interest, which totaled \$403,632 for the year ended June 30, 2015.

During fiscal 2015, LABBB incurred actual expenses, excluding retirement systems on-behalf expense, of \$17,855,325 compared to budgeted expenses of \$19,006,665. The difference between budgeted and actual expenses is due mainly to lower postemployment benefit obligation costs.

**LABBB Collaborative
Management's Discussion and Analysis
June 30, 2015**

Known Facts, Decisions, or Conditions

LABBB implemented a new standard from the Government Accounting Standards Board (GASB), Statement No. 45, in fiscal year 2009. The standard relates to the accounting and reporting by employers for postemployment benefits other than pensions. LABBB provides financial support for postemployment health benefits.

LABBB historically recorded the cost of the postemployment health benefits on a "pay as you go" basis. GASB Statement No. 45 requires these costs be recorded on an accrual basis and requires the disclosure of the postemployment health benefit plan's accumulated liabilities in the footnotes to the financial statements. This change significantly increased and accelerated the recording of these costs and significantly impacted LABBB's operating results in fiscal years 2015 and 2014. LABBB recorded a charge in each fiscal year for the estimated annual cost of the program, plus the unfunded prior costs that have accumulated to date. The total charge for fiscal years 2015 and 2014 are \$556,780 and \$1,195,622 respectively.

LABBB implemented GASB Statement No. 68 in fiscal year 2015. The standard relates to the accounting and financial reporting for pensions. LABBB's employees participate in the Massachusetts Teachers' (MTRS) or State Employees' 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 Commonwealth").

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. The Commonwealth is a nonemployer contributor in MTRS and MSERS 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. 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 revenue and pension expense.

LABBB Collaborative
Statement of Net Position
June 30, 2015
(with summarized comparative information as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents		
Cash available for operations	\$ 7,443,737	\$ 7,621,130
Cash reserved for postretirement plan obligations	1,000,000	1,000,000
Cash reserved for technology and improvements	150,000	-
Cash set aside for reserve	1,879,200	1,900,667
Accounts receivable, net	2,393,264	806,356
Prepaid expenses	214,803	156,694
	<u>13,081,004</u>	<u>11,484,847</u>
Non-current Assets		
Equipment, net	99,385	11,116
	<u>99,385</u>	<u>11,116</u>
Total Assets	\$ 13,180,389	\$ 11,495,963
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 16,588	\$ 25,759
Accrued expenses	734,794	833,638
Deferred revenue	40,467	78,225
Member credits	1,745,831	1,964,136
	<u>2,537,680</u>	<u>2,901,758</u>
Non-current Liabilities		
Compensated absences	45,680	29,049
Accrued postemployment obligation	6,799,733	6,410,750
	<u>6,845,413</u>	<u>6,439,799</u>
Total Liabilities	9,383,093	9,341,557
Net Position		
Unrestricted net position:		
General and other purposes	3,697,911	2,143,290
Net position invested in capital assets	99,385	11,116
	<u>3,797,296</u>	<u>2,154,406</u>
Total Net Position	3,797,296	2,154,406
Total Liabilities and Net Position	\$ 13,180,389	\$ 11,495,963

See accompanying Notes to Financial Statements and Independent Auditor's Report.

LABBB Collaborative
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2015
(with summarized comparative information for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
Operating Activities:		
Revenue and Other Support:		
Tuition revenue	\$ 18,557,954	\$ 18,269,699
Industry revenue	208,564	198,651
Recreation revenue	130,350	131,518
Transportation revenue	372,141	338,811
Contributions	45,631	25,556
Grants and contracts	6,400	8,700
Home services revenue	164,488	240,051
Retirement systems on-behalf revenue	1,768,798	620,276
Total Revenue and Other Support	<u>21,254,326</u>	<u>19,833,262</u>
Expenses:		
Instructional and other program	15,921,035	15,324,446
Transportation expense	390,723	304,293
Management and general	986,787	1,082,225
Postemployment benefit obligation	556,780	1,195,622
Retirement systems on-behalf expense	1,768,798	620,276
Total Expenses	<u>19,624,123</u>	<u>18,526,862</u>
Change in Operating Net Position	1,630,203	1,306,400
Nonoperating Revenues:		
Interest income	12,687	11,227
Change in Net Position, before credits issued to members	1,642,890	1,317,627
Credits issued to members	-	(700,000)
Change in Net Position	1,642,890	617,627
Net Position, beginning	2,154,406	1,536,779
Net Position, ending	<u>\$ 3,797,296</u>	<u>\$ 2,154,406</u>

See accompanying Notes to Financial Statements and Independent Auditor's Report.

LABBB Collaborative
Statement of Cash Flows
For the year ended June 30, 2015
(with summarized comparative information for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Receipts from tuition	\$ 16,708,310	\$ 18,830,551
Receipts from industry and other	875,543	909,031
Receipts from contributions	45,631	25,556
Receipts from grants and contracts	6,400	8,700
Payments to suppliers and vendors	(4,511,052)	(4,136,549)
Payments to employees	(13,084,633)	(13,082,121)
	40,199	2,555,168
Cash flows from investing activities		
Interest income	12,687	11,227
Purchase of capital assets	(101,746)	(7,250)
	(89,059)	3,977
Net increase (decrease) in cash and cash equivalents	(48,860)	2,559,145
Cash and cash equivalents, beginning	10,521,797	7,962,652
Cash and cash equivalents, ending	\$ 10,472,937	\$ 10,521,797
Reconciliation of change in operating net position to net cash provided by operating activities:		
Change in operating net position	\$ 1,630,203	\$ 1,306,400
Reconciliation to cash flow:		
Depreciation	13,477	2,577
Bad debt expense	8,471	22,200
Postemployment benefit obligation	556,780	1,195,622
Changes in:		
Accounts receivable	(1,813,684)	507,951
Prepaid expenses	(58,109)	173,146
Accounts payable	(9,171)	(16,378)
Accrued expenses	(98,844)	(551,037)
Deferred revenue	(37,758)	52,901
Accrued postretirement obligation	(167,797)	(139,469)
Compensated absences	16,631	1,255
	\$ 40,199	\$ 2,555,168

See accompanying Notes to Financial Statements and Independent Auditor's Report.

LABBB Collaborative
Notes to Financial Statements
June 30, 2015

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LABBB Collaborative (“LABBB”) is an educational collaborative organized under Chapter 40 of the general laws of the Commonwealth of Massachusetts. The collaborative was entered into by the school committees of Lexington, Arlington and Burlington in April 1974, with the addition of Bedford in May 1980 and Belmont in July 1995. LABBB provides special education services and programs, as defined in the Regulations under Chapter 766, to students aged 3 to 21, with moderate to severe special needs.

A summary of accounting policies consistently applied in the financial statements follows:

Basis of Presentation

LABBB’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments and governmental entities through its pronouncements (Statements and Interpretations). Governments and governmental entities are also required to follow pronouncements of the Financial Accounting Standards Board (FASB), when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Collaborative are discussed below.

The financial statements include certain prior-year summarized comparative information in total but not by net position class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with LABBB’s financial statements for the year ended June 30, 2014, from which the summarized information was derived. Certain reclassifications have been made to the summarized information to be consistent with the presentation in the audited financial statements as of June 30, 2015.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Significant management estimates included in the financial statements relate to the allowance for doubtful accounts receivable, useful lives of depreciable assets, fair value of certain investments, measurement of actuarial obligations for defined postemployment health care benefits, and the allocations of common expenses over program functions.

Measurement Focus and Basis of Accounting

These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, change in net position (or cost recovery), financial position and cash flows. All assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. 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, including time requirements, imposed by the provider have been met.

Program revenue is earned under fee-for-service arrangements with LABBB member school districts and non-member school districts. Revenue is recognized when costs are incurred or when services are rendered depending on the nature of the arrangement.

Contributions and unconditional promises to give are recorded as revenue in the period received or verifiably committed. All contributions are considered to be available for the general programs of LABBB unless restricted by the donor.

LABBB Collaborative
Notes to Financial Statements
June 30, 2015

NOTE A – *continued*

Fund Accounting

To ensure observance of limitation and restrictions placed on the use of resources available to LABBB, the accounts of LABBB are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. LABBB, in accordance with GASB Statement No. 34, is considered a special purpose governmental entity engaged only in business type activities and is not a component unit of another governmental entity. As such, the basic financial statements of LABBB are reported on the same basis as an enterprise fund, which is a proprietary fund in fund financial statements. LABBB is not a proprietary fund that is part of a government wide financial statement. As such, the notations “enterprise fund” and “proprietary fund” do not appear.

Cash and Cash Equivalents

Cash equivalents include cash balances maintained in checking accounts and money market accounts. For purposes of the statement of cash flows, LABBB considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

LABBB maintains cash and cash equivalent balances at two institutions located in Massachusetts. Bank accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. LABBB’s cash balances, at times, may exceed federally insured limits. LABBB monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts. LABBB also maintains cash and cash equivalents at the Massachusetts Municipal Depository Trust which is collateralized by its underlying assets.

The Board of Directors of LABBB has set aside cash in reserve for its postemployment plan obligations, technology and improvements, and an additional reserve for operations. The reserve for its postemployment plan obligations (see Note G) is based on an amount the Board of Directors deems acceptable on an annual basis and the reserve for operations is based on 10% of LABBB’s next fiscal year budget (see Note I), as approved by the Board of Directors. As of June 30, 2015, the cash reserved for postemployment plan obligations was \$1,000,000, for technology and improvements was \$150,000, and for operations was \$1,879,200.

Accounts Receivable

Accounts receivable are carried at their net realized value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received. At June 30, 2015, management has recorded an allowance for doubtful accounts of \$63,000.

Equipment and Improvements

Equipment is stated at cost at the date of acquisition. Depreciation is provided in amounts sufficient to allocate the cost of depreciable assets to operations over their estimated service lives on the straight-line basis. Expenditures for repairs and maintenance are charged to expense as incurred. Equipment and improvements are being depreciated over useful lives ranging from three to five years.

Deferred Revenue

Deferred revenue consists primarily of amounts received from cities and towns for programs in which services have not yet been provided under the terms of the agreement.

LABBB Collaborative
Notes to Financial Statements
June 30, 2015

NOTE A – *continued*

Member Credits

The member school districts have elected to make a portion of current and prior year surpluses available to them for future application to service and tuition billings. Member credits are recognized as obligations when approved by the board. During 2015, no new credits were issued to the member districts. All five member school districts have available credits totaling \$1,745,831 at June 30, 2015.

Compensated Absences

It is LABBB's policy to permit certain employees to accumulate earned but unused vacation pay benefits up to specified limits. Employees may use this time in addition to other vacation time earned each year. Unused time is paid to the employee upon termination or retirement. Compensated absences are recorded as a non-current liability in the Statement of Net Position.

Postemployment Healthcare Plan

LABBB follows standards which require the recognition and disclosure of the liability for benefits of current and former employees, as calculated in an actuarial study, over a period not to exceed thirty years, as well as the disclosure of actuarial assumptions and methods used (see Note G).

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by LABBB or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. LABBB's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Functional Allocation of Expenses

Fringe benefit and administrative costs have been allocated to functions based on a percentage of salary cost and have been summarized on a functional basis in the statement of revenues, expenses and changes in net position. Accordingly, these costs have been allocated among the programs and supporting services benefited.

Income Tax Status

LABBB was established under Chapter 40 Section 4(e) under the general laws of Massachusetts and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements.

Uncertain Tax Positions

LABBB accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. LABBB has identified its tax status as a tax-exempt entity as its only significant tax position; however, LABBB has determined that such tax position does not result in an uncertainty requiring recognition. LABBB is not currently under examination by any taxing jurisdiction. As a Chapter 40 government entity, LABBB is exempt from filing certain non-profit filings and, accordingly, there are no returns currently open for examination.

LABBB Collaborative
Notes to Financial Statements
June 30, 2015

NOTE A – *continued*

Subsequent events

LABBB has evaluated subsequent events through December 17, 2015, the date the financial statements were available to be issued.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents included the following at June 30, 2015:

Bank balance of cash and cash equivalents	\$ 5,022,666
Petty cash	15
Deposits held in a Massachusetts Municipal Depository Trust	5,713,277
Reconciling items (deposits in transit, outstanding checks, etc.), net	<u>(263,021)</u>
 Total cash and cash equivalents as reported on the statement of net position	 <u>\$10,472,937</u>
 Bank deposits insured by the Federal Deposit Insurance Corporation	 <u>\$ 250,000</u>

LABBB does not hold any funds that may be used at the discretion of other organizations.

NOTE C – EQUIPMENT AND IMPROVEMENTS

Equipment and improvement activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Equipment and improvements:				
Equipment	\$ 7,732	\$ -	\$ -	\$ 7,732
Leasehold improvements	8,675	101,746	-	110,421
Computer hardware	6,452	-	(6,452)	-
Computer software	<u>9,765</u>	<u>-</u>	<u>(9,765)</u>	<u>-</u>
Total at historic cost	32,624	101,746	(16,217)	118,153
 Accumulated depreciation	 <u>21,508</u>	 <u>13,477</u>	 <u>(16,217)</u>	 <u>18,768</u>
 Total equip. & improvements, net	 <u>\$ 11,116</u>	 <u>\$ 88,269</u>	 <u>\$ -</u>	 <u>\$ 99,385</u>

LABBB Collaborative
Notes to Financial Statements
June 30, 2015

NOTE D – LEASE COMMITMENTS

LABBB has entered into operating lease agreements for office equipment and vehicles used to transport students, which expire at various times through 2019. Under the lease arrangements, if LABBB terminates a vehicle lease prior to the full term of the lease, LABBB is obligated to pay one-half of the remaining monthly rentals. Total rental expense was approximately \$264,453 for the year ended June 30, 2015.

The approximate minimum future obligations on the lease at June 30, 2015 are as follows:

2016	\$ 52,970
2017	15,046
2018	2,787
2019	<u>555</u>
	<u>\$ 71,358</u>

NOTE E – RELATED PARTY TRANSACTIONS

LABBB obtains certain administrative, accounting, supporting services and other resources from EDCO Collaborative (“EDCO”) through a signed agreement. Four of the five member districts for LABBB are also member districts of EDCO.

In June, 2014, LABBB entered into a management services and rent/use of space agreement with EDCO. The agreement covers the period of July 1, 2014 to June 30, 2015 for management services and July 1, 2014 to June 30, 2019 for rent/use of space. The fee for the rent/use of space is determined on an annual basis by the EDCO Board of Directors upon approval of the annual budget. For the year ended June 30, 2015, the service fee incurred was \$384,924.

LABBB entered into a joint venture in fiscal 2009 with EDCO to establish the LABBB-EDCO Transportation Network (“the Transportation Network”). During fiscal 2015, LABBB billed EDCO \$158,167 for transportation management services provided to the Transportation Network. Also, EDCO provided accounting and financial services for the Transportation Network and charged LABBB \$28,119, which represents direct costs for these services. This joint venture is expected to continue through fiscal 2016; and the service fees are expected to be similar to fiscal 2015.

NOTE F – MASSACHUSETTS TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEMS

Plan Descriptions:

The Collaborative’s employees participate in the Massachusetts Teachers’ (MTRS) or State Employees’ Retirement Systems (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.

LABBB Collaborative
Notes to Financial Statements
June 30, 2015

NOTE F – *continued*

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.

Contributions:

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

<u>Hire Date</u>	<u>% 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 2015, the Collaborative's contributions on behalf of employees totaled \$279,422.

LABBB Collaborative
Notes to Financial Statements
June 30, 2015

NOTE F – *continued*

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

<u>Hire Date</u>	<u>% 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

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 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, 2014 and was \$6,965,184 and \$18,330,401 under MSERS and MTRS, respectively. In fiscal 2015, the Collaborative recognized revenue and related expense of \$495,297 (under GASB Statement No. 68) for its portion of the collective pension expense under MSERS. In fiscal 2015, the Collaborative recognized revenue and related expense of \$1,273,501 (under GASB Statement No. 68), for its portion of the collective pension expense under MTRS.

The Collaborative implemented the requirements of GASB Statement No. 68 in fiscal 2015. Prior year financial statements were not adjusted for revenues or expenses applicable to those years as calculated under GASB Statement No. 68 since the information was not available. However, the overall net position of the Collaborative would not have been adjusted in prior years had an adjustment been made.

NOTE G – POSTEMPLOYMENT HEALTHCARE BENEFITS

LABBB sponsors and administers a postemployment benefit plan (the "Plan") which provides health benefits to qualified retirees. As of July 1, 2014, the date of the most recent actuarial valuation, the Plan had a projected unfunded liability of approximately \$7,186,742. In accordance with GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"*, this liability is being accrued over a period of time of thirty years. At June 30, 2015, the annual contribution required to meet this requirements was approximately \$530,373, in addition to the normal benefit cost estimated at \$356,969. Reporting and amortization of the unfunded liability began during fiscal 2009.

The contribution requirements of plan members and LABBB are established and may be amended through LABBB board action. The required contribution is based on the projected pay-as-you-go financing requirements.

LABBB Collaborative
Notes to Financial Statements
June 30, 2015

NOTE G – *continued*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term prospective of the calculations.

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 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.

In the July 1, 2014 valuation, a frozen age actuarial cost method was used with allocation based on service. The unfunded actuarial liability is amortized over 30 years in level dollar amounts, starting fiscal 2009. The actuarial assumptions included a 6.00% discount rate and an annual healthcare cost trend rate of 7.00% initially, grading down to 2.5% in fiscal 2022 and later, in 0.75 point intervals. As of June 30, 2015, no investment vehicle has been established to fund the plan.

The rollforward of the accrued postemployment obligation as of June 30, 2015 and two preceding years was as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Postemployment obligation at beginning of year	\$6,410,750	\$5,354,597	\$4,273,817
Interest on net obligation	384,645	321,276	256,429
Annual required contribution	887,342	1,451,492	1,451,492
Adjustment to annual required contribution	<u>(715,207)</u>	<u>(577,146)</u>	<u>(460,654)</u>
Annual benefit cost	556,780	1,195,622	1,247,267
Benefit payments paid	<u>(167,797)</u>	<u>(139,469)</u>	<u>(166,487)</u>
Postemployment obligation at end of year	<u>\$6,799,733</u>	<u>\$6,410,750</u>	<u>\$5,354,597</u>

NOTE H – CONCENTRATIONS OF CREDIT RISK

Approximately 48% of all revenues are derived from the member school districts in 2015. One town represented 25% of all revenue in 2015. At June 30, 2015, five member towns represented approximately 43% of total accounts receivable.

NOTE I – FISCAL 2016 BUDGET

LABBB has authorized a fiscal 2016 operating budget totaling approximately \$18,792,000 which management expects to fully fund through tuitions, governmental grants, and other receipts.

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

Highest Paid Employees

The Commonwealth of Massachusetts requires educational collaboratives to disclose the name, duties and total compensation of the 5 most highly compensated employees.

**LABBB Collaborative
Notes to Financial Statements
June 30, 2015**

NOTE J – *continued*

<u>Employee Name</u>	<u>Title</u>	<u>Salary</u>	<u>Health Insurance Employer Portion</u>	<u>Total</u>
Patric Barbieri	Executive Director	\$156,495	\$16,556	\$173,051
James Kelly	Program Director	\$113,541	\$16,556	\$130,097
Margaret Sheehan	Special Education Teacher	\$111,702	\$16,556	\$128,258
Donna Goodell	Program Director	\$107,161	\$16,556	\$123,717
Dianne Costello	Program Coordinator	\$106,317	\$16,556	\$122,873

Executive Director –The duties of the executive director include providing leadership in planning, development and operation of LABBB programs and services, insuring proper fiscal management of LABBB programs and services, developing and presenting a budget to the Board of Directors, implementing policies and procedures established by the Board of Directors, recommending changes as necessary, and representing LABBB on various local and state task forces, committees and advisory boards.

Program Director – The duties of the program director include advertising, interviewing and hiring all staff with final Executive Director approval, supervising and evaluating all professional staff, designing program handbooks, resources and training manuals and staff policy manuals, designing all professional development programs and conferences for all staff, conducting meetings on IEPs, transitions and parent’s council, and attending meetings on case conferences, student progress and professional consults.

Special Education Teacher – The duties of the special education teacher include designing and implementing curriculum, consulting with vocational, educational and specialist staff, developing and implementing appropriate behavioral programming that stresses positive reinforcement practices, attending student and staff meetings, and communicating with parents.

Program Coordinator – The duties of the program coordinator include supervising and evaluating staff, including orientation, room assignments, classroom and site visits, assisting in development of curriculum, professional days and IEPs, assigning students to classrooms, acting as liaison to schools systems, attending meetings on planning, IEPs, student crises, case conferences and professional consults.

Over Age 21 Programs

LABBB does not provide services to individuals age 22 or older.

Accounts Held on Behalf of Other

LABBB does not hold any accounts on behalf of others, except for member credits held for future use described in Note A.

Related Party Transactions

Related party transactions are described in Note E to the financial statements.

Real Property Transactions

Transactions or contracts related to the purchase, sale, rental, or lease of real property are described in Note D to the financial statements.

Administrative Costs

Total administrative costs incurred by LABBB totaled \$986,787 for the year ended June 30, 2015. Administrative expenses include all costs that cannot be directly or reasonably applied to a program of LABBB. Administrative expenses include salaries, related benefits and payroll taxes, associated with LABBB’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.). LABBB 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. See Note A for a description of the functional allocation of expenses.

LABBB Collaborative
Statement of Revenues and Expenses
Budget and Actual
For the year ended June 30, 2015

	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Favorable (Unfavorable)
Operating Activities:			
Revenue and Other Support:			
Tuition revenue	\$ 17,062,285	\$ 18,557,954	\$ 1,495,669
Industry revenue	-	208,564	208,564
Recreation revenue	-	130,350	130,350
Transportation revenue	329,175	372,141	42,966
Contributions	-	45,631	45,631
Grants and contracts	-	6,400	6,400
Home services revenue	163,713	164,488	775
Retirement systems on-behalf revenue	-	1,768,798	1,768,798
Total Revenue and Other Support	<u>17,555,173</u>	<u>21,254,326</u>	<u>3,699,153</u>
Expenses:			
Instructional and other program	16,432,988	15,921,035	511,953
Transportation expense	329,175	390,723	(61,548)
Management and general	793,010	986,787	(193,777)
Postemployment benefit obligation	1,451,492	556,780	894,712
Retirement systems on-behalf expense	-	1,768,798	(1,768,798)
Total Expenses	<u>19,006,665</u>	<u>19,624,123</u>	<u>(617,458)</u>
Change in Operating Net Position	(1,451,492)	1,630,203	3,081,695
Nonoperating Revenues:			
Interest income	-	12,687	12,687
Change in Net Position, before credits issued to members	(1,451,492)	1,642,890	3,094,382
Credits issued to members	-	-	-
Change in Net Position	<u>\$ (1,451,492)</u>	<u>\$ 1,642,890</u>	<u>\$ 3,094,382</u>

See Independent Auditor's Report.



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
LABBB Collaborative
Bedford, 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 LABBB Collaborative (a collaborative organized under the Laws of the Commonwealth of Massachusetts), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LABBB 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 LABBB Collaborative's internal control. Accordingly, we do not express an opinion on the effectiveness of LABBB 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 LABBB 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 LABBB Collaborative in a separate letter dated December 17, 2015.

Purpose of this Report

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



Certified Public Accountants

Newburyport, Massachusetts

December 17, 2015

Patric Barbieri
Executive Director

Maria Giangrande
Administrative Assistant

LABBB
Collaborative Programs



Donna Goodell, Program Director
Pre-school, Elementary & Middle School Programs

James Kelly, Program Director
High School Programs

ACCEPTANCE OF THE BOARD OF DIRECTORS

We, the Board of Directors of LABBB 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, 2015.

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, 2015.

Board Chair

12/17/15

Date