

LABBB Collaborative

Financial Statements

For the Year Ended June 30, 2016

LABBB Collaborative
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For the Year Ended June 30, 2016

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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 the governmental activities, the major fund, and the aggregate remaining fund information of LABBB 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 LABBB 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, the major fund, and the aggregate remaining fund information of LABBB Collaborative, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, and pension schedules on pages 3-6 and 25-27 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 the 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 December 15, 2016, 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 15, 2016

LABBB Collaborative
Management's Discussion & Analysis
(unaudited)
June 30, 2016

The following discussion and analysis of the LABBB Collaborative's ("LABBB") financial performance provides and overview of LABBB's financial activities for the fiscal year ended June 30, 2016 and summarized comparative information for 2015. Please read it in conjunction with LABBB's financial statements, which follow.

OVERVIEW OF THE FINANCIAL REPORTS

This discussion and analysis is intended to serve as an introduction to LABBB's financial statements. LABBB'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 LABBB as a whole using accounting methods similar to those used by private sector companies.

- The **Statement of Net Position** presents information on all of LABBB's assets and liabilities with the difference between the two reported as net position. It is one way of measuring LABBB's financial health or position.
- The **Statement of Activities** presents information showing how LABBB's net position changed during the most recent fiscal year. All of the current year's revenues and expenditures are accounted for in the Statement of Activities regardless of when cash is received or paid.

Over time, increases or decreases in LABBB'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 LABBB.

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, LABBB has only governmental funds.

- **Governmental funds** – LABBB'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 LABBB'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.

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.

LABBB Collaborative
Management's Discussion & Analysis
(unaudited)
June 30, 2016

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

Revenue and Other Support

Operating revenue and other support for the fiscal year ended June 30, 2016 increased \$5,901,274 or 30.3% from the prior fiscal year, excluding retirement systems on-behalf revenue. The increase is primarily due to the transfer of responsibility for the LABBB-EDCO transportation network revenue from EDCO Collaborative. The tuition, industry, transportation network, recreation and transportation programs experienced increases in revenue. Also, home services revenue increased from the prior fiscal year, while contributions, fundraisers 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. During the year ended June 30, 2016, member credits were issued in the amount of \$700,000. At June 30, 2016, five member districts had available unapplied credits totaling \$2,086,950.

Interest income increased \$5,077. The increase is related to the increase in the interest rate at the Massachusetts Municipal Depository Trust (MMDT) during fiscal year 2016.

Expenditures

Expenditures for the fiscal year ended June 30, 2016 increased \$5,658,087 or 31.7% from the prior fiscal year, excluding retirement systems on-behalf expense. Instructional and other program and administrative expenditures increased due to higher personnel costs, while a transfer of responsibility for the LABBB-EDCO transportation network expenditures from EDCO Collaborative increased expenditures for transportation.

Expenditures for both fiscal years include the annual postemployment benefit cost accrued for the retiree healthcare plan; the costs were \$556,780 in fiscal year 2016 and \$556,780 in fiscal year 2015. 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.

Change in Net Position

The change in net position or net assets for the fiscal year ended June 30, 2016 is \$1,191,154, a decrease of \$451,736 from the prior fiscal year change in net position. The decrease was due to the issuance of member credits in the amount of \$700,000 net of an increase in tuition and transportation revenues.

LABBB Collaborative
Management's Discussion & Analysis
(unaudited)
June 30, 2016

Total Assets

Total assets as of June 30, 2016 increased \$2,545,762 or 19.3% from June 30, 2015. Cash increased \$1,880,406 and accounts receivable increased \$655,707. The increase in cash is due to increased revenues during fiscal 2016. The increase in accounts receivable is due to higher enrollments during the fiscal year. 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 \$3,814,831 invested with the MMDT during fiscal year 2016 and the largest investment during that period was \$5,726,307.

Prepaid expenditures increased \$32,737 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 2016, no assets were purchased and capitalized. Depreciation expense for the year ended June 30, 2016 was \$23,088.

Liabilities and Net Position

Total liabilities as of June 30, 2016 increased \$1,354,608 or 14.4% from June 30, 2015. All liabilities are considered to be current with the exception of the accrued compensated absences and the accrued postemployment obligation. Accounts payable increased \$487,142. The increase relates primarily to transportation network activity. All accounts payable in fiscal year 2016 and fiscal year 2015 were current. Accrued expenditures increased \$127,369. The increase relates to accruing more days for the salary accrual than in fiscal 2015.

Member credits increased \$341,119. The increase is due to the issuance of member credits in the amount of \$700,000, net of the use of \$358,881 in member credits by member districts.

GENERAL FUND BUDGETARY HIGHLIGHTS

LABBB's annual budget for fiscal 2016 was approved by its Board of Directors. During fiscal 2016, actual revenues, excluding retirement systems on-behalf revenue, exceeded the budget by \$2,499,990. The tuition revenue was higher than projected by \$1,897,461, due to higher than projected enrollments. Also, the budget excluded some non-tuition based revenues, including industry, recreation, contributions, grants and interest, which totaled \$372,918 for the year ended June 30, 2016.

During fiscal 2016, LABBB incurred actual expenditures, excluding retirement systems on-behalf expense, of \$23,092,027 compared to budgeted expenditures of \$23,791,918. The difference between budgeted and actual expenditures is due mainly to lower than budgeted other postemployment benefits costs.

LABBB Collaborative
Management's Discussion & Analysis
(unaudited)
June 30, 2016

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 2016 and 2015. 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 2016 and 2015 are \$556,780 and \$556,780 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.

In fiscal 2016, LABBB 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, LABBB 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 \$10,543,324 as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances.

LABBB Collaborative
 Statement of Net Position
 June 30, 2016

**Governmental
 Activities**

ASSETS

Current Assets

Cash and cash equivalents	
Cash available for operations	\$ 8,423,561
Cash reserved for postretirement plan obligations	1,300,000
Cash reserved for technology and improvements	150,000
Cash set aside for reserve	2,479,782
Accounts receivable, net	3,048,971
Prepaid expenses	247,540
Total Current Assets	15,649,854

Non-current Assets

Equipment and improvements, net	76,297
Total Non-current Assets	76,297
Total Assets	\$ 15,726,151

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$ 503,730
Accrued expenses	862,163
Deferred revenue	41,148
Member credits	2,086,950
Total Current Liabilities	3,493,991

Non-current Liabilities:

Compensated absences	58,527
Other postemployment benefits	7,185,183
Total Long Term Liabilities	7,243,710
Total Liabilities	10,737,701

Net Position

Unrestricted net position:	
General and other purposes	4,912,153
Net position invested in capital assets	76,297
Total Net Position	4,988,450
Total Liabilities and Net Position	\$ 15,726,151

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

LABBB Collaborative
 Statement of Activities
 For the Year Ended June 30, 2016

Functions/ Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Administration	\$ 1,136,284	\$ -	\$ -	\$ (1,136,284)
Educational and instructional	16,335,111	19,927,755	16,708	3,609,352
Transportation	5,462,149	5,441,307	-	(20,842)
Intergovernmental revenue and expense	3,018,787	-	3,018,787	-
Other postemployment benefits	556,780	-	-	(556,780)
Depreciation and amortization	23,088	-	-	(23,088)
Total Governmental Activities	\$ 26,532,199	\$ 25,369,062	\$ 3,035,495	1,872,358
General Revenue:				
Interest				17,764
Other				1,032
Credits to member districts				(700,000)
Total General Revenue				(681,204)
Change in Net Position				1,191,154
Net Position, Beginning of Year				3,797,296
Net Position, End of Year				\$ 4,988,450

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

LABBB Collaborative

Balance Sheet
 Governmental Funds
 June 30, 2016

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents			
Cash available for operations	\$ 8,423,561	\$ -	\$ 8,423,561
Cash reserved for postretirement plan obligations	1,300,000	-	1,300,000
Cash reserved for technology and improvements	150,000	-	150,000
Cash set aside for reserve	2,479,782	-	2,479,782
Accounts receivable, net	3,048,971	-	3,048,971
Prepaid expenses	<u>247,540</u>	<u>-</u>	<u>247,540</u>
Total Assets	<u>\$ 15,649,854</u>	<u>\$ -</u>	<u>\$ 15,649,854</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 503,730	\$ -	\$ 503,730
Accrued expenses	862,163	-	862,163
Deferred revenue	41,148	-	41,148
Member credits	<u>2,086,950</u>	<u>-</u>	<u>2,086,950</u>
Total Liabilities	<u>3,493,991</u>	<u>-</u>	<u>3,493,991</u>
Fund Balances:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	3,929,782	-	3,929,782
Unassigned	<u>8,226,081</u>	<u>-</u>	<u>8,226,081</u>
Total Fund Balances	<u>12,155,863</u>	<u>-</u>	<u>12,155,863</u>
Total Liabilities and Fund Balances	<u>\$ 15,649,854</u>	<u>\$ -</u>	<u>\$ 15,649,854</u>

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

LABBB Collaborative

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016

Total fund balances, governmental funds \$ 12,155,863

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 76,297

The compensated absences liability is not a current obligation and therefore is not reported in this fund financial statement, but is reported in the governmental activities of the Statement of Net Position. (58,527)

The Other postemployment benefit (OPEB) liability is not a current obligation and therefore is not reported in this fund financial statement, but is reported in the governmental activities of the Statement of Net Position. (7,185,183)

Net Position of Governmental Activities \$ 4,988,450

LABBB Collaborative
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Tuition revenue	\$ 19,344,076	\$ -	\$ 19,344,076
Industry revenue	209,409	-	209,409
Recreation revenue	130,762	-	130,762
Transportation revenue	5,441,307	-	5,441,307
Contributions	8,038	-	8,038
Grants and contracts	5,913	-	5,913
Home services revenue	246,265	-	246,265
Intergovernmental revenue	3,018,787	-	3,018,787
Interest	17,764	-	17,764
Other	1,032	-	1,032
Credits to member districts	<u>(700,000)</u>	-	<u>(700,000)</u>
Total Revenues	<u>27,723,353</u>	-	<u>27,723,353</u>
Expenditures:			
Administration	1,123,437	-	1,123,437
Educational and instructional	16,335,111	-	16,335,111
Transportation expense	5,462,149	-	5,462,149
Other postemployment benefits	171,330	-	171,330
Intergovernmental expense	3,018,787	-	3,018,787
Total Expenditures	<u>26,110,814</u>	-	<u>26,110,814</u>
Net Change in Fund Balances	1,612,539	-	1,612,539
Fund Balances, Beginning of Year - cumulative effect of a change in accounting principle (see Note A)	10,543,324	-	10,543,324
Fund Balances, End of Year	<u>\$ 12,155,863</u>	<u>\$ -</u>	<u>\$ 12,155,863</u>

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

LABBB 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 - total governmental funds \$ 1,612,539

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.

Depreciation (23,088)

Governmental funds do not report certain expenses because they do not require the use of current financial resources. In contrast, the Statement of Activities reports such expenses.

Compensated absences (12,847)

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.

Net change in other postemployment benefits (OPEB) accrual (385,450)

Change in net position of governmental activities \$ 1,191,154

LABBB Collaborative
Notes to Financial Statements
June 30, 2016

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

LABBB Collaborative (“LABBB”) is an educational collaborative organized under Chapter 40 of the general laws of the Commonwealth of Massachusetts. LABBB 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.

LABBB is related to EDCO Collaborative (“EDCO”) through common board members. Four members of EDCO’s Board hold four of the five board seats of LABBB. EDCO obtains service fee income from LABBB for certain financial services. LABBB operates as a separate, independent, special education collaborative. Component units are included in the reporting entity if their operational and financial relationships with the reporting entity are significant. Pursuant to these criteria, LABBB did not identify EDCO as a component unit requiring inclusion in the accompanying financial statements.

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

Basis of Presentation

LABBB'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 LABBB are discussed below.

LABBB's basic financial statements include both government-wide (reporting LABBB as a whole) and fund financial statements (reporting LABBB'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. LABBB does not have any activities classified as business type activities.

Cumulative effect of change in accounting principle

LABBB 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, LABBB 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 \$10,543,324 as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances.

Government-wide Financial 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. LABBB's net position is reported in three parts—net investment in capital assets; restricted, as applicable; and unrestricted. LABBB first utilizes restricted resources to finance qualifying activities.

LABBB Collaborative
Notes to Financial Statements
June 30, 2016

NOTE A – *continued*

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. LABBB does not allocate indirect expenses to functions in the statement of Activities. Program revenues included charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Assessments and other items not properly included among program revenues are reported instead as general revenues.

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

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund balance, revenues and expenditures.

The emphasis in fund financial statements is on the major funds in the governmental 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. LABBB 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 LABBB - LABBB 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 LABBB:

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

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.

Basis of Accounting and Measurement Focus

LABBB's government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gain, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

LABBB Collaborative
Notes to Financial Statements
June 30, 2016

NOTE A – *continued*

LABBB's governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, judgments, compensated absences and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Revenues

Expenditure-driven programs currently reimbursable are recognized as revenue when the qualifying expenditures have been incurred and the amounts are available. Charges for services provided to other education agencies and private parties are recognized as revenue when services are provided. Amounts owed to LABBB for services already performed, which are not available are recorded as receivables. Amounts received prior to the entitlement period are recorded as unearned revenue. Revenues susceptible to accrual include expenditure-driven programs and interest income.

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, 2016, the cash reserved for postemployment plan obligations was \$1,300,000, for technology and improvements was \$150,000, and for operations was \$2,479,782.

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, 2016, management has recorded an allowance for doubtful accounts of \$64,506.

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.

LABBB Collaborative
Notes to Financial Statements
June 30, 2016

NOTE A – *continued*

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.

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 2016, no new credits were issued to the member districts. All five member school districts have available credits totaling \$2,086,950 at June 30, 2016.

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).

Equity Classifications

Government-wide Statements

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

Net position invested in capital assets – Consists of capital assets including restricted capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributed to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end the portion of the debt attributable to the unspent proceeds are not included in the calculation or invested in capital assets. LABBB has no bonded debt on Capital assets at June 30, 2016.

Restricted net position (as applicable) – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other government or, (2) law through constitutional provisions or enabling legislation.

Unrestricted net position – general and other purposes – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance in the fund financial statements is classified as nonspendable, restricted, committed, assigned or unassigned as described below:

Nonspendable: 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.

LABBB Collaborative
Notes to Financial Statements
June 30, 2016

NOTE A – *continued*

Restricted: Amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints. (External constraints might be imposed by creditors, grantors, contributors, or even the laws or regulations of other governments.)

Committed: Amounts that can be used only for specific purposes because of a formal action by the government's highest level of decision-making authority (Board of Directors). This classification might also include contractual obligations if existing resources have been committed for use in satisfying those contractual requirements.

Assigned: Amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a finance committee), or by an official to whom authority has been given.

Unassigned: This is residual classification for the General Fund – that is, everything that is not in another classification or in another fund. The General Fund is the only governmental fund that can report a positive unassigned fund balance. Other governmental funds might have a negative unassigned fund balance as a result of overspending for specific purposes for which amounts have been restricted, committed, or assigned.

LABBB's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance.

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.

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.

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, 2016

NOTE A – *continued*

Subsequent events

LABBB has evaluated subsequent events through December 15, 2016, 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, 2016:

Bank balance of cash and cash equivalents	\$13,528,173
Petty cash	15
Deposits held in a Massachusetts Municipal Depository Trust	5,214
Reconciling items (deposits in transit, outstanding checks, etc.), net	<u>(1,180,059)</u>
 Total cash and cash equivalents as reported on the statement of net position	 <u>\$12,353,343</u>
 Bank deposits insured by the Federal Deposit Insurance Corporation	 <u>\$ 250,000</u>

NOTE C – EQUIPMENT AND IMPROVEMENTS

Equipment and improvement activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Equipment and improvements:				
Equipment	\$ 7,732	\$ -	\$ -	\$ 7,732
Leasehold improvements	<u>110,421</u>	<u>-</u>	<u>-</u>	<u>110,421</u>
Total at historic cost	118,153	-	-	118,153
Accumulated depreciation	<u>18,768</u>	<u>23,088</u>	<u>-</u>	<u>41,856</u>
Total equip. & improvements, net	<u>\$ 99,385</u>	<u>\$ 23,088</u>	<u>\$ -</u>	<u>\$ 76,297</u>

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 2021. 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 \$248,072 for the year ended June 30, 2015.

The approximate minimum future obligations on the lease at June 30, 2016 are as follows:

2017	\$ 167,531
2018	155,272
2019	148,185
2020	137,922
2021	<u>104,984</u>
	<u>\$ 713,894</u>

LABBB Collaborative
Notes to Financial Statements
June 30, 2016

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, 2015 to June 30, 2016 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, 2016, the service fee incurred was \$427,838.

LABBB entered into a joint venture in fiscal 2009 with EDCO to establish the LABBB-EDCO Transportation Network (“the Transportation Network”). During fiscal 2016, LABBB billed EDCO \$188,337 for transportation management services provided to the Transportation Network. Also, EDCO provided accounting and financial services for the Transportation Network and charged LABBB \$31,547, which represents direct costs for these services. This joint venture is expected to continue through fiscal 2017; and the service fees are expected to be similar to fiscal 2016.

NOTE F - MASSACHUSETTS TEACHERS’ AND STATE EMPLOYEES’ RETIREE SYSTEMS

Plan Descriptions

LABBB’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.

LABBB Collaborative
Notes to Financial Statements
June 30, 2016

NOTE F – *continued*

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

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

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

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, 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 collaboratives. During fiscal year 2016, LABBB's contributions on behalf of employees totaled \$298,090.

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

LABBB Collaborative
Notes to Financial Statements
June 30, 2016

NOTE F – *continued*

The Commonwealth is a nonemployer contributor in MTRS and is required by statute to make all actuarially determined employer contributions on behalf of the member employers participating in MTRS.

LABBB 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, LABBB 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 LABBB was measured as of June 30, 2015 and was \$10,377,586 and \$22,927,185 under MSERS and MTRS, respectively. In fiscal year 2016, LABBB recognized revenue and related expense of \$1,159,188 (under GASB Statement No. 68) for its portion of the collective pension expense under MSERS. In fiscal 2016, LABBB recognized revenue and related expense of \$1,859,599, (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 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, 2016, the annual contribution required to meet this requirement 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.

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.

LABBB Collaborative
 Notes to Financial Statements
 June 30, 2016

NOTE G – *continued*

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, 2016, no investment vehicle has been established to fund the plan.

The rollforward of the accrued postemployment obligation as of June 30, 2016 and two preceding years was as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Postemployment obligation at beginning of year	\$6,799,733	\$6,410,750	\$5,354,597
Interest on net obligation	384,645	384,645	321,276
Annual required contribution	887,342	887,342	1,451,492
Adjustment to annual required contribution	<u>(715,207)</u>	<u>(715,207)</u>	<u>(577,146)</u>
Annual benefit cost	556,780	556,780	1,195,622
Benefit payments paid	<u>(171,330)</u>	<u>(167,797)</u>	<u>(139,469)</u>
Postemployment obligation at end of year	<u>\$7,185,183</u>	<u>\$6,799,733</u>	<u>\$6,410,750</u>

NOTE H – CONCENTRATIONS OF CREDIT RISK

Approximately 47% of all revenues are derived from the member school districts in 2016. Two member towns represented 24% of all revenue in 2016. At June 30, 2016, two member towns represented approximately 35% of total accounts receivable.

NOTE I – FISCAL 2017 BUDGET

LABBB has authorized a fiscal 2017 operating budget totaling approximately \$24,798,000 which management expects to fully fund through tuitions, governmental grants, and other receipts.

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

Names, duties and total compensation for the five most highly compensated employees

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

<u>Employee Name</u>	<u>Title</u>	<u>Salary</u>	<u>Health Insurance Employer</u>	<u>Total</u>
Patric Barbieri	Executive Director	\$157,513	\$14,482	\$171,995
James Kelly	Program Director	\$115,812	\$15,935	\$131,747
Margaret Sheehan	Special Education Teacher	\$115,395	\$15,935	\$131,330
Donna Goodell	Program Director	\$109,305	\$14,482	\$123,787
Peter Kimball	Counselor	\$107,579	\$15,935	\$123,514

LABBB Collaborative
Notes to Financial Statements
June 30, 2016

NOTE J – *continued*

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.

Counselor – The duties of the program coordinator include providing individual and group counseling, assisting parents in understanding their child's development and special needs, attending IEP's, case conferences, and team meetings, and intervening in crises in and out of the classroom.

Amounts expended on services for individuals aged 22 years and older

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

Accounts held by the collaborative that may be spent at the discretion of another person or entity

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

Transactions between the collaborative and any related for-profit or non-profit organization

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

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 Note D to the financial statements.

Amounts expended on administration and overhead

Total administrative costs incurred by LABBB totaled \$1,136,284 for the year ended June 30, 2016. 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
 Notes to Financial Statements
 June 30, 2016

NOTE J – *continued*

Annual determination and disclosure of cumulative surplus

			Page(s) in financial statements
<u>Cumulative Surplus Calculation - FY16</u>			
(A)	Voted Cumulative Surplus as of 6/30/15	\$ 10,543,324	(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)1 + (B)2 = (B)	(B)2 \$ 700,000 \$ 700,000	(B)
(C)	Unexpended FY16 General Funds	\$ 2,312,539	(C) p. 11
(D)	Cumulative Surplus as of 6/30/16 (A) - (B) + (C) = (D)	\$ 12,155,863	(D)
(E)	FY16 Total General Fund Expenditures*	\$ 23,092,027	(E) p. 11
(F)	Cumulative Surplus Percentage (D) ÷ (E)	53%	(F)
Estimated Amount of Excess Cumulative Surplus as of 6/30/16			<u>\$ 6,382,856</u> **

* Excludes Intergovernmental expense

** Prior to the Massachusetts Department of Elementary and Secondary Education (“DESE”)’s clarification of regulations on Collaborative surplus funds, LABBB considered the annual OPEB expense and related OPEB liability as reductions to cumulative surplus. However, upon DESE’s clarification, only cumulative general fund balances, of which OPEB liabilities and expense are not a part, should be factored into the surplus calculation. Therefore, LABBB has calculated the excess surplus as indicated above and has notified DESE of this surplus. LABBB has requested additional time to determine how best to distribute this surplus and will address the amount as soon as possible.

LABBB Collaborative
 Statement of Revenues, Expenditures and Changes in Fund Balance
 of the General Fund - Budget and Actual - Budgetary Basis
 For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Tuition revenue	\$ 17,446,615	\$ 17,446,615	\$ 19,344,076	\$ 1,897,461
Industry revenue	-	-	209,409	209,409
Recreation revenue	-	-	130,762	130,762
Transportation revenue	320,189	5,320,189	5,441,307	121,118
Contributions	-	-	8,038	8,038
Grants and contracts	-	-	5,913	5,913
Home services revenue	137,772	137,772	246,265	108,493
Intergovernmental revenue*	-	-	3,018,787	3,018,787
Interest	-	-	17,764	17,764
Other	-	-	1,032	1,032
Total Revenues	17,904,576	22,904,576	28,423,353	5,518,777
Expenditures:				
Administration	878,515	878,515	1,123,437	(244,922)
Educational and instructional	16,705,872	16,705,872	16,335,111	370,761
Transportation expense	320,189	5,320,189	5,462,149	(141,960)
Other postemployment benefits**	887,342	887,342	171,330	716,012
Intergovernmental expense*	-	-	3,018,787	(3,018,787)
Total Expenditures	\$ 18,791,918	\$ 23,791,918	\$ 26,110,814	\$ (2,318,896)
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (887,342)	\$ (887,342)	\$ 2,312,539	\$ 3,199,881
Other Budget Items:				
Credits to member districts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (700,000)</u>	<u>\$ (700,000)</u>

*Intergovernmental revenue and expense is not budgeted by the Collaborative because it is actuarially determined annually and does not require actual expenditure by the Collaborative.

**The Collaborative includes estimated other postemployment benefits (OPEB) expense in its budget. However, OPEB expense is not considered a general fund expenditure.

LABBB 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	0.11531%	0.09123%
	FY2015	0.11190%	0.09117%
Collaborative's proportionate share of net pension liability	FY2014	\$ 18,330,401	\$ 6,965,184
	FY2015	\$ 22,927,185	\$ 10,377,586
Collaborative's covered-employee payroll	FY2014	\$ 6,953,746	\$ 4,970,167
	FY2015	\$ 7,035,045	\$ 4,989,671
Collaborative's proportionate share of net pension liability as a percentage of its covered-employee payroll	FY2014	263.60%	140.14%
	FY2015	325.90%	207.98%
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 F 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.

LABBB Collaborative
 Schedule of the Pension Contributions
 For the Year Ended June 30, 2016

	MTRS	MSERS
Fiscal 2014		
Contractually required contribution	\$ -	\$ 278,330
Contributions in relation to the contractually required contribution	\$ -	\$ 278,330
Contribution deficiency (excess)	<hr/>	<hr/>
Collaborative's covered-employee payroll	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	<hr/>	<hr/>
	\$ 6,953,746	\$ 4,970,167
	0.00%	5.60%

Fiscal 2015

Contractually required contribution	\$ -	\$ 279,422
Contributions in relation to the contractually required contribution	\$ -	\$ 279,422
Contribution deficiency (excess)	<hr/>	<hr/>
Collaborative's covered-employee payroll	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	<hr/>	<hr/>
	\$ 7,035,045	\$ 4,989,671
	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 F 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 situation.



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 the governmental activities, each major fund, and the aggregate remaining fund information of LABBB 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 LABBB Collaborative's basic financial statements, and have issued our report thereon dated December 15, 2016.

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 opinions 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 the 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 15, 2016.

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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Newburyport, Massachusetts

December 15, 2016

Patric Barbieri
Executive Director

Maria Giangrande
Administrative Assistant



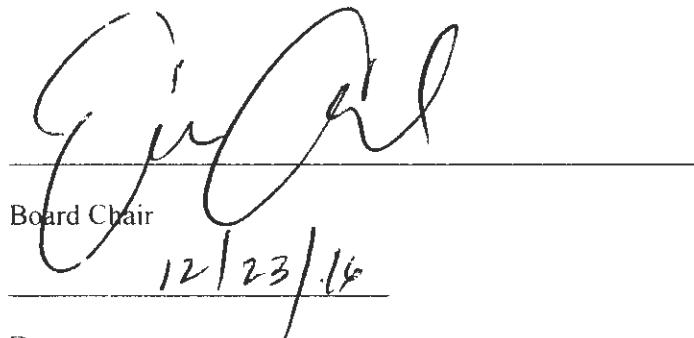
Donna Goodell, Program Director
Pre-school, Elementary & Middle School Programs

James Kelly, Program Director
High School Programs

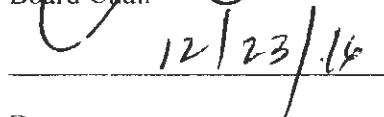
ACCEPTANCE OF THE BOARD OF DIRECTORS

We, the Board of Directors of the 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, 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



Date
12/23/16