

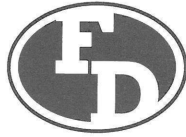
**Valley Collaborative**

**Financial Statements**

**June 30, 2014**

**Valley Collaborative  
Contents  
June 30, 2014**

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**FRITZ DEGUGLIELMO LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**& BUSINESS ADVISORS**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Valley Collaborative  
Billerica, Massachusetts

**Report on the Financial Statements**

We have audited the accompanying financial statements of Valley Collaborative (a collaborative organized under the Laws of the Commonwealth of Massachusetts), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Collaborative, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Valley Collaborative's basic financial statements. The accompanying statement of revenues and expenses – budget to actual on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014, on our consideration of Valley Collaborative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valley Collaborative's internal control over financial reporting and compliance.

Handwritten signature of Fred DeGuglielmo in cursive, followed by the letters "ccc".

Certified Public Accountants

Newburyport, Massachusetts

October 28, 2014

**Valley Collaborative**  
**Management's Discussion and Analysis**  
**June 30, 2014**

Our discussion and analysis of Valley Collaborative's ("The Collaborative") financial performance provides an overview of the Collaborative's financial activities for the fiscal year ended June 30, 2014 with comparative information from the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the financial statements that begin on page 6.

This financial report consists of several financial statements:

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

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

Statement of Functional Expenses – The Statement of Functional Expenses identifies expenses incurred during the year by functional classification and provides additional detail of expenses. This statement helps users to determine what the Collaborative is spending its resources on.

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

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

**FINANCIAL HIGHLIGHTS**

|                                                 | ASSETS                       |                     |                     |
|-------------------------------------------------|------------------------------|---------------------|---------------------|
|                                                 | <u>2014</u>                  | <u>2013</u>         | <u>2012</u>         |
| Current Assets                                  | \$ 7,300,106                 | \$14,571,474        | \$14,307,479        |
| Property & Equipment, net                       | <u>7,817,084</u>             | <u>278,170</u>      | <u>146,660</u>      |
|                                                 | <u>\$15,117,190</u>          | <u>\$14,849,644</u> | <u>\$14,454,139</u> |
|                                                 | LIABILITIES AND NET POSITION |                     |                     |
| Liabilities                                     |                              |                     |                     |
| Current Liabilities                             | \$ 1,580,264                 | \$ 3,029,002        | \$ 1,078,256        |
| Long Term Liabilities                           | <u>-</u>                     | <u>5,950</u>        | <u>-</u>            |
| Total Liabilities                               | <u>\$ 1,580,264</u>          | <u>\$ 3,034,952</u> | <u>\$ 1,078,256</u> |
| Net Position                                    |                              |                     |                     |
| Operating-unrestricted                          | \$ 5,394,776                 | \$11,545,406        | \$13,288,980        |
| Reserved for renovation project                 | 464,507                      | -                   | -                   |
| Invested in capital assets, net of related debt | <u>7,677,643</u>             | <u>269,286</u>      | <u>86,903</u>       |
|                                                 | <u>\$13,536,926</u>          | <u>\$11,814,692</u> | <u>\$13,375,883</u> |

**Valley Collaborative**  
**Management's Discussion and Analysis**  
**June 30, 2014**

During fiscal 2014, the increase in net position was approximately \$1,722,000, primarily due to operations. As a result of purchasing and renovating a building, and purchasing several vans for use in programs, the Collaborative had a significantly lower cash balance as of June 30, 2014 than as of June 30, 2013. Current liabilities decreased by approximately \$1,449,000, primarily due to settlement proceeds designated for member districts being distributed to the member districts or applied to current year tuition and services invoices.

During fiscal 2013, the Collaborative's board of directors voted to distribute approximately \$2,000,000 of the proceeds from the settlement agreement with Merrimack Education Center, Inc. ("MEC") to its member districts. In fiscal 2013, the increase in net position before the distribution to the member districts was approximately \$439,000. As a result of receiving the proceeds from the settlement agreement with MEC, the Collaborative generated a higher cash balance as of June 30, 2013. Current liabilities increased by approximately \$1,951,000, primarily due to settlement proceeds designated for member districts but not distributed as of June 30, 2013.

**SUMMARY OF ACTIVITIES**

|                                                                                 | <u>2014</u>         | <u>2013</u>       | <u>2012</u>         |
|---------------------------------------------------------------------------------|---------------------|-------------------|---------------------|
| Revenues*                                                                       | \$21,519,169        | \$21,986,575      | \$21,781,523        |
| Expenses*                                                                       | <u>19,796,935</u>   | <u>21,547,768</u> | <u>18,902,079</u>   |
| Change in net position, before distributions<br>issued to member municipalities | <u>\$ 1,722,234</u> | <u>\$ 438,807</u> | <u>\$ 2,879,444</u> |

\* Excludes Massachusetts Teachers' Retirement Board "on-behalf" payments.

Operating Revenues

In fiscal 2014, operating revenues decreased by approximately \$467,000 (2%) and in fiscal 2013, increased by approximately \$205,000 (1%). The changes within fiscal years are due primarily to changes in student enrollment in the respective years.

Operating Expenses

In fiscal 2014, operating expenses decreased by approximately \$1,751,000, or 8%, compared to fiscal 2013. The decrease was due primarily to significant reductions in personnel costs, and in professional and consulting fees. Personnel costs decreased by approximately \$661,000 in fiscal 2014 as a result of an internal evaluation and staffing plan implemented for the fiscal 2014 year. Professional and consulting fees decreased by approximately \$651,000 in fiscal 2014 due primarily to fees paid in fiscal 2013 in connection with the potential purchase and renovation of new program locations, which were determined to be unfeasible and therefore expensed. Transportation, rent and maintenance costs, decreased by approximately \$333,000 in fiscal 2014, net of increases in depreciation expense, due to the Collaborative purchasing its own van fleet and building.

In fiscal 2013, operating expenses increased by approximately \$2,628,000, or 14%, compared to fiscal 2012. The increase was due primarily to an increase in payroll expense and related expenses of approximately \$2,259,000 due to increases in administrative and program staff. Professional and consulting fees increased by approximately \$472,000 in fiscal 2013 due primarily to fees paid in connection with the potential purchase and renovation of new program locations, which were determined to be unfeasible and therefore expensed during fiscal 2013.

**Valley Collaborative**  
**Management's Discussion and Analysis**  
**June 30, 2014**

**CAPITAL ASSETS AND OBLIGATIONS**

During fiscal 2014, the Collaborative purchased a building at 40 Linnell Circle in Billerica, Massachusetts to use as its primary facility for administration and various Collaborative programs for \$3,260,000. The Collaborative also incurred and capitalized \$3,563,912 of closing and renovation costs related to the building. The Collaborative had unpaid invoices of \$139,441 related to the renovations and expects to incur additional renovation costs of \$464,507 in fiscal year 2015 to finish renovating the property. The Collaborative also purchased and capitalized several vehicles, leasehold improvements and other equipment for use in its programs with a total cost of \$997,376.

During fiscal 2013, the Collaborative purchased software, network equipment, IT infrastructure, as well as a vehicle at a total cost of \$216,423. The Collaborative also incurred capital costs at 40 Linnell Circle in the amount of \$37,095.

**BUDGETARY HIGHLIGHTS**

The Collaborative's annual budget for fiscal 2014 was approved by its Board of Directors. For the fiscal year ended June 30, 2014, the Collaborative received operating revenues, excluding on-behalf payments by the Massachusetts Teachers' Retirement Board, of approximately \$21,519,000 compared to budgeted revenues of approximately \$22,250,000. The difference between actual revenues received and budgeted revenues is primarily due to changes in student enrollment.

For the fiscal year ended June 30, 2014, the Collaborative incurred actual expenditures, excluding on-behalf payments by the Massachusetts Teachers' Retirement Board and bad debt expense, of approximately \$19,598,000 compared to budgeted expenditures of approximately \$21,413,000. The difference between actual expenditures incurred and budgeted expenditures is primarily due to reductions in personnel costs, as a result of an internal review and restructuring of staff, and reductions to facilities costs as a result of purchasing, rather than leasing, the Collaborative's main facility.

**CONTACTING THE COLLABORATIVE**

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

**Valley Collaborative**  
**Statement of Net Position**  
**June 30, 2014**

ASSETS

|                                                                |                             |
|----------------------------------------------------------------|-----------------------------|
| Current Assets                                                 |                             |
| Cash and cash equivalents                                      | \$ 5,422,049                |
| Accounts receivable, net                                       | 1,477,791                   |
| Prepaid expenses and other assets                              | 24,571                      |
| Cash held for municipalities                                   | 375,695                     |
| Total Current Assets                                           | <u>7,300,106</u>            |
| Non-current Assets                                             |                             |
| Furniture, equipment, vehicles and leasehold improvements, net | 7,817,084                   |
| Total Non-current Assets                                       | <u>7,817,084</u>            |
| Total Assets                                                   | <u><u>\$ 15,117,190</u></u> |

LIABILITIES AND NET POSITION

|                                                 |                             |
|-------------------------------------------------|-----------------------------|
| Current Liabilities                             |                             |
| Accounts payable and accrued liabilities        | \$ 1,204,569                |
| Member municipalities accounts                  | 375,695                     |
| Total Current Liabilities                       | <u>1,580,264</u>            |
| Total Liabilities                               | <u>1,580,264</u>            |
| Net Position                                    |                             |
| Operating-unrestricted                          | 5,394,776                   |
| Reserved for renovaton project                  | 464,507                     |
| Invested in capital assets, net of related debt | 7,677,643                   |
| Total Net Position                              | <u>13,536,926</u>           |
| Total Liabilities and Net Position              | <u><u>\$ 15,117,190</u></u> |

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

**Valley Collaborative**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the year ended June 30, 2014**

|                                          |                            |
|------------------------------------------|----------------------------|
| Operating Revenues                       |                            |
| Massachusetts Teachers' Retirement Board | \$ 212,826                 |
| Services and other program revenues      | 19,473,770                 |
| State contracts                          | 1,538,765                  |
| Other                                    | 498,494                    |
| Total Operating Revenues                 | <u>21,723,855</u>          |
| Operating Expenses                       |                            |
| Program                                  | 18,055,397                 |
| Administrative                           | 1,954,364                  |
| Total Operating Expenses                 | <u>20,009,761</u>          |
| Change in Operating Net Position         | <u>1,714,094</u>           |
| Non-Operating Revenues                   |                            |
| Interest income                          | <u>8,140</u>               |
| Change in Net Position                   | 1,722,234                  |
| Net Position – Beginning of Year         | <u>11,814,692</u>          |
| Net Position – End of Year               | <u><u>\$13,536,926</u></u> |

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

**Valley Collaborative**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2014**

|                                         |                             |
|-----------------------------------------|-----------------------------|
| Program Expenses                        |                             |
| Payroll                                 | \$ 11,161,061               |
| Fringe benefits and payroll taxes       | 2,822,525                   |
| Professional and consulting fees        | 24,757                      |
| Transportation and travel               | 633,451                     |
| Rent                                    | 1,429,133                   |
| Maintenance and custodial               | 333,213                     |
| Telephone, communications and utilities | 331,646                     |
| Materials, supplies and equipment       | 464,058                     |
| Small business expenses                 | 231,200                     |
| Field trips                             | 67,791                      |
| Training programs                       | 69,488                      |
| Other                                   | 33,609                      |
|                                         | <u>17,601,932</u>           |
| Bad debt expense                        | 198,579                     |
| Depreciation                            | 254,886                     |
| Total Program Expenses                  | <u>\$ 18,055,397</u>        |
| Administrative Expenses                 |                             |
| Payroll and related expenses            | \$ 1,082,835                |
| Professional and consulting fees        | 464,143                     |
| Rent                                    | 6,603                       |
| Maintenance and custodial               | 3,232                       |
| Insurance                               | 149,981                     |
| Materials, supplies and equipment       | 105,048                     |
| Telephone, communications and utilities | 16,142                      |
| Training programs                       | 22,199                      |
| Office expense and miscellaneous        | 76,694                      |
|                                         | <u>1,926,877</u>            |
| Depreciation                            | 27,487                      |
| Total Administrative Expenses           | <u>\$ 1,954,364</u>         |
| Total Expenses                          | <u><u>\$ 20,009,761</u></u> |

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

**Valley Collaborative**  
**Statement of Cash Flows**  
**For the year ended June 30, 2014**

|                                                |                     |
|------------------------------------------------|---------------------|
| Operating Activities                           |                     |
| Receipts from members and others               | \$ 21,916,496       |
| Payments to suppliers and others               | (7,007,018)         |
| Payments to employees                          | (12,256,325)        |
| Cash provided by operating activities          | <u>2,653,153</u>    |
| Investing Activities                           |                     |
| Proceeds from sale of equipment                | 39,140              |
| Purchases of capital assets                    | (7,681,847)         |
| Cash used in investing activities              | <u>(7,642,707)</u>  |
| Financing Activities                           |                     |
| Distributions to member districts              | (375,614)           |
| Payments on capital lease                      | (8,884)             |
| Cash used in financing activities              | <u>(384,498)</u>    |
| Net decrease in cash and cash equivalents      | (5,374,052)         |
| Cash and cash equivalents at beginning of year | 10,796,101          |
| Cash and cash equivalents at end of year       | <u>\$ 5,422,049</u> |

Reconciliation of change in net position to  
net cash provided by operating activities:

|                                                                                                  |                     |
|--------------------------------------------------------------------------------------------------|---------------------|
| Operating activities                                                                             |                     |
| Change in net position                                                                           | \$ 1,722,234        |
| Adjustments to reconcile change in net position to<br>net cash provided by operating activities: |                     |
| Depreciation                                                                                     | 282,373             |
| Bad debt expense                                                                                 | 198,579             |
| Gain on sale of equipment                                                                        | (39,140)            |
| Change in working capital                                                                        |                     |
| Accounts receivable and other                                                                    | 718,969             |
| Accounts payable and other                                                                       | (229,862)           |
| Cash provided by operating activities                                                            | <u>\$ 2,653,153</u> |

Supplemental Data:

|               |             |
|---------------|-------------|
| Interest paid | \$ 319      |
| Taxes paid    | <u>\$ -</u> |

Note: Refer to Note B and Note L of the notes to the financial statements for additional information on non-cash investing and financing activities.

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

**Valley Collaborative**  
**Notes to Financial Statements**  
**June 30, 2014**

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

Collaborative

Valley Collaborative (The “Collaborative”) is an educational collaborative of the school districts of Billerica, Chelmsford, Dracut, Groton-Dunstable Regional, Nashoba Valley Technical, North Middlesex Regional, Tewksbury, Tyngsborough, and Westford. The Collaborative is a public entity under the jurisdiction of its member school committees, whose appointees comprise its board of directors. The Collaborative provides high quality academic, therapeutic and vocational services to individuals referred by local school districts and social service agencies. The Collaborative was formerly known as Merrimack Special Education Collaborative and changed its name in fiscal 2014.

The Collaborative’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments and governmental entities through its pronouncements (Statements and Interpretations). Governments and governmental entities are also required to follow pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Collaborative are discussed below.

The Collaborative, in accordance with GASB Statement No. 34, is considered a special purpose governmental entity engaged only in business type activities and is not a component unit of another governmental entity. As such, the basic financial statements of the Collaborative are reported on the same basis as an enterprise fund, which is a proprietary fund in fund financial statements. The Collaborative does not have any funds other than the enterprise fund, and it is not a proprietary fund that is part of a government wide financial statement. As such, the notations “enterprise fund” and “proprietary fund” do not appear on the Collaborative’s financial statements.

Measurement Focus and Basis of Accounting

These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents

The Collaborative considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Collaborative maintains its uncollateralized cash balances in three financial institutions. The balances in two of the financial institutions are insured by the Federal Deposit Insurance Company up to \$250,000. From time to time, the Collaborative maintains bank account balances in excess of the federally insured limits. The Collaborative also maintains cash and cash equivalents at the Massachusetts Municipal Depository Trust which is collateralized by its underlying assets. At June 30, 2014, the Collaborative’s uninsured cash balances totaled \$5,613,481. The Collaborative monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Revenues and Expenses

Revenues consist primarily of billings to member municipalities or other cities and towns for providing programs and services. The Collaborative also receives approximately 7% of its revenues under social service contracts issued by agencies of the Commonwealth of Massachusetts. Expenses include educational costs, administrative expenses and depreciation on capital assets.

**Valley Collaborative**  
**Notes to Financial Statements**  
**June 30, 2014**

NOTE A – (continued)

Accounts Receivable

Accounts receivable consist of all revenues earned at year end and not yet collected. Major receivable balances include tuitions and certain related charges. The Collaborative records its bad debts using the allowance method. As of June 30, 2014 there was an allowance for doubtful accounts of \$60,000.

Member Municipalities Accounts

“Member municipalities accounts” represent member funds held by the Collaborative for use as directed by the individual member municipalities for use in the Collaborative’s various programs and services. “Cash held for municipalities” represents amounts to be distributed to the member municipalities. See Note L for more information on funds held on behalf of member municipalities.

Property and Equipment

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

Net Position

Net position is displayed in three components:

- 1) Invested in Capital Assets – This account consists of capital assets, including restricted capital assets, net of accumulated depreciation that are attributable to the acquisition, construction, or improvement of those assets. The Collaborative has established a reserve for expected investments in capital assets in the amount of \$464,507, which is recorded as “Reserved for renovation project” in these financial statements. See Note B for additional information.
- 2) Restricted – This account consists of assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments: or (2) law through constitutional provisions or enabling legislation.
- 3) Unrestricted – All other net assets that do not meet the definition of “invested in capital assets” or “restricted”. Revenues are reported as increases in unrestricted unless use of the related assets is limited by donor-imposed restrictions and/or time restrictions. Revenues are reported as unrestricted if the donor-imposed restrictions are met in the same reporting period. Expenses are reported as decreases in unrestricted.

Use of Estimates

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

Advertising costs are expensed as incurred. For the year ended June 30, 2014, advertising costs charged to expense were \$3,111.

Subsequent Events

Subsequent events have been evaluated through October 28, 2014, which is the date the financial statements were available to be issued.

**Valley Collaborative**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE B – PROPERTY AND EQUIPMENT**

During the year ended June 30, 2014, the Collaborative purchased a building to use as its primary facility for administration and various Collaborative programs for \$3,260,000. The Collaborative also incurred and capitalized \$3,563,912 of closing and renovation costs related to the building. As of June 30, 2014 the Collaborative had unpaid invoices of \$139,441 related to the renovations and expects to incur additional renovation costs of \$464,507 in fiscal year 2015 to finish renovating the property. The Collaborative also purchased and capitalized several vehicles, leasehold improvements and other equipment for use in its programs with a total cost of \$997,376. Property and equipment at June 30, 2014 consists of the following:

|                                |                           |
|--------------------------------|---------------------------|
| Building and land              | \$6,861,007               |
| Office furniture and equipment | 270,995                   |
| Leasehold improvements         | 117,275                   |
| Vehicles                       | 856,886                   |
| Software                       | 66,140                    |
| Accumulated depreciation       | <u>(355,219)</u>          |
| Property and equipment, net    | <u><u>\$7,817,084</u></u> |

Depreciation expense for the year ended June 30, 2014 was \$282,373.

**NOTE C –LEASE OBLIGATIONS**

The Collaborative leases various classroom and office spaces and office equipment under operating leases that expire at various times through June 2018. Classroom and office lease expense was \$1,435,736 and equipment lease expense was \$48,966 for the year ended June 30, 2014.

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

|                   |                         |
|-------------------|-------------------------|
| 2015              | \$308,539               |
| 2016              | 287,539                 |
| 2017              | 28,957                  |
| 2018 & Thereafter | <u>-</u>                |
|                   | <u><u>\$625,035</u></u> |

During fiscal year 2014, the Collaborative paid off the remaining balance on a capital lease entered into during fiscal year 2013.

**NOTE D – ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following as of June 30, 2014:

|                                   |                           |
|-----------------------------------|---------------------------|
| Tuition and services to districts | \$1,442,507               |
| State contracts                   | <u>95,284</u>             |
|                                   | 1,537,791                 |
| Allowance for doubtful accounts   | <u>(60,000)</u>           |
|                                   | <u><u>\$1,477,791</u></u> |

The Collaborative has established an allowance for doubtful accounts in the amount of \$60,000. The allowance is based on specific identification of probable losses and an estimate of additional losses based on historical experience. Account balances are charged off against the allowance when it is probable the receivable will not be recovered. For the year ended June 30, 2014, bad debt expense in the amount of \$198,579 was recorded for uncollectible accounts.

**Valley Collaborative**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE E – EMPLOYEES’ RETIREMENT PLAN**

The Collaborative’s employees participate in the Massachusetts Teachers’ or State Retirement Plan, a statewide multiple-employer public employee retirement system covering all employees of local school districts within the Commonwealth of Massachusetts. These retirement systems are cost sharing public employee retirement systems with one exception: all risks and costs are not shared by the Collaborative but are the liability of the Commonwealth of Massachusetts. These systems are funded primarily through state and employee contributions, and the Collaborative has no legal obligation for paying benefits. Presently, the Collaborative must pay to the Commonwealth 5.6% of all non-teacher salaries as the employer’s share of the state retirement system. As discussed below, the Collaborative may be required in certain situations to make limited contributions on behalf of certain employees.

All employees who are employed for one-half or more of the standard workload at a comparable rate of pay are eligible to participate in either the Massachusetts Teachers’ or State Retirement Plan. Participants have a vested right to retirement benefits at age fifty-five with at least ten years of service, or at any age with at least twenty years of service, if they do not withdraw deposits. The Commonwealth of Massachusetts contributes a percentage of the employee’s gross earnings except for those Collaborative employees being paid from and participating in federally funded programs. The employees contribute a percentage of their gross earnings, based on the date of entry into the plan. These funds are withheld by the Collaborative and transmitted to the Commonwealth. The Collaborative contributes 5.6% of the gross salaries to the Massachusetts State Retirement Plan for those employees not covered under the Massachusetts Teachers’ Retirement plan. The contributions to the Massachusetts State Retirement Plan for the years ended June 30, 2014 were \$255,665.

GASB Statement No. 24 requires cities and towns to report pension payments made to retirees by the Massachusetts Teachers’ Retirement Board. The Commonwealth of Massachusetts makes a contribution to the Massachusetts Teachers’ Retirement Board on behalf of educators employed in the Commonwealth who participate in the Massachusetts Teachers’ Retirement System. GASB 24 requires the Collaborative to disclose these “on-behalf” payments contributed to the plan, which amounted to \$212,826 during fiscal year 2014.

**NOTE F – COMPENSATED ABSENCES**

The Collaborative allows eligible employees to carryover unused vacation time up to 10 days per year and to accrue a maximum of 25 days total. At the end of the fiscal year, any unused vacation time in excess of the above amounts is forfeited. The Collaborative’s vacation accrual for the year ended June 30, 2014 was \$75,639.

**NOTE G – RISK MANAGEMENT**

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

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

**Valley Collaborative**  
**Notes to Financial Statements**  
**June 30, 2014**

**NOTE H – COMMITMENTS AND CONTINGENCIES**

The Collaborative participates in state and federal contracts, which are governed by various rules and regulations of the agencies. Costs charged to the respective programs are subject to audit and adjustment by agencies; therefore, to the extent that the Collaborative has not complied with the rules and regulations governing the refunds of any money received may be required and the collectability of any related receivable at June 30, 2014 may be impaired. In the opinion of the Collaborative, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective contracts; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

In October 2011, a Memorandum of Understanding was signed with the Department of Elementary and Secondary Education (“DESE”) to assist the Collaborative in improving financial management and governance structures of the Collaborative to ensure the quality and effectiveness of education to its students. The Memorandum of Understanding has been extended through June 30, 2014 at which time the DESE will perform an evaluation of the Collaborative.

**NOTE I – AGREEMENTS WITH MERRIMACK EDUCATION CENTER, INC. (“MEC”)**

During fiscal year 2014, the Collaborative entered into agreements with MEC for transportation services and space lease and maintenance. The charges incurred under the agreements for the year ended June 30, 2014 were as follows:

|                                      |                    |
|--------------------------------------|--------------------|
| Transportation                       | \$ 587,560         |
| Space Lease, Maintenance and Related | <u>1,323,945</u>   |
|                                      | <u>\$1,911,505</u> |

As of June 30, 2014, amounts payable to MEC for the agreements above were \$38,763.

**NOTE J – TAX POSITION**

The Collaborative has adopted the application of the provisions of FASB ASC 740-10 (formerly FASB Interpretation No. 48, “*Accounting For Uncertainty in Income Taxes*”). The primary tax positions made by the Collaborative are the existence of Unrelated Business Income Tax and the Collaborative’s status as an exempt organization under the Internal Revenue Code. The Collaborative currently evaluates all tax positions, and makes determinations regarding the likelihood of those positions being upheld under review. For the years presented, and as a result of adoption, the Collaborative has not recognized any tax benefits or loss contingencies for uncertain tax positions based on its evaluations. The Collaborative is not currently under examination by any taxing jurisdiction. As a Chapter 40 governmental entity, the Collaborative is exempt from filing certain non-profit filings and, accordingly, there are no returns currently open for examination.

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

The cumulative excess of revenue received from the Commonwealth of Massachusetts is the amount in accordance with the Commonwealth of Massachusetts Not-for-profit Provider Surplus Revenue Retention Policy, pursuant to 808CMR 1.19(3) of the Pricing, Reporting and Auditing for Social Programs, which allows a provider to retain, for future use, a portion of annual net surplus. Net surplus, from the revenues and expenses with services provided to purchasing agencies, which are subject to 808CMR 1.00, may not exceed 5% of said provider’s revenue annually. Furthermore, the cumulative amount of the provider’s net surplus may not exceed 20% of the provider’s prior year’s revenues from purchasing agencies. Surplus revenue retention decreased \$221,756 in fiscal year 2014. The Collaborative’s accumulated surplus as of June 30, 2014 was \$1,923,814.

**Valley Collaborative**  
**Notes to Financial Statements**  
**June 30, 2014**

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

**Highest Compensated Employees**

The five highest compensated employees of the Collaborative during fiscal year 2014 were as follows:

| <u><b>Name</b></u>  | <u><b>Title</b></u>         | <u><b>Total Compensation</b></u> |
|---------------------|-----------------------------|----------------------------------|
| Chris A. Scott, PhD | Executive Director          | \$176,471                        |
| Camelia Rosca, PhD  | Systems Director            | \$115,444                        |
| Timothy Callahan    | High School Principal       | \$ 97,863                        |
| Curt Malonson       | Business Manager            | \$ 90,962                        |
| Antoinette Willis   | Elementary School Principal | \$ 83,586                        |

**Executive Director:**

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

**Systems Director:**

Responsible for all data systems and the maintenance and growth of our teacher/administrator/staff evaluation system to ensure compliance with the DESE regulations. Other responsibilities include, manage data warehouse.

**Business Manager:**

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

**Principals:**

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

**Costs of Providing Services in the Over 21 Program**

Total direct costs incurred by the Collaborative in its over 21 program, funded in part by contracts with agencies of the Commonwealth of Massachusetts, totaled \$1,308,774 for the year ended June 30, 2014.

**Administrative Costs**

Administrative expenses of \$1,954,364 for the year ended June 30, 2014, include all costs that cannot be directly or reasonably applied to a program of the Collaborative. Administrative expenses include salaries, related benefits and payroll taxes, associated with the Collaborative's administrative office (i.e., Executive Director, finance staff, human resources, etc.), as well as other costs associated with maintaining that office (i.e. occupancy, supplies, etc.). The Collaborative directly applies salaries, where appropriate, to its programs and allocates related employee benefits and taxes to those programs. Occupancy, supplies, maintenance and any other cost that can be directly applied, or reasonably allocated, are reported under program expense. See Note A for a description of the functional allocation of expenses.

**Accounts Held on Behalf of Others**

As disclosed in Note A to the financial statements, the Collaborative holds funds on behalf of certain member districts, for use in program activities or services as directed by the member district. During fiscal year 2013, the Collaborative approved distribution of \$1,999,998 back to its member districts either as cash or as tuition credits. During fiscal year 2014, districts requested that \$727,495 of the distribution be applied to invoices for services. As of June 30, 2014, \$375,695 remains to be distributed or credited. This amount is presented on the Statement of Net Position as an asset, "Cash held for municipalities" and a liability, "Member municipalities accounts."

**Valley Collaborative**  
**Notes to Financial Statements**  
**June 30, 2014**

NOTE L – (continued)

Related Party Transactions

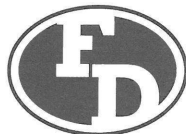
Cash held for municipalities (member districts) is disclosed above. The Collaborative leases classroom and other program space within member districts. For the year ended June 30, 2014, rent expense under these leases was \$408,036.

Real Property Transactions

Transactions or contracts related to the purchase, sale, rental, or lease of real property are described in Notes B and C to the financial statements.

Surplus Net Position

In fiscal 2013, as a result of settlements with MEC related to past agreements, the Collaborative obtained a temporary waiver from DESE in order to develop a proper plan to allocate the net position in excess of 25% of prior fiscal year expenditures, as required by state law. During the year ended June 30, 2014, the Collaborative purchased and began renovating a building (formerly leased from MEC), as described in Note B. The Collaborative expects to pay additional costs of \$464,507 in fiscal year 2015 to finish renovating the building. Excluding net capital assets and the remaining amount reserved for the renovation project, unrestricted net position at June 30, 2014 represents approximately 24.5% of fiscal year 2013 operating expenditures.



**FRITZ DEGUGLIELMO LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**& BUSINESS ADVISORS**

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

To the Board of Directors of  
Valley Collaborative  
Billerica, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valley Collaborative (a collaborative organized under the Laws of the Commonwealth of Massachusetts), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2014.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Valley Collaborative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Valley Collaborative in a separate letter dated October 28, 2014.

### **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 Valley Collaborative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valley Collaborative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read "Fritz DeGuzman".

Certified Public Accountants

Newburyport, Massachusetts

October 28, 2014

**Valley Collaborative  
Schedule of Findings  
June 30, 2014**

Current Year Findings: **None**

**Valley Collaborative  
Schedule of Prior Year Findings  
June 30, 2014**

**Prior Year Finding 2013-1:**

*Condition*

Service billings and payment recording were performed using an internally developed system that required significant reconciliation at year end due to the manual processes involved in the system.

*Status*

Issue resolved in fiscal year 2014

**Valley Collaborative**  
**Statement of Revenues and Expenses**  
**Budget to Actual**  
**For the year ended June 30, 2014**

|                                      | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with<br/>Final Budget<br/>Favorable<br/>(Unfavorable)</u> |
|--------------------------------------|---------------------|-----------------------|-----------------------------------------------------------------------|
| Revenues:                            |                     |                       |                                                                       |
| Services                             | \$ 20,525,000       | \$ 19,473,770         | \$ (1,051,230)                                                        |
| State contracts                      | 1,450,000           | 1,538,765             | 88,765                                                                |
| Other                                | 267,500             | 498,494               | 230,994                                                               |
| Interest income                      | 7,500               | 8,140                 | 640                                                                   |
| On-behalf retirement payment revenue | -                   | 212,826               | 212,826                                                               |
|                                      | <u>22,250,000</u>   | <u>21,731,995</u>     | <u>(518,005)</u>                                                      |
| Total revenue and other support      |                     |                       |                                                                       |
| Expenses:                            |                     |                       |                                                                       |
| Salaries                             | 13,497,951          | 12,029,216            | 1,468,735                                                             |
| Employee benefits                    | 2,883,785           | 2,824,379             | 59,406                                                                |
| Operating expenses                   | 3,481,984           | 3,309,025             | 172,959                                                               |
| Leases and rentals                   | 1,549,612           | 1,435,736             | 113,876                                                               |
| Bad debt expenses                    | -                   | 198,579               | (198,579)                                                             |
| On-behalf retirement payment expense | -                   | 212,826               | (212,826)                                                             |
|                                      | <u>21,413,332</u>   | <u>20,009,761</u>     | <u>1,403,571</u>                                                      |
| Total expenses                       |                     |                       |                                                                       |
| Excess of revenue over expenses      | <u>\$ 836,668</u>   | <u>\$ 1,722,234</u>   | <u>\$ 885,566</u>                                                     |
| Capital purchases:                   |                     |                       |                                                                       |
| Vehicles                             | <u>\$ 835,225</u>   | <u>\$ 835,093</u>     | <u>\$ 132</u>                                                         |

See independent auditor's report.



## Central Administration Office

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

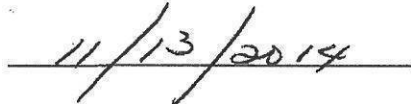
### ACCEPTANCE OF THE BOARD OF DIRECTORS

We, the Board of Directors of the Valley Collaborative, have voted to accept the representations of management and the expression of the opinions made by Fritz DeGuglielmo LLC as embodied in the financial statements, supplemental schedules and independent auditor's reports for the year ended June 30, 2014.

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, 2014.



Board Chair



Date