

**Financial Statements and
Required Supplementary Information**

**Lexington, Arlington, Burlington,
Bedford, Belmont
Educational Collaborative**

June 30, 2012 and 2011



Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

***Financial Statements and
Required Supplementary Information***

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Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

500 Boylston Street ■ Boston, MA 02116
Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ www.cbiztofias.com

Independent Auditors' Report

Board of Directors
Lexington, Arlington, Burlington, Bedford, Belmont
Educational Collaborative
Waltham, Massachusetts

We have audited the accompanying financial statements of the Lexington, Arlington, Burlington, Bedford, Belmont Educational Collaborative ("LABBB") as of June 30, 2012 and 2011, and for the years then ended, as listed in the accompanying table of contents. These financial statements are the responsibility of LABBB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LABBB as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012 on our consideration of LABBB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information on pages 3-4 and 8-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the 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 U.S. generally accepted auditing standards, 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 audits 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.

Mayer Hoffman McCann P.C.

December 20, 2012
Boston, Massachusetts

Required Supplementary Information

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Management's Discussion and Analysis

June 30, 2012

Revenue and Other Support

Revenue and Other Support for the fiscal year ended June 30, 2012 increased \$57,806 or .3% from the prior fiscal year, excluding on-behalf retirement payments revenue. The transportation, contributions, grants and home services programs experienced increases while the tuition, industry and recreation programs declined.

The Board of Directors of LABBB Collaborative approved additional member credits of \$775,000 in fiscal year 2011. Member credits can be used to reduce amounts due to LABBB Collaborative from member districts for special education services provided by LABBB. The approval of the member credits created a financial transaction which impacted the change in net assets by \$775,000 in fiscal year 2011. No member credits were issued in fiscal year 2012.

Interest income decreased \$1,775. The reduction is related to the decrease in interest rates at the Massachusetts Municipal Depository Trust (MMDT) during fiscal year 2012. The average daily cash balance was lower in fiscal year 2012 than in fiscal year 2011 by approximately 6%.

Expenses

Expenses for the fiscal year ended June 30, 2012 increased \$195,181 or 1.1% from the prior fiscal year, excluding on-behalf retirement payments expense. The majority of the expense increase relates to rising costs for fringe benefits including health insurance, unemployment and workers compensation.

Management and general costs for both fiscal years include the annual post retirement benefit cost accrued for the retiree healthcare plan; the costs were \$1,228,441 in fiscal year 2012 and \$1,281,952 in fiscal year 2011. The amounts were determined by two actuarial studies, as of July 1, 2012 and July 1, 2010. The plan is offered to retired LABBB employees who meet specific eligibility requirements.

Decrease in Net Assets

The change in net assets or loss for the fiscal year ended June 30, 2012 is \$282,341, a decrease of \$637,625 from the prior fiscal year loss. The cost of the postretirement benefit contributed to losses in fiscal year 2012 and 2011, while the approval of member credits contributed to losses in fiscal year 2011.

Total Assets

Total assets as of June 30, 2012 increased \$582,826 or 7.2% from June 30, 2011. Cash increased \$343,593 and accounts receivable increased \$229,793. The increase in cash is related to the reduced use of member credits during fiscal year 2012 and increased revenues. Member credit use reduces accounts receivable and instead of receiving cash, reduces the member credit liability. LABBB Collaborative maintains cash balances with Citizens Bank and the MMDT. Cash balances at Citizens Bank are maintained at levels that ensure FDIC protection. Cash balances at the MMDT are not FDIC insured.

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Management's Discussion and Analysis

June 30, 2012

Total Assets (Continued)

The MMDT is managed by the Massachusetts State Treasurer and Fidelity Investments 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 Collaborative had an average of \$4,903,862 invested with the MMDT during fiscal year 2012 and the largest investment during that period was \$7,406,861.

Prepaid expenses increased \$12,260 from the prior year. The majority of the increase is related to prepaid medical and dental insurance.

LABBB Collaborative capitalizes assets purchased which equal or exceed \$2,500 in value. These assets are depreciated over lives of three to five years on the straight-line method. No items were capitalized in fiscal year 2012 and depreciation expense was \$2,819.

Liabilities and Net Assets

Total liabilities as of June 30, 2012 increased \$865,167 or 13.8% from June 30, 2011. All liabilities are considered to be current with the exception of accrued postretirement obligations. Accounts payable decreased \$30,563. All accounts payable in fiscal year 2012 and fiscal year 2011 were current. Accrued expenses increased \$4,957. The total increase relates to the accrual for consulting fees for an actuarial study.

Deferred revenue decreased \$38,539. The decrease is related to expenditures from a donation from the Land Foundation.

Member credits decreased \$158,248. The use of \$158,248 in member credits by member districts was the reason for the decrease; no additional member credits were approved in fiscal year 2012. The activity for fiscal year 2011 included the use of member credits by member districts of \$150,000 and the issuance of \$775,000 in member credits for a net increase of \$625,000.

Known Facts, Decisions, or Conditions

LABBB Collaborative implemented a new standard from the Government Accounting Standards Board (GASB), number 45, in fiscal year 2009. The standard relates to the accounting and reporting by employers for post employment benefits other than pensions. LABBB Collaborative provides financial support for post employment health benefits.

LABBB Collaborative historically recorded the cost of the post employment health benefits on a "pay as you go" basis. The new standard requires these costs be recorded on an accrual basis and requires the disclosure of the post employment 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 the LABBB Collaborative operating results in fiscal years 2012 and 2011. LABBB Collaborative 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 2012 and 2011 was \$1,228,441 and \$1,281,952, respectively.

Financial Statements

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Statements of Net Assets

| | <i>June 30,</i> | |
|--|---------------------|---------------------|
| | <i>2012</i> | <i>2011</i> |
| Assets | | |
| Current: | | |
| Cash and cash equivalents: | | |
| Cash available for operations | \$ 4,782,362 | \$ 4,638,289 |
| Cash reserved for postretirement plan obligations & technology | 766,944 | 775,000 |
| Cash set aside for reserve | 1,812,400 | 1,604,825 |
| Accounts receivable, net | 1,014,028 | 784,235 |
| Prepaid expenses | 301,113 | 288,853 |
| Non-current: | | |
| Equipment, net | 166 | 2,985 |
| Total assets | 8,677,013 | 8,094,187 |
| Liabilities | | |
| Current: | | |
| Accounts payable | 32,402 | 62,965 |
| Accrued expenses | 1,112,669 | 1,107,712 |
| Deferred revenue | 29,664 | 68,203 |
| Member credits | 1,678,448 | 1,836,696 |
| Compensated absences | 26,481 | 25,966 |
| Non-current: | | |
| Accrued postretirement obligation | 4,273,817 | 3,186,772 |
| Total liabilities | 7,153,481 | 6,288,314 |
| Net Assets | | |
| Unrestricted net assets: | | |
| General and other purposes | 756,422 | 1,027,888 |
| Board designated | 766,944 | 775,000 |
| Net assets invested in capital assets | 166 | 2,985 |
| | \$ 1,523,532 | \$ 1,805,873 |

See accompanying notes to the financial statements.

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Statements of Revenues, Expenditures and Changes in Net Assets

| | <i>Years Ended June 30,</i> | |
|---|-----------------------------|---------------------|
| | <i>2012</i> | <i>2011</i> |
| Revenue and other support: | | |
| Tuition revenue | \$ 17,283,614 | \$ 17,313,109 |
| Industry revenue | 187,909 | 188,139 |
| Recreation revenue | 152,783 | 164,820 |
| Transportation revenue | 264,816 | 246,187 |
| Contributions | 69,069 | 23,117 |
| Grants and contracts | 9,625 | 6,650 |
| Interest income | 13,778 | 15,553 |
| Home services revenue | 33,787 | - |
| On-behalf retirement payments revenue | 425,792 | 211,648 |
| | <hr/> | <hr/> |
| Total revenue and other support | 18,441,173 | 18,169,223 |
| | <hr/> | <hr/> |
| Expenditures: | | |
| Instructional | 15,855,655 | 15,757,489 |
| Transportation expense | 285,017 | 230,793 |
| Management and general | 928,609 | 832,307 |
| Postretirement benefit obligation | 1,228,441 | 1,281,952 |
| On-behalf retirement payments expense | 425,792 | 211,648 |
| | <hr/> | <hr/> |
| Total expenditures | 18,723,514 | 18,314,189 |
| | <hr/> | <hr/> |
| Change in net assets before issuance of member credits | (282,341) | (144,966) |
| Member credits issued | - | (775,000) |
| | <hr/> | <hr/> |
| Change in net assets | (282,341) | (919,966) |
| Net assets, beginning | 1,805,873 | 2,725,839 |
| | <hr/> | <hr/> |
| Net assets, ending | \$ 1,523,532 | \$ 1,805,873 |
| | <hr/> <hr/> | <hr/> <hr/> |

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Statements of Cash Flows

| | <i>Years Ended June 30,</i> | |
|--|-----------------------------------|-----------------------------------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Receipts from tuition | \$ 16,857,034 | \$ 17,075,154 |
| Receipts from industry and other | 639,295 | 599,146 |
| Receipts from contributions | 69,069 | 23,117 |
| Receipts from grants and contracts | 9,625 | 6,650 |
| Receipts from interest income | 13,778 | 15,553 |
| Payments to suppliers and vendors | (6,059,498) | (5,718,937) |
| Payment to employees | <u>(11,185,711)</u> | <u>(11,090,546)</u> |
| Net cash provided by operating activities and net increase in cash and cash equivalents | 343,592 | 910,137 |
| Cash and cash equivalents, beginning | <u>7,018,114</u> | <u>6,107,977</u> |
| Cash and cash equivalents, ending | \$ <u><u>7,361,706</u></u> | \$ <u><u>7,018,114</u></u> |
| Reconciliation of operating income to net cash used in operating activities: | | |
| Change in net assets before issuance of member credits | \$ (282,341) | \$ (144,966) |
| Reconciliation to cash flow: | | |
| Depreciation | 2,819 | 5,551 |
| Changes in: | | |
| Accounts receivable | (229,793) | (73,854) |
| Prepaid expenses | (12,260) | (13,462) |
| Accrued expenses | 4,957 | 132,865 |
| Accounts payable | (30,563) | (338) |
| Deferred revenue | (38,539) | (14,101) |
| Member credits | (158,248) | (150,000) |
| Postretirement benefit obligations | 1,087,045 | 1,168,936 |
| Compensated absences | <u>515</u> | <u>(494)</u> |
| Net cash provided by operating activities | \$ <u><u>343,592</u></u> | \$ <u><u>910,137</u></u> |

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

*Statement of Revenues and Expenditures
Budget and Actual*

Year Ended June 30, 2012

| | <i>Final Budget</i> | <i>Actual Budgetary Amounts</i> | <i>Variance with Final Budget Favorable (Unfavorable)</i> |
|--|-------------------------|---|---|
| Operating Activities: | | | |
| Revenue and Other Support: | | | |
| Tuition revenue | \$ 16,607,392 | \$ 17,283,614 | \$ 676,222 |
| Industry revenue | - | 187,909 | 187,909 |
| Recreation revenue | - | 152,783 | 152,783 |
| Transportation revenue | 125,000 | 264,816 | 139,816 |
| Contributions | - | 69,069 | 69,069 |
| Grants and contracts | - | 9,625 | 9,625 |
| Interest income | - | 13,778 | 13,778 |
| Home services revenue | - | 33,787 | 33,787 |
| On-behalf retirement payments revenue | - | 425,792 | 425,792 |
| | 16,732,392 | 18,441,173 | 1,708,781 |
| Expenditures: | | | |
| Instructional | 15,156,766 | 15,855,655 | (698,889) |
| Transportation expense | 125,000 | 285,017 | (160,017) |
| Management and general | 766,480 | 928,609 | (162,129) |
| Postretirement benefit obligation | - | 1,228,441 | (1,228,441) |
| On-behalf retirement payment expense | - | 425,792 | (425,792) |
| | 16,048,246 | 18,723,514 | (2,675,268) |
| Excess (deficit) of revenue over expenses | \$ 684,146 | \$ (282,341) | \$ (966,487) |

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

*Statement of Revenues and Expenditures
Budget and Actual*

Year Ended June 30, 2011

| | <i>Final Budget</i> | <i>Actual Budgetary Amounts</i> | <i>Variance with Final Budget Favorable (Unfavorable)</i> |
|--|-------------------------|---|---|
| Operating Activities: | | | |
| Revenue and Other Support: | | | |
| Tuition revenue | \$ 16,320,240 | \$ 17,313,109 | \$ 992,869 |
| Industry revenue | - | 188,139 | 188,139 |
| Recreation revenue | - | 164,820 | 164,820 |
| Transportation revenue | 138,602 | 246,187 | 107,585 |
| Contributions | - | 23,117 | 23,117 |
| Grants and contracts | - | 6,650 | 6,650 |
| Interest income | - | 15,553 | 15,553 |
| On-behalf retirement payments revenue | - | 211,648 | 211,648 |
| | <u>16,458,842</u> | <u>18,169,223</u> | <u>1,710,381</u> |
| Total revenue and other support | | | |
| Expenditures: | | | |
| Instructional | 14,914,619 | 15,757,489 | (842,870) |
| Transportation expense | 138,602 | 230,793 | (92,191) |
| Management and general | 745,300 | 832,307 | (87,007) |
| Postretirement benefit obligation | - | 1,281,952 | (1,281,952) |
| On-behalf retirement payment expense | - | 211,648 | (211,648) |
| | <u>15,798,521</u> | <u>18,314,189</u> | <u>(2,515,668)</u> |
| Total expenditures | | | |
| Excess (deficit) of revenue over expenses | \$ 660,321 | \$ (144,966) | \$ (805,287) |

LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT EDUCATIONAL COLLABORATIVE

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

The Lexington, Arlington, Burlington, Bedford, Belmont Educational 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 age 3 to 22, with moderate to severe special needs.

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

Basis of Presentation

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles, as prescribed by the Government Accounting Standards Board.

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, measurement of actuarial obligations for defined postretirement health care benefits and the allocation 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 determination of operating income, change in net assets (or cost recovery), financial position and cash flows. 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. LABBB follows private-sector guidance, subject to this limitation.

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.

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (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. These are the procedures by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. The assets, liabilities and fund balances of LABBB are reported in LABBB's enterprise fund group.

Cash and Cash Equivalents

Cash equivalents include cash balances maintained in checking accounts. For purposes of the Statements of Cash Flows, LABBB considers all highly liquid debt 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. Certain non-interest bearing bank accounts are insured fully by the Federal Deposit Insurance Corporation, while interest bearing accounts are insured up to \$250,000. LABBB also maintains cash and cash equivalents at the Massachusetts Municipal Depository Trust which is collateralized by its underlying assets.

Accounts Receivable

Accounts receivable are carried at their net realizable 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, 2012 and 2011, management recorded an allowance for doubtful accounts of \$15,000 for each year.

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.

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Member Credits

The member school districts have elected to make a portion of current and prior year surpluses available to them for future use. Member credits are recognized as obligations when approved by the board. During 2011, LABBB issued \$775,000 in credits to the member districts and did not issue any new credits in 2012. All five member school districts have available credits totaling \$1,678,448 at June 30, 2012, while all five member districts had available credits totaling \$1,836,696 at June 30, 2011.

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 current liability in the Statements of Net Assets. The amount estimated to be paid during the next fiscal year is reported as current.

Postretirement Healthcare Plan

LABBB follows standards which requires 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 7).

Net Assets

Net assets represent the difference between assets and liabilities. Net assets 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 assets are 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 assets are available.

Functional Allocation of Expenses

Fringe benefit costs have been allocated to functions in the Statements of Activities based on a percentage of salary cost. Accordingly, these costs have been allocated among the programs. Compensated absences are recorded as a current liability in the Statements of Net Assets. The amount estimated to be paid during the next fiscal year is reported as current.

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

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 based 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.

Subsequent Events

LABBB has evaluated subsequent events through December 20, 2012, the date the financial statements were authorized to be issued. No events occurred after June 30, 2012 through such date that LABBB is required to disclose or accrue in its fiscal 2012 financial statements.

Note 2 - Cash and Cash Equivalents

| | <i>2012</i> | <i>2011</i> |
|--|----------------------------|----------------------------|
| Bank balance of cash and cash equivalents | \$ 2,235,953 | \$ 561,337 |
| Deposits held in a Massachusetts Municipal Depository Trust | 5,661,619 | 6,707,841 |
| Reconciling items (deposits in transit, outstanding checks, etc.), net | <u>(535,866)</u> | <u>(251,064)</u> |
| Total cash and cash equivalents as reported on the statements of net assets | <u>\$ 7,361,706</u> | <u>\$ 7,018,114</u> |
| Bank deposits insured by the Federal Deposit Insurance Corporation | <u>\$ 2,235,953</u> | <u>\$ 561,337</u> |
| Total bank deposits | <u>\$ 2,235,953</u> | <u>\$ 561,337</u> |

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Notes to Financial Statements

Note 2 - Cash and Cash Equivalents (Continued)

Cash is presented on the Statements of Net Assets as follows at June 30:

| | <i>2012</i> | <i>2011</i> |
|--|--------------------------------|--------------------------------|
| Cash available for operations | \$ 4,782,362 | \$ 4,638,289 |
| Cash reserved for postretirement plan obligations | 700,000 | 700,000 |
| Cash reserved for technology | 66,944 | 75,000 |
| Cash set aside for reserves | <u>1,812,400</u> | <u>1,604,825</u> |
| Total cash and cash equivalents as reported on the statements of net assets | \$ <u>7,361,706</u> | \$ <u>7,018,114</u> |

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

Note 3 - Equipment and Improvements

Equipment and improvements activity for the year ended June 30, 2012 was as follows:

| | <i>Beginning Balance</i> | <i>Increases</i> | <i>Decreases</i> | <i>Ending Balance</i> |
|---|------------------------------|----------------------------|------------------------|-----------------------------|
| Equipment and improvements: | | | | |
| Leasehold improvements | \$ 1,425 | \$ - | \$ - | \$ 1,425 |
| Computer hardware | 6,452 | - | - | 6,452 |
| Computer software | <u>9,765</u> | <u>-</u> | <u>-</u> | <u>9,765</u> |
| Total at historic cost | \$ <u>17,642</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>17,642</u> |
| Accumulated depreciation | <u>\$ 14,657</u> | <u>\$ 2,819</u> | <u>\$ -</u> | <u>\$ 17,476</u> |
| Total accumulated depreciation | \$ <u>14,657</u> | \$ <u>2,819</u> | \$ <u>-</u> | \$ <u>17,476</u> |

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Notes to Financial Statements

Note 3 - Equipment and Improvements (Continued)

Equipment and improvements activity for the year ended June 30, 2011 was as follows:

| | <i>Beginning Balance</i> | <i>Increases</i> | <i>Decreases</i> | <i>Ending Balance</i> |
|---------------------------------------|------------------------------|------------------------|--------------------|---------------------------|
| Equipment and improvements: | | | | |
| Leasehold improvements | \$ 1,425 | \$ - | \$ - | \$ 1,425 |
| Computer hardware | 6,452 | - | - | 6,452 |
| Computer software | 9,765 | - | - | 9,765 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total at historic cost | \$ <u>17,642</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>17,642</u> |
| Accumulated depreciation | \$ 9,106 | \$ 5,551 | \$ - | \$ 14,657 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total accumulated depreciation | \$ <u>9,106</u> | \$ <u>5,551</u> | \$ <u>-</u> | \$ <u>14,657</u> |

Note 4 - Lease Commitments

LABBB has operating lease agreements for office equipment and vehicles used to transport students, which expire at various times through 2017. 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 \$252,482 and \$242,381 for the years ended June 30, 2012 and 2011, respectively.

The approximate minimum future obligations on the leases at June 30, 2012 are as follows:

| | |
|------|------------|
| 2013 | \$ 155,000 |
| 2014 | 114,000 |
| 2015 | 70,000 |
| 2016 | 41,500 |
| 2017 | 10,600 |

Note 5 - Related Party Transactions

LABBB obtains certain administrative, accounting, supporting services, and other resources from EDCO Collaborative (“EDCO”). Four out of the five board members for LABBB also make up part of the twenty-one board members for EDCO.

For the years ended June 30, 2012 and 2011, the total service fee incurred was \$270,160 and \$262,292, respectively. Included in accrued expenses at June 30, 2012 and 2011 were amounts due to EDCO of \$957 and \$1,307, respectively.

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Notes to Financial Statements

Note 5 - Related Party Transactions (Continued)

Subsequent to year end, the agreement with EDCO was extended through June 30, 2013, calling for a fixed fee of \$275,563, for the twelve months ending June 30, 2013. The service agreement is negotiated each year for the services provided and the service fee charged.

LABBB entered into a separate agreement in fiscal 2009 with EDCO to establish the LABBB-EDCO Transportation Network. A Transportation Administrator was hired by LABBB, who worked with the Business Manager to manage this venture. LABBB received a \$50,000 grant from the Commonwealth of Massachusetts Department of Elementary and Secondary Education, which was used to fund \$45,000 of the Transportation Administrator and Business Manager positions. The remaining \$5,000 was paid to EDCO as a consulting fee for the Executive Director. In addition, EDCO provides accounting and financial services for the Transportation Network operated by LABBB and was paid \$23,841 and \$14,935, respectively. This fee represents direct costs for these services. This joint venture continues through fiscal 2013; the service fees are expected to be similar to fiscal 2012.

LABBB is also related to EDCO Collaborative for Greater Boston, Inc. ("EDCO, Inc.") as four members of EDCO, Inc.'s board hold four of the five board seats of LABBB.

Note 6 - Retirement Plan

LABBB is a participant in the Massachusetts Teachers' Retirement System. All part-time, temporary, or full-time teachers are required to have a specified amount withheld from their pay to be deposited in the system. The amount required to be withheld from the employees' pay ranges from 5% to 11% of the employees' compensation, depending on the date of employment. LABBB is not assessed under this plan. The Commonwealth of Massachusetts made additional contributions to the Massachusetts Teachers Retirement Board on behalf of LABBB employees of \$425,792 and \$211,648 for 2012 and 2011, respectively.

The Commonwealth of Massachusetts provides for retirement benefits to LABBB's non-teachers through a contributory retirement system under the Massachusetts Contributory Retirement Law. This retirement plan requires an employee contribute between 5% and 11% of the employees' compensation, depending on employment date and employee salary. LABBB also makes a 7.8% contribution which totaled approximately \$390,000 and \$359,000 for the years ended June 30, 2012 and 2011, respectively.

Note 7 - Postretirement Medical Plan

LABBB sponsors a postretirement benefit plan (the "Plan") which provides health benefits to qualified retirees. As of June 30, 2012 and 2011, the Plan has a projected unfunded liability of approximately \$13,051,000 and \$11,713,000, respectively. In accordance with GASB 45, this liability is being accrued over a period of thirty years. At June 30, 2012 and 2011, the annual contribution required to meet this requirement is approximately \$571,000 in both years, in addition to the normal benefit cost estimated at \$803,000 in both years. Reporting and amortization of the unfunded liability began during fiscal 2009.

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EDUCATIONAL COLLABORATIVE**

Notes to Financial Statements

Note 7 - Postretirement Medical Plan (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.

In the July 1, 2012 valuation, a frozen entry age actuarial cost method was used. The actuarial assumptions included a 6.00% discount rate and an annual healthcare cost trend rate of 7.75% initially, grading down to 2.5% in fiscal 2021 and later, in 0.75 point intervals. As of June 30, 2012 and 2011, no investment vehicle has been established to fund the plan.

The rollforward of the accrued postretirement obligation as of June 30, 2012 and 2011 were as follows:

| | <i>2012</i> | <i>2011</i> |
|---|-----------------------------------|-----------------------------------|
| Postretirement obligation at beginning of year | \$ <u>3,186,772</u> | \$ <u>2,017,836</u> |
| Interest on net obligation | 191,206 | 121,070 |
| Annual required contribution | 1,374,323 | 1,374,323 |
| Adjustment to annual required contribution | <u>(337,008)</u> | <u>(213,441)</u> |
| Annual benefit cost | 1,228,521 | 1,281,952 |
| Benefit payments paid | <u>(141,396)</u> | <u>(113,016)</u> |
| Postretirement obligation at end of year | \$ <u><u>4,273,897</u></u> | \$ <u><u>3,186,772</u></u> |

Note 8 - Concentrations of Credit Risk

Approximately 45% and 43% of all revenue is derived from the member school districts in 2012 and 2011, respectively. One town represented 12% of all revenue in 2012. At June 30, 2012 and 2011, three and two towns represented approximately 52% and 29% of total accounts receivable, respectively.

Note 9 - Commitments and Contingencies

LABBB has a collective bargaining agreement for a significant portion of staff that expired at the end of fiscal year 2011. The parties are in the process of negotiating a new contract.

**LEXINGTON, ARLINGTON, BURLINGTON, BEDFORD, BELMONT
EDUCATIONAL COLLABORATIVE**

Notes to Financial Statements

Note 10 - Fiscal 2013 Budget

LABBB has authorized a fiscal 2013 operating budget totaling approximately \$18,124,000 which management anticipates being able to fully fund through member tuition and other receipts.

Note 11 - Highly Compensated Employees

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

| <i>Employee</i> | <i>Title</i> | <i>Salary and Stipends</i> | <i>Employer Portion of Health Insurance</i> | <i>Total Compensation</i> |
|------------------|---------------------|--------------------------------|---|-------------------------------|
| Patric Barbieri | Executive Director | \$ 132,379 | \$ 18,542 | \$ 150,921 |
| Sandra Goldstein | Program Director | \$ 125,363 | \$ - | \$ 125,363 |
| Diane Costello | Program Coordinator | \$ 105,153 | \$ 18,542 | \$ 123,695 |
| James Kelly | Program Director | \$ 104,895 | \$ 18,542 | \$ 123,437 |
| Thomas Riley | Program Coordinator | \$ 101,869 | \$ 18,542 | \$ 120,411 |

Executive Director – The duties of the executive director include providing leadership in planning, development and operation of the Collaborative programs and services; insures proper fiscal management of Collaborative programs and services, develops and presents a budget to the Board of Directors; implements policies and procedures established by the Board of Directors; recommends changes as necessary, represents the Collaborative 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; supervises and evaluates all professional staff; designs program handbooks, resources and training manuals and staff policy manuals; designs all professional development programs and conferences for all staff; conducts meetings on IEPs, transitions and parent’s council; attends meetings on case conferences, student progress and professional consults.

Program Coordinator – The duties of the program coordinator include supervision and evaluation of staff including orientation, room assignments, classroom and site visits; assists in development of curriculum, professional days and IEPs; assigns students to classrooms; acts as liaison to school systems; attends meetings on planning, IEPs, student crises, cases conferences and professional consults.

Reporting Under Government Auditing Standards



*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*

Board of Directors
Lexington, Arlington, Burlington, Bedford,
Belmont Educational Collaborative
Waltham, Massachusetts

We have audited the financial statements of Lexington, Arlington, Burlington, Bedford, Belmont Educational Collaborative (“LABBB”) as of and for the year ended June 30, 2012 and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of LABBB is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered LABBB’s internal control over financial reporting as a basis for designing our auditing procedures 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’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LABBB’s internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether LABBB's financial statements are free of 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 required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and the Board of Directors and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hoffmann McCann P.C.

December 20, 2012
Boston, Massachusetts