

COLLABORATIVE FOR EDUCATIONAL SERVICES
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JUNE 30, 2012

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November 14, 2012

TO: Members of the Board of Governors
Collaborative for Educational Services

FROM: Joan Schuman, Ed.D., Executive Director

The following discussion and analysis is management's assessment of the results and financial condition of the Collaborative for Educational Services and should be read in conjunction with the audited financial statements for the fiscal year ending June 30, 2012.

FY12 was a watermark year for educational collaboratives in Massachusetts. For the first time since 1974, major legislation (G.L,CH 43) regarding collaboratives was passed by the Great and General Court. This legislation, An Act to Regulate Educational Collaboratives, was passed in March, 2012. Fortunately, for the Collaborative for Educational Services, the reporting requirements delineated in the legislation will not pose difficulties or barriers to the continuation of our work.

Because of our contracts with the Commonwealth (DYS and SEIS) and the Federal Government, we have been following the audit and reporting requirements of the new law, and because 73% of our revenues come from grants or contracts, the annual audits that are conducted on the agency, conform to the requirements spelled out in the new law.

However, there is a downside to being so reliant on state and federal funding: such funding can come and go from one year to the next; or it can change direction or focus from one governmental administration to the next. FY12 saw a diminution in the federal funding that was available to the agency, with many of our large grants ending or predicted to end in the next fiscal year. Thus our FY12 Federal funding decreased by approximately \$317,000. Because Congress did not act on any of the federal education laws up for reauthorization such as ESEA (No Child Left Behind) or IDEA (special education), the administration used its authority to redirect funds to states who agreed to become RTTT (Race to the Top) states. Funding that heretofore was competitive funding at the Federal level is now reallocated to underperforming local education agencies or provided to consultants approved by the state to carry out its initiatives.

Fortunately, by the end of FY12, CES had been pre-approved in every category it applied for (virtually every category available) and has since been contracted by the state to provide training in everything from educator evaluation to WIDA (World-Class Instructional Design and Assessment: an instructional philosophy and set of tools) requirements. This should have positive results for the future of the agency. In addition, our state contracts and grants increased by approximately \$1.1 million due primarily to a \$1.1 million dollar infusion of new money into the DHS contract. The major losses in state funding approximately \$143,000 occurred in early childhood as the Department of Early Education and Care revamped its funding allocations and totally changed direction in its programming. This decrease was offset by a number of small increases in other contracts we were awarded.



The major new initiative for FY12 was the contract with City of Holyoke to turn around the Dean Technical School, designated a level IV school by the Department of Elementary and Secondary Education. This \$606,000 contract called for a major infusion of professional development, a boost for the professional development department, which overall saw a loss of \$10,000 for the year. This loss was primarily caused by a \$62,000 deficit in the Center for English Language Learners, the result of a change in direction by the DESE ending the training of teachers in category training. Fortunately, in its first year without Federal funding support, the Place (teacher licensure program) made approximately \$50,000, had higher enrollment in its courses and began to use hybrid online/in person courses which attracted more enrollees.

Other highlights for the year include \$30,000 of revenue from cooperative purchasing, a \$74,000 surplus in Special Education and a \$35,000 profit in SES services to students who need tutoring and/or credit recovery programs. These non-grant fees for service programs are all positive indicators for diversifying our income in the future.

With revenues outpacing expenditures by over \$800,000, inclusive of depreciation, this fiscal year, I believe that the future looks very bright for the Collaborative for Educational Services. We are seen as one of the premier agencies, if not the premier agency, for delivering professional development in the Commonwealth. Given the abundance of state initiatives that require the training of teachers and administrators over the next several years, CES has positioned itself to be the “go to” deliverers of that training not only in Western Massachusetts but throughout the entire Commonwealth. Over the next few years, we need to reposition our special education offerings so that we not only meet our member districts’ needs for their most at risk students, but look to us as a cost effective solution to the high costs of providing special education services in today’s world.

As educational collaboratives face greater scrutiny and regulation in the future we must retain the flexibility in programming that we have had for the past twenty years, and this requires a sound fund balance. We will continue to be completely transparent and diligently scrupulous in our financial operations for we are the caretakers of public monies and the providers of services to our most vulnerable populations.

Lester Halpern & Company P.C.
Certified Public Accountants

Thomas A. Terry CPA ♦ Betty Jane Bourdon CPA ♦ Mary-Anne S. Stearns CPA ♦ Robert B. McKay CPA ♦ Lester L. Halpern CPA Retired

INDEPENDENT AUDITOR'S REPORT

November 14, 2012

To The Board of Governors
Collaborative for Educational Services
97 Hawley Street
Northampton, Massachusetts 01060

We have audited the accompanying financial statements of Collaborative for Educational Services (the Collaborative) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Collaborative's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Collaborative's June 30, 2011 financial statements and, in our report dated November 9, 2011, we expressed a qualified opinion on those financial statements.

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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the financial statements, pension costs are provided on a pay-as-you-go basis instead of an actuarial basis, as required by accounting principles generally accepted in the United States of America. The amount of such costs under accounting principles generally accepted in the United States of America is not determinable at this time.

In our opinion, except for the effects, if any, of the method of accounting for pension costs as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Collaborative for Educational Services as of June 30, 2012 and the changes in its net assets, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 2 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012, on our consideration of Collaborative for Educational Services' 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 audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and the supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the method of accounting for pension costs as described on the preceding page, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Very truly yours,

Lester Halpern & Company P.C.
Certified Public Accountants

COLLABORATIVE FOR EDUCATIONAL SERVICES
STATEMENT OF NET ASSETS
JUNE 30, 2012 WITH COMPARATIVES TOTALS FOR 2011

	<u>ASSETS</u>			2011
	2012		Total	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>		
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 2,366,627	\$ 85,660	\$ 2,452,287	\$ 2,366,913
Accounts receivable	1,366,141		1,366,141	1,142,295
Grants receivable	2,564,049		2,564,049	2,441,578
Prepaid expenses	311,580		311,580	314,259
<u>Total Current Assets</u>	<u>6,608,397</u>	<u>85,660</u>	<u>6,694,057</u>	<u>6,265,045</u>
<u>Capital Assets:</u>				
Land	292,068		292,068	292,068
Buildings and improvements	2,600,346		2,600,346	2,600,346
Leasehold improvements	35,968		35,968	35,968
Office/classroom equipment	2,775,236		2,775,236	2,307,674
Motor vehicles	75,220		75,220	96,894
	5,778,838		5,778,838	5,332,950
<u>Less - accumulated depreciation</u>	<u>3,415,697</u>		<u>3,415,697</u>	<u>3,093,215</u>
<u>Total Capital Assets</u>	<u>2,363,141</u>		<u>2,363,141</u>	<u>2,239,735</u>
<u>Other Assets:</u>				
Deposits	8,557		8,557	5,907
Construction in progress	1,000		1,000	
Refinancing costs net of accumulated amortization of \$259 in 2012	50,511		50,511	
<u>Total Other Assets</u>	<u>60,068</u>		<u>60,068</u>	<u>5,907</u>
<u>TOTAL ASSETS</u>	<u>\$ 9,031,606</u>	<u>\$ 85,660</u>	<u>\$ 9,117,266</u>	<u>\$ 8,510,687</u>
	<u>LIABILITIES AND NET ASSETS</u>			
<u>Current Liabilities:</u>				
Accounts payable	\$ 1,812,012		\$ 1,812,012	\$ 1,565,932
Accrued payroll and related withholdings	1,166,295		1,166,295	1,946,047
Accrued expenses - other	48,807		48,807	44,745
Deferred revenue	727,702		727,702	651,861
Grants payable	104,235		104,235	71,294
Mortgage payable - due within one year	78,282		78,282	107,210
<u>Total Current Liabilities</u>	<u>3,937,333</u>		<u>3,937,333</u>	<u>4,387,089</u>
<u>Mortgage Payable - Due After One Year</u>	<u>2,046,718</u>		<u>2,046,718</u>	<u>1,810,726</u>
<u>Total Liabilities</u>	<u>5,984,051</u>		<u>5,984,051</u>	<u>6,197,815</u>
<u>Net Assets:</u>				
Unrestricted - operating	2,757,903		2,757,903	1,908,127
- invested in capital assets, net of related debt	289,652		289,652	321,799
	3,047,555		3,047,555	2,229,926
Temporarily restricted		\$ 85,660	85,660	82,946
<u>Total Net Assets</u>	<u>3,047,555</u>	<u>85,660</u>	<u>3,133,215</u>	<u>2,312,872</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 9,031,606</u>	<u>\$ 85,660</u>	<u>\$ 9,117,266</u>	<u>\$ 8,510,687</u>

See accompanying notes

COLLABORATIVE FOR EDUCATIONAL SERVICES
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

	2012		Statement of Activities			2011	
	General Fund	Special Revenue Fund	Total	Adjustments (Note 15)	Unrestricted	Temporarily Restricted	Total
Revenues:							
Administrative surcharge 16%	\$ 137,459		\$ 137,459		\$ 137,459		\$ 137,459
Miscellaneous revenue	3,854,655		3,854,655		3,854,655		3,854,655
Interest income	8,513		8,513		8,513		8,513
Contributions	150		150			\$ 150	150
Special education	3,545,982		3,545,982		3,545,982		3,545,982
Professional development	1,638,726		1,638,726		1,638,726		1,638,726
Federal, State and other grants		\$ 24,575,899	24,575,899		24,515,560	60,339	24,575,899
Net assets released from restrictions (Note 14)					57,775	(57,775)	
Total Revenues	<u>9,185,485</u>	<u>24,575,899</u>	<u>33,761,384</u>		<u>33,758,670</u>	<u>2,714</u>	<u>33,761,384</u>
Expenditures/Expenses:							
Operating:							
Personal services	6,416,835	19,742,131	26,158,966		26,158,966		26,158,966
Materials and services	1,953,459	4,387,600	6,341,059		6,341,059		6,341,059
Depreciation				\$ 344,157	344,157		344,157
Capital outlays	34,960	432,602	467,562	(467,562)			
Debt Service:							
Interest	96,859		96,859		96,859		96,859
Total Expenditures/Expenses	<u>8,502,113</u>	<u>24,562,333</u>	<u>33,064,446</u>	<u>(123,405)</u>	<u>32,941,041</u>		<u>32,941,041</u>
Excess of Revenues Over Expenditures	683,372	13,566	696,938	123,405			820,343
Change in Net Assets					817,629	2,714	820,343
Fund Balance/Net Assets - Beginning of Year	<u>2,534,372</u>		<u>2,534,372</u>		<u>2,229,926</u>	<u>82,946</u>	<u>2,312,872</u>
Fund Balance/Net Assets - End of Year:							
Nonspendable:							
Prepaid expenses	311,580		311,580				
Restricted:							
Special revenue fund		333,304	333,304				
Unassigned	2,906,164		2,906,164				
Unrestricted							
Temporarily restricted						85,660	
Total Fund Balance/Net Assets - End of Year	<u>\$ 3,217,744</u>	<u>\$ 333,304</u>	<u>\$ 3,551,048</u>	<u>\$ 0</u>	<u>\$ 3,047,555</u>	<u>\$ 85,660</u>	<u>\$ 3,133,215</u>
							<u>\$ 2,229,926</u>
							<u>\$ 82,946</u>
							<u>\$ 2,312,872</u>

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

1. Summary of Significant Accounting Policies:

Organization:

Collaborative for Educational Services (the Collaborative) provides educational services to the following member entities:

Amherst	Granby	Pioneer Valley Regional
Amherst-Pelham	Greenfield	R.C. Mahar Regional
Amherst-Pelham Regional	Hadley	Rowe
Belchertown	Hampshire Regional	Shutebury
Chesterfield-Goshen	Hatfield	Smith Vocational
Conway	Hawlemont Regional	South Hadley
Deerfield	Leverett	Southampton
Easthampton	Mohawk Trail Regional	Sunderland
Erving School Union 28	New Salem	Ware
Franklin County Technical School	Northampton	Wendell
Frontier Regional and Union 38	Orange	Westhampton
Gill-Montague Regional	Pelham	Whately
		Williamsburg

The Collaborative is a not for profit corporation under the laws of the Commonwealth of Massachusetts and is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code. The Collaborative was formed by member school systems for the purpose of pooling resources to maximize educational quality, particularly in the areas of occupational and career education in dealing with children with special needs. During the years ended June 30, 2012 and 2011, the Collaborative did not provide services to any individual over the age of 22.

The Collaborative is operated by a Board of Governors, appointed by the School Committees of each of the member towns and regional school districts. The Board of Governors appoints an Executive Director who is the chief operating official for the Collaborative.

The Collaborative utilizes classrooms in several of the member towns and regional school buildings to conduct its programs.

Reporting Entity:

For financial reporting purposes, in conformance with National Council on Governmental Accounting (NCGA) Statement 3, as recognized by Governmental Accounting Standards Board (GASB) Statement 1, the Collaborative's financial statements include all funds and authorities controlled by or dependent on the Collaborative. Control by or dependence on the Collaborative was determined on the basis of budget adoption, assessment and outstanding debt, which represents a general obligation of the Collaborative.

Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The financial statements of the Collaborative are prepared in accordance with accounting principles generally accepted in the United States of America, except that the Collaborative does not account for pension costs on an actuarial basis. The Collaborative applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

The Collaborative's statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds).

The net assets of the Collaborative are reported in each of the following three classes when applicable: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets are legally unrestricted and are reported as part of the unrestricted class.

Fund Types:

The Collaborative uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate entity with a self-balancing set of accounts.

In the case of the Collaborative, funds are classified into only one category, governmental. This category, in turn, is divided into separate "fund types".

Governmental Funds

Governmental funds are used to account for the Collaborative's expendable financial resources and related liabilities. The measurement focus is upon determination of changes in financial position. The following are the Collaborative's governmental fund types:

General Fund - This fund is the general operating fund of the Collaborative. It is used to account for all financial resources except for those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Assets:

The cost of capital assets acquired, in excess of \$1,000, is recorded as expenditures in the governmental funds and capitalized in their respective asset accounts.

The Collaborative records depreciation on such assets using the straight-line method over the following estimated useful lives:

Buildings	27.5 years
Building improvements	10-20 years
Leasehold improvements	5-20 years
Office/classroom equipment	3-10 years
Motor vehicles	5 years

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Depreciation expense for the years ended June 30, 2012 and 2011 was \$344,157 and \$324,500, respectively.

The following is a summary of the Collaborative's capital assets:

	<u>Beginning Balances</u>	<u>Additions/ (Disposals)</u>	<u>Ending Balances</u>
Land	\$ 292,068		\$ 292,068
Buildings and improvements	2,600,346		2,600,346
Leasehold improvements	35,968		35,968
Office/classroom equipment	2,307,674	\$467,562	2,775,236
Motor vehicles	<u>96,894</u>	<u>(21,674)</u>	<u>75,220</u>
Totals at historical cost	<u>5,332,950</u>	<u>445,888</u>	<u>5,778,838</u>
Less accumulated depreciation for:			
Buildings and improvements	1,047,690	98,981	1,146,671
Leasehold improvements	32,647	867	33,514
Office/classroom equipment	1,931,689	240,818	2,172,507
Motor vehicles	<u>81,189</u>	<u>(18,184)</u>	<u>63,005</u>
Total accumulated depreciation	<u>3,093,215</u>	<u>322,482</u>	<u>3,415,697</u>
Capital assets, net	<u>\$2,239,735</u>	<u>\$123,406</u>	<u>\$2,363,141</u>

Budgetary Data:

General Fund

For internal operating purposes, the Executive Director is responsible for compiling the preliminary annual budget based upon estimated expenditures submitted by all departments. This preliminary document is then reviewed by the Board of Governors who makes changes and alterations as deemed necessary before adopting the final budget. The annual budget consists of three main areas: 1) the administrative budget; 2) the special education program (SPED) budget; and 3) the professional development budget.

Administrative Budget - Each of the member towns and school districts pay an annual fee to subsidize the annual administrative costs of the Collaborative. Nonmember towns and school districts who choose to have their students participate in a Collaborative program pay tuition costs for the applicable program plus an administration charge equal to 16% of the basic tuition rate.

SPED Budget - the annual budget is used to estimate the annual basic tuition cost per student for each of the Collaborative's programs. The Collaborative bills tuition monthly based upon actual student enrollment.

Professional Development Budget - From time to time the Collaborative conducts a variety of professional development activities. The Collaborative generally conducts these activities on a break-even basis and charges participants based upon the cost for each event or program.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

The general fund's annual budget is prepared on a modified accrual basis of accounting. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued. However, at the end of each fiscal year, the effect of any encumbrances that are outstanding at the time are reversed, and therefore not included in the amount shown as expenditures for the current fiscal year. These encumbrances, if any, are recorded at year end as a reservation of fund balance and accounted for as expenditures in the subsequent fiscal year when actual goods and services are received.

Special Revenue Funds

There is no formal requirement to adopt budgets for individual special revenue funds and as a result most funds have no budget. Special revenue funds which are utilized to account for specific grant programs are established in accordance with the requirements of the grantor agencies. Such budgets do not lapse and may comprise more than one fiscal year or are operated on a fiscal period which does not coincide with the Collaborative's fiscal year.

It is not practical for the Collaborative to report budgetary information for special revenue funds on a combined basis.

Accrued Vacation:

The Collaborative's administrative, maintenance, and certain clerical employees earn vacation which may be accumulated and carried forward within certain limits provided under various individual contracts. At June 30, 2012 and 2011, accrued vacation of \$290,403 and \$258,658, respectively, has been recorded in the general fund.

Interfund Transactions:

The following is a description of the three basic types of interfund transactions which can be made and the related accounting policies:

Transactions to reimburse a fund for expenditures made by it for the benefit of another fund - these transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund.

Transactions to shift revenues or contributions from the fund budgeted to receive them to the fund budgeted to expend them - these transactions are recorded as transfers in and out.

Transactions to record equity contributions between funds - the receiving fund records such transactions as a transfer-in and an addition to fund balance. The disbursing fund records the transaction as a transfer-out and reduction of fund balance.

During the course of operation, numerous transactions occur between individual funds for goods provided or services rendered.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Prior Year Information:

The statement of governmental fund revenues, expenditures and changes in fund balances/statement of activities includes certain prior-year summarized comparative information in total but not by function, as well as, in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Collaborative's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. There has been no need for a valuation allowance for the years ended June 30, 2012 and 2011.

Advertising Costs:

The Collaborative expenses the cost of advertising as incurred. Advertising expense was \$32,132 and \$24,458 for the years ended June 30, 2012 and 2011, respectively.

Income Taxes:

Collaborative for Educational Services is a not-for-profit corporation and has been recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and accordingly does not record a provision for income taxes on its related earnings

The Collaborative regularly reviews and evaluates its tax positions taken in its previous financial statements, with regard to issues affecting its tax exempt status, unrelated business income, and related matters. The Collaborative is subject to various federal and state tax examinations for the years ended June 30, 2009 through 2012. Penalties and interest, if any, assessed by tax authorities will be included in operating expenses. It believes that in the event of an examination by taxing authorities, its positions would prevail based upon the technical merit of such positions. Therefore, the Collaborative has concluded that no tax benefits or liabilities are required to be recognized.

Subsequent Events:

Collaborative for Educational Services has evaluated events that have occurred subsequent to June 30, 2012, through November 14, 2012, the date these financial statements were available to be issued, and has determined there were no material events requiring recognition or disclosure.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

2. Assessments and Other Charges For Services:

The annual administrative fee for member communities is billed in July of each fiscal year. Each month, the Collaborative bills communities based upon student or participant enrollment for services it provides.

3. Cash and Cash Equivalents:

Generally, the Treasurer is authorized to invest in the following investments: term deposits or certificate of deposits, trust companies, national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States government or an agency thereof and having a maturity from date of purchase of one year or less, with certain other limitations.

The Collaborative considers all short-term investments with original maturities of three months or less to be cash equivalents.

	2012		2011	
	<u>Carrying Amount</u>	<u>Bank Amount</u>	<u>Carrying Amount</u>	<u>Bank Amount</u>
Insured (FDIC)	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Federally uninsured and uncollateralized	<u>2,202,287</u>	<u>2,512,403</u>	<u>2,116,913</u>	<u>2,126,571</u>
Total cash and cash equivalents	<u>\$2,452,287</u>	<u>\$2,762,403</u>	<u>\$2,366,913</u>	<u>\$2,376,571</u>

Balances in excess of the amount covered by FDIC are insured by the Depositors Insurance Fund.

The amounts presented in the columns "Carrying Amount" and "Bank Amount" represent the amounts per the accounting records and the amounts per bank statements, respectively. The difference between the two amounts represents normal reconciling items.

During the years ended June 30, 2012 and 2011, the Collaborative did not hold any funds that could be spent at the discretion of another person or entity.

4. Fund Balance:

The policy elected by the Collaborative's Board of Governors for fiscal year ended June 30, 1992, and all years thereafter, allows the Board to vote to use a portion of undesignated fund balance to reduce subsequent years' assessments, which would be reported as a component of general fund balance. At June 30, 2012 the Board had not voted to use any portion of the fund balance to reduce subsequent year assessments.

5. Pensions:

Pensions for employees, other than Collaborative teaching staff, are provided through a contributory retirement system under the Massachusetts Contributory Retirement Law, which is governed by Chapter 32 of the Massachusetts General Laws. This law prescribes the formula for computing retirement allowance and presently does not permit funding of accrued pension liabilities actuarially. Employee contributions and the Collaborative's contribution are paid to the State on a pay-as-you-go basis as directed by the State Division of Insurance through the Commonwealth of Massachusetts Retirement Board. The Collaborative's contributions for the years ended June 30, 2012 and 2011 were \$362,920 and \$388,079, respectively.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

School department teaching staff contributes to the Massachusetts Teachers' Retirement System administered by the Massachusetts Teachers' Retirement Board. The Collaborative makes no contributions to this plan.

Both retirement systems are contributory defined benefit plans. Membership in the plans is mandatory immediately upon the commencement of employment for all permanent full-time employees.

6. Risk Management:

The Collaborative is exposed to various risks of loss relating to torts; theft of, damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Collaborative has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. Contingencies:

The Collaborative has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement by the grantor agency for any expenditures disallowed under terms of the grant.

8. Concentration of Credit Risk:

The Collaborative provides educational services to the children of the aforementioned member entities, and as such, is dependent on the economic environment of these towns.

During the year ended June 30, 2009, a majority of full-time and regular part-time professional and non-professional employees of the Collaborative voted to be represented by Local 509, SEIU, AFL/CIO. For the years ended June 30, 2012 and 2011, this union represented approximately 42% and 44%, respectively, of the Collaborative's employees. The contract expires June 30, 2013.

9. Property Rental Leases:

Collaborative for Educational Services has entered into various lease agreements. All of these leases are for one year or less except the following:

Seaver & Sons Custom Builders LLC	2 years	7/11-8/13
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Future minimum rental payments are as follows:

7/12 - 6/13	\$ 31,800
7/13 - 6/14	<u>5,300</u>
	<u>\$ 37,100</u>

Rent expense for the years ended June 30, 2012 and 2011 was \$246,127 and \$188,128, respectively.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

10. Line of Credit:

Collaborative for Educational Services maintains a \$3,000,000 line of credit with PeoplesBank. This credit line is secured by all assets of the Collaborative. Interest to be adjusted monthly to equal the New York prime rate. No amount was outstanding at June 30, 2012 and 2011.

11. Mortgage Payable:

	<u>2012</u>	<u>2011</u>
Mortgage payable to bank, secured by real estate, monthly payments of \$7,812 including interest at 5.6%, paid off May, 2012	\$ -0-	\$ 885,956
Mortgage payable to bank, secured by all assets of the Collaborative, monthly payments of \$9,112 including interest at 4.625% (to be adjusted yearly to .375% above prime with a minimum of 4.625% and a maximum of 7.0%), paid off May, 2012	-0-	1,031,980
Note payable to PeoplesBank, as Trustee for the benefit of PB Partners, Inc. pursuant to Massachusetts Development Finance Agency Revenue Bonds, secured by all assets of the Collaborative, monthly payments of \$12,829 including interest at 3.90%, (prepayments are permitted but at 102% of the principal amount to be repaid, if repaid on or before May, 2017), matures May, 2032	2,125,000	
	<u>2,125,000</u>	<u>1,917,936</u>
<u>Less</u> - amount due within one year	<u>78,282</u>	<u>107,210</u>
<u>Mortgage Payable - Due After One Year</u>	<u>\$2,046,718</u>	<u>\$1,810,726</u>

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Mortgages payable	<u>\$1,917,936</u>	<u>\$2,125,000</u>	<u>\$1,917,936</u>	<u>\$2,125,000</u>	<u>\$ 78,282</u>

Maturities are expected to be as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 78,282	\$ 81,365
2014	75,471	78,482
2015	78,467	75,486
2016	81,583	72,370
2017	84,822	69,131
2018-2022	477,383	292,383
2023-2027	579,986	189,780
2028-2032	669,006	65,222
	<u>\$2,125,000</u>	<u>\$924,219</u>

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

12. Restrictions on Net Assets:

Temporarily restricted net assets are available for the following purposes:

Arts in Fusion	\$ 5,080
Bully Busters program	10,928
HEC Academy program	5,455
LEAP	5,000
Success By 6	17,267
Summer Learning Initiative	9,000
Food and Fitness	15,000
Unlocking the Beat	2,950
MA Leadership Action	<u>14,980</u>
	<u>\$ 85,660</u>

13. Net Assets Released From Restrictions:

The following net assets were released from donor restrictions after satisfying the restricted purpose:

	Temporarily Restricted Balance <u>July 1, 2011</u>	Current Year Additions	Released in Current Year	Temporarily Restricted Balance <u>June 30, 2012*</u>
Arts in Fusion	\$ 16,938		\$ (11,858)	\$ 5,080
Bully Busters program	11,971		(1,043)	10,928
HEC Academy program	8,280	\$ 150	(2,975)	5,455
LEAP	5,000			5,000
Success By 6	2,871	26,339	(11,943)	17,267
Summer Learning Initiative	16,352	9,000	(16,352)	9,000
Food and Fitness		15,000		15,000
Unlocking the Beat		10,000	(7,050)	2,950
MA Leadership Action	15,000		(20)	14,980
Mind in the Making	5,000		(5,000)	
After school programming	535		(535)	
Music Matters	999		(999)	
	<u>\$ 82,946</u>	<u>\$ 60,489</u>	<u>\$ (57,775)</u>	<u>\$ 85,660</u>

* These funds are to be used in future years in accordance with donor restrictions.

14. Adjustments:

When capital assets that are to be used in Collaborative activities are purchased, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, the fund balance decreases by the amount of financial resources expended, whereas the net assets decrease by the amount of depreciation expense charged for the year.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

15. State Surplus Revenue Retention:

The Commonwealth of Massachusetts has regulations governing the excess of state revenues over expenses for not-for-profit organizations subject to the Operational Services Division's authority. Such a surplus, up to 5% of current year state revenues, shall be retained by the organization for its charitable purposes. The sum of these annual surpluses may not exceed 20% of the organization's prior year state revenues. If an organization has a surplus in excess of the 5% or 20% rule, the Commonwealth may stipulate the use of such excess by the agency, request the return of the surplus to the state, or reduce state funding in future years. Amounts within the 5% and 20% rules are included in net assets. Any amount in excess of these rules is a liability to the Commonwealth.

Collaborative for Educational Services has no amounts in excess of the 5% and 20% rules. The amount of state surplus revenue included in net assets is as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ (8,896)	\$ (8,896)
Change during year	<u>0</u>	<u>0</u>
Balance at end of year	<u>\$ (8,896)</u>	<u>\$ (8,896)</u>

These amounts are subject to verification by the Commonwealth of Massachusetts Operational Services Division.

16. Litigation:

During the year ended June 30, 2011, a former employee filed a complaint in the Worcester District Court alleging that the Collaborative underpaid him by \$3,122. On August 12, 2011, a summary judgment was entered for the Collaborative. The individual has appealed this decision and the Collaborative intends to defend the matter vigorously.

A former employee has filed a complaint with MCAD alleging reverse discrimination. There has been no action taken by MCAD to date. The Collaborative denies any wrong doing and intends to defend the matter vigorously. It is not possible at this time to estimate the range of potential loss.

Two additional "Prohibited Practice Charges" were filed by Service Employees International Union, Local 509 on September 18, 2009. On March 16, 2010, the Commonwealth of Massachusetts, Division of Labor Relations, issued a formal complaint in this matter. During the year ended June 30, 2011, the Collaborative entered into a settle agreement and SEIU Local 509 has withdrawn these charges.

On November 3, 2011, a "Prohibited Practice Charge" was filed by Service Employees International Union, Local 509 with the Massachusetts Department of Labor Relations issued a Notice of Complaint and a hearing date has been set for July, 2013. The Collaborative intends to defend the matter vigorously.

17. Equipments Leases:

In December, 2006, the Collaborative entered into a 60 month lease for three copiers. The lease provided for monthly payments of \$805.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

In June, 2007, the Collaborative entered into two 60 month leases for copiers. The leases provided for monthly payments of \$190 each.

In March, 2008, the Collaborative entered into a 60 month lease for a copier. The lease provides for monthly payments of \$184.

In April, 2008, the Collaborative entered into a 60 month lease for a copier. The lease provides for monthly payments of \$91.

In July, 2008, the Collaborative entered into two 36 month leases for copiers. The leases provide for monthly payments of \$270 each.

In July, 2008, the Collaborative entered into four 36 month leases for postage meters. The leases provided for monthly payments of \$55 each.

In July, 2011, the Collaborative entered into two 36 month leases for copiers. The leases provide for monthly payments of \$333 each.

In August, 2011, the Collaborative entered into a 36 month lease for a copier. The lease provides for monthly payments of \$231.

In September, 2011, the Collaborative entered into eight 36 month leases for copiers. The leases provide for total monthly payments of \$1,829.

In October, 2011, the Collaborative entered into a 36 month lease for a copier. The lease provides for monthly payments of \$236.

In October, 2011, the Collaborative entered into two 60 month leases for copiers. The leases provide for monthly payments of \$686 each.

In January, 2012, the Collaborative entered into two 36 month leases for copiers. The leases provide for monthly payments of \$488 each.

Future minimum lease payments are as follows:

6/30/2013	\$ 83,463
6/30/2014	54,672
6/30/2015	15,749
6/30/2016	8,227
6/30/2017	<u>2,057</u>
	<u>\$164,168</u>

Equipment lease expense for the years ended June 30, 2012 and 2011 was \$40,193 and \$42,381, respectively.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

18. Compensation:

The five most highly compensated employees are as follows:

	<u>2012</u>	<u>2011</u>
Joan Schuman, Executive Director	\$186,402	\$185,976
Deborah Zacarian, Director of the Center for English Language Education	114,640	115,306
Cecelia Buckley, Director of Professional Development	114,604	108,507
Michael Ciesla, Chief Financial Officer	114,245	111,498
MaryLou Chapman, Director of Special Education	106,215	103,848

19. Administrative Overhead:

The amounts expended on administration and overhead for the years ended June 30, 2012 and 2011 totaled \$3,018,046 and \$3,248,391, respectively.

20. Related Party Transactions:

During the years ended June 30, 2012 and 2011, the Collaborative did not engage in any transactions with any related for-profit or non-profit organizations.

COLLABORATIVE FOR EDUCATIONAL SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education/ Fund For The Improvement of Education -			
Teaching American Freedoms	84.215		\$ 223,196
HOPE	84.215		<u>396,204</u>
			<u>619,400</u>
Passed Through State Department of Education/ Special Education-Grants to States -			
Special Education in Institutional Settings	84.027	98500HAMPSHIRE	3,917,158
Enhance SDP - Gateway	84.027	245-022-2-1094-M	26,163
SPED Program Improvement	84.207	274-356-2-1094-M	<u>2,380</u>
			<u>3,945,701</u>
Passed Through Commonwealth Corporation/ Title 1 State Agency Program for Neglected and Delinquent Children -			
DYS - Title 1	84.013		<u>616,663</u>
Passed Through State Department of Education/ Career and Technical Education-Basic Grants to States -			
Occupational Education Vocational Skills	84.048	400-061-2-1094-M	64,859
Occupational Education Vocational Skills	84.048	400-030-1-1094-L	<u>23,384</u>
			<u>88,243</u>
Passed Through State Department of Education/ Twenty-First Century Community Learning Centers -			
21 st Century Comm. Learning Centers	84.287	647-062-2-1094-M	473,900
21 st Century Comm. Learning Centers	84.287	647-049-1-1094-L	61,003
21 st Century Comm. Learning Centers	84.287	647-063-2-1091-M	168,790
21 st Century Comm. Learning Summer	84.287	647-050-1-1094-L	15,869
21 st Century Exemplary	84.287	647-052-1-1094-L	3,654
21 st Century High School	84.287	647-051-1-1094-L	52,218
Regional Network Development	84.287	647-063-2-1094-M	9,856
Regional Network Development	84.287	647-096-1-1094-L	<u>5,529</u>
			<u>790,819</u>

COLLABORATIVE FOR EDUCATIONAL SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
Passed Through State Department of Education/ Education Technology State Grants, Recovery Act -			
ARRA - Title II D Tech	84.386	776-027-1-1094-L	67,966
ARRA - DSAC	84.386	775-008-1-1094-L	<u>29,287</u>
			<u>97,253</u>
U.S. Department of Health and Human Services/ Substance Abuse and Mental Health Services - Projects of Regional and National Significance Social Norms Marketing	93.243		<u>32,822</u>
Drug-Free Communities Support Program Grants - Drug-Free Communities	93.276		<u>70,424</u>
Corporation for National and Community Service/ Passed Through State Department of Education/ Learn and Serve America-School and Community Based Programs - School Based Community Service Learning	94.004	354-045-1-1094-L	<u>500</u>
<u>Total Expenditures of Federal Awards</u>			<u>\$6,261,825</u>

See accompanying notes to Schedule
of Expenditures of Federal Awards.

COLLABORATIVE FOR EDUCATIONAL SERVICES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Collaborative for Educational Services and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. Subrecipients:

There were no payments to subrecipients in any of the federal award programs during the year ended June 30, 2012.

3. Pass-Through State Agencies:

Expenditures of federal awards for funds passed through state agencies is based on information provided by the Commonwealth of Massachusetts Operational Services Division.

COLLABORATIVE FOR EDUCATIONAL SERVICES
 COMBINING SCHEDULE OF SPECIAL REVENUE FUNDS
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2012

	Fund Balance Retained June 30, 2011	Revenue	Operating Expenditures	Capital Outlays	Excess (Deficiency) Revenues Over Expenditures	Transfers	Fund Balance Retained June 30, 2012
Federal/State Grants/Other:							
P.L. 94-142	1,323						1,323
Partners	(875)	5 88,243	5 66,150	5 22,885	5 (792)		(1,667)
FALLMS	9,822						9,822
After School Academic Support	116						116
Community service learning network	17,653	500	500				17,653
Community Learning	1,179						1,179
Bully Busters	11,971						11,971
Community Learning	78,651	740,652	718,142	1,420	(1,043)		10,928
Early Learning Opportunities	101						101
Early Learning Opportunities	4,328	77,610	70,424		7,186		11,514
Early Learning Opportunities	16,332	9,000	16,332		(7,332)		9,000
Adult Basic Education	1,794						1,794
Verizon - Florence Heights	933	35,524	35,524				933
Community Activities	1,879						1,879
Governor's Alliance - High Risk	2,856						2,856
After School Program	21						21
23rd Pleasant Street	380						380
DYS Education Programs		12,171,674	11,975,380	195,697	3,597		2,597
Academic Support Services		82,725	82,725				
Safe Schools			(5)				
STEP Services	223						223
Professional Development for Art/Music Educators	4						4
BSAS	(48)						(48)
Early Childhood Policy Coalition	8,146	83,000	83,000				8,146
Community Partnerships Exhampston	15,012	553,612	553,610		122		15,134
SPED Program Improvement	(980)	2,380	2,380				(980)
21st Century	75,687						75,687
After School Learning Centers	24,856	2,221	32,056		(29,835)		(4,979)
MA Family Network	10,158						10,158
Disability Outreach	220						220
Teacher Training Project	(8,931)						(8,931)
OST Programs	5,025						5,025
Tule J Support	(2,338)						(2,338)
Community Learning Expression	100	223,196	223,196				100
Teaching with Primary Sources		128,556	128,556				
Teaching with Primary Sources		6,075	6,075				
ACLS Teacher Quality and Effectiveness		3,000	3,000				
Training RETELL							
After School Music and Art	100	60,000	60,000				100
Model Curriculum		23,000	23,000				
ELL Regional Trainers		4,971	4,971				
Clean Energy Center		26,163	26,163				
Enhance SDP - Gateway		25,199	25,199				
HCOG		2,261	2,261				
CSEFEL		27,000	27,000				
Mental Health Consultation		32,822	32,822				
Social Norm Marketing		293,153	293,153				
Shriving Readers		3,702	3,654				
21st Century Community Learning	750						750
United Way Success By 6	6,903	26,339	11,943		48		6,953
Special Education in Institutional Settings	2,871	8,561,241	8,442,064	118,179	14,396		17,267
Alternative Education	(277)						(277)
HOPE		396,204	322,981	73,223			
Music Makers	999						999
Unlocking the Beat	10,000						10,000
Food and Fitness	15,000						15,000
Summer PD Institute	22,955						22,955
Summer PD Institute	25,000	11,600	11,600	11,355			13,355
Summer Assistive Technology Institute		16,157	16,157	8,843			8,314
FOCUS		192,636	192,636				
DSAC	(4,775)	67,966	67,966				(4,775)
Tule ID		15,385	15,385				
Regional Network Development		52,218	52,218				
CCIC High School	(448)						(448)
Greenfield Middle School Program	815						815
ASOSTO	2,606	29,870	28,583				3,893
Early Intervention Literacy		122,200	122,200				
Early Intervention Literacy	4,219	94,924	100,431				(5,507)
EV Readers	2,808						2,808
Northampton Coalitions		15,445	15,445				
MA Leadership Action	15,000						15,000
LEAP	5,000						5,000
Mind in the Making		20,000	5,000				15,000
Literacy Partnerships		171,000	171,000				
Totals	5,319,238	5,254,575,899	5,241,229,731	5,432,602	5,135,666	5,000	5,333,204

COLLABORATIVE FOR EDUCATIONAL SERVICES
RECONCILIATION OF TREASURER'S CASH
JUNE 30, 2012

Bank Account - Interest Bearing:

PeoplesBank	<u>\$ 2,195,034</u>
<u>Total Cash - Interest Bearing</u>	2,195,034
Checking and payroll accounts - PeoplesBank	254,891
Datapath	1,962
Petty cash	<u>400</u>
<u>Total Cash</u>	<u>\$ 2,452,287</u>
Cash is presented in the financial statements as follows:	
General fund	<u>\$ 2,452,287</u>

Lester Halpern & Company P.C.

Certified Public Accountants

Thomas A. Terry CPA ♦ Betty Jane Bourdon CPA ♦ Mary-Anne S. Stearns CPA ♦ Robert B. McKay CPA ♦ Lester L. Halpern CPA Retired

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*

November 14, 2012

To The Board of Governors
Collaborative for Educational Services
97 Hawley Street
Northampton, Massachusetts 01060

We have audited the financial statements of Collaborative for Educational Services as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Collaborative for Educational Services' 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 Collaborative for Educational Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Collaborative for Educational Services' 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 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.

Our consideration of the 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 above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Collaborative for Educational Services' 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Governors and others within the entity, the Commonwealth of Massachusetts Operational Services Division and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Lester Halpern & Company P.C.
Certified Public Accountants

Lester Halpern & Company P.C.

Certified Public Accountants

Thomas A. Terry CPA ♦ Betty Jane Bourdon CPA ♦ Mary-Anne S. Stearns CPA ♦ Robert B. McKay CPA ♦ Lester L. Halpern CPA Retired

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 14, 2012

To The Board of Governors
Collaborative for Educational Services
97 Hawley Street
Northampton, Massachusetts 01060

Compliance

We have audited Collaborative for Educational Services' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Collaborative for Educational Services' major federal programs for the year ended June 30, 2012. Collaborative for Educational Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Collaborative for Educational Services' management. Our responsibility is to express an opinion on Collaborative for Educational Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Collaborative for Educational Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Collaborative for Educational Services' compliance with those requirements.

In our opinion, Collaborative for Educational Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

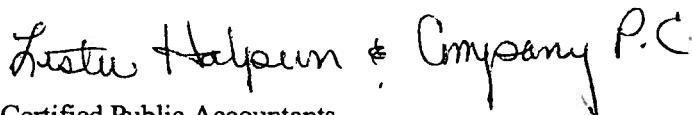
Management of Collaborative for Educational Services is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Collaborative for Educational Services' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Collaborative for Educational Services' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, Board of Governors, others within the entity, the Commonwealth of Massachusetts Operational Service Division and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Certified Public Accountants

COLLABORATIVE FOR EDUCATIONAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education - Grants to States
84.386	Education Technology State Grants - Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

None

Section III - Federal Awards Findings and Questioned Costs

None

COLLABORATIVE FOR EDUCATIONAL SERVICES
STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

There were no findings or questioned costs disclosed for the year ended June 30, 2011.

Lester Halpern & Company P.C.

Certified Public Accountants

Thomas A. Terry CPA ♦ Betty Jane Bourdon CPA ♦ Mary-Anne S. Stearns CPA ♦ Robert B. McKay CPA ♦ Lester L. Halpern CPA Retired

November 14, 2012

To The Board of Governors
Collaborative for Educational Services
97 Hawley Street
Northampton, Massachusetts 01060

We have audited the financial statements of Collaborative for Educational Services for the year ended June 30, 2012 and have issued our report thereon dated November 14, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 21, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by Collaborative for Educational Services are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the Collaborative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation of capital assets.

Management's estimate of the depreciation of capital assets is based on information available at June 30, 2012. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 14, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Collaborative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

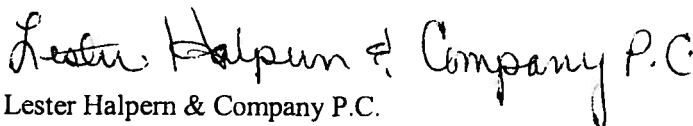
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Collaborative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Governors and management of Collaborative for Educational Services and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Lester Halpern & Company P.C.
Certified Public Accountants