

***SOUTH SHORE EDUCATIONAL COLLABORATIVE***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***YEAR ENDED JUNE 30, 2016***

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JUNE 30, 2016

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## Independent Auditor's Report

To the Board of Directors  
South Shore Educational Collaborative  
Hingham, Massachusetts

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Shore Educational Collaborative (the "Collaborative"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Shore Educational Collaborative, as of June 30, 2016, and the respective changes in financial position thereof 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 and the required supplementary information, as listed in the table of contents, 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 opinions on the financial statements that collectively comprise the Collaborative's basic financial statements. The other information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of the Collaborative's internal control over financial reporting and 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* in considering the Collaborative's internal control over financial reporting and compliance.

*Powers + Juliani, LLC*

December 9, 2016

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the South Shore Educational Collaborative (the "Collaborative"), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2016. The Collaborative complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements. All amounts, unless otherwise indicated, are expressed in whole dollars.

### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the South Shore Educational Collaborative's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all assets and deferred outflows and liabilities and deferred inflows, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the Collaborative's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected revenues and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions that are principally supported by tuition charges for services and intergovernmental revenues (*governmental activities*). The governmental activities include administration and office expenses, instruction and other student services, facilities, unallocated depreciation, and interest.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** The focus of the Collaborative's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Collaborative's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Collaborative's budgetary comparisons and its pension and other postemployment obligations, as well as *other information* as required by M.G.L Chapter 43 of the Acts of 2012.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Liabilities exceeded assets by \$3.8 million at the close of 2016 mainly due to the recording of a liability for postemployment benefits (OPEB) in the cumulative amount of \$4 million. Key components of the Collaborative's governmental financial position are listed below.

	<b>2016</b>	<b>2015</b>
<b>Assets:</b>		
Current assets.....	\$ 1,841,000	\$ 2,140,685
Noncurrent assets (excluding capital).....	69,920	69,920
Capital assets.....	331,671	456,391
<b>Total assets.....</b>	<b>2,242,591</b>	<b>2,666,996</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	1,725,929	1,675,959
Noncurrent liabilities (excluding debt).....	4,090,262	3,603,542
Current debt.....	75,206	71,830
Noncurrent debt.....	142,154	217,360
<b>Total liabilities.....</b>	<b>6,033,551</b>	<b>5,568,691</b>
<b>Net Position:</b>		
Net investment in capital assets.....	114,311	167,201
Restricted.....	19,374	9,154
Unrestricted.....	(3,924,645)	(3,078,050)
<b>Total net position.....</b>	<b>\$ (3,790,960)</b>	<b>\$ (2,901,695)</b>

Net position of \$114,000 reflects the Collaborative's net investment in capital assets (e.g., equipment, furniture and fixtures, and vehicles); less any related debt used to acquire those assets that is still outstanding. The Collaborative uses these capital assets to provide services to pupils; consequently, these assets are *not* available for future spending. Although the investment in capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position of \$19,000 represents resources that are subject to external restrictions on how they may be used (restricted for gifts and grants). The remaining balance of unrestricted net position resulted in a \$3.9 million deficit mainly relating to the cumulative effect of recording \$4 million of other postemployment liabilities through June 30, 2016.

## Governmental Activities

The governmental activities of the Collaborative are summarized below. The Collaborative's net position decreased by \$890,000 in 2016 as compared to a \$781,000 decrease in 2015. The decreases mainly relate to the recording of OPEB expense in the amount of \$490,000 and \$468,000 for years 2016 and 2015, respectively. Charges for services decreased by approximately \$12,000, remaining relatively consistent with the prior year. Operating grants and contributions increased by approximately \$1,390,000 which was due to a change in the way the State is reporting State funded pension benefits under the new GASB #68 reporting requirements, as well as from FEMA revenue received for snow removal costs from the prior year. Tuition revenue increased by approximately 1% while instructional expenses increased approximately 5%. The decrease in facilities expenses relates mainly to operating costs of the new building and to snow removal costs incurred in the prior year.

	<u>2016</u>	<u>2015</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 1,675,057	\$ 1,687,143
Operating grants and contributions.....	3,395,478	2,005,758
<b>General Revenues:</b>		
Tuition.....	18,397,241	18,265,410
Unrestricted investment income.....	802	1,007
<b>Total revenues.....</b>	<b><u>23,468,578</u></b>	<b><u>21,959,318</u></b>
<b>Expenses:</b>		
Administration.....	1,447,458	1,156,306
Instruction.....	20,345,433	18,833,245
Facilities.....	2,418,000	2,589,665
Unallocated Depreciation.....	130,720	146,345
Interest.....	16,232	14,904
<b>Total expenses.....</b>	<b><u>24,357,843</u></b>	<b><u>22,740,465</u></b>
<b>Change in net position.....</b>	<b>(889,265)</b>	<b>(781,147)</b>
<b>Net position - beginning.....</b>	<b><u>(2,901,695)</u></b>	<b><u>(2,120,548)</u></b>
<b>Net position - ending.....</b>	<b>\$ <u>(3,790,960)</u></b>	<b>\$ <u>(2,901,695)</u></b>

## Financial Analysis of the Governmental Funds

As noted earlier, the Collaborative uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the Collaborative's net resources available for spending at the end of the year.

At the end of the current year, governmental funds reported combined ending fund balances of \$215,000. The general fund balance decreased by approximately \$503,000 and the nonmajor governmental funds increased by approximately \$152,000.

The general fund is the Collaborative's chief operating fund. At year end, fund balance in the general fund totaled a \$58,000 deficit balance.

### ***General Fund Budgetary Highlights***

The Collaborative adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The original year 2016 approved budget for the general fund authorized approximately \$20.2 million in appropriations. During the year, the original budget was increased by approximately \$232,000 primarily for instruction, other student services, and facilities.

Actual revenues were less than budget by \$290,000 and actual expenditures were less than budget by \$3,000.

### ***Capital Asset and Debt Administration***

The Collaborative's net capital assets totaled approximately \$332,000 as of June 30, 2016. The Collaborative made a capital purchase during the year for a vehicle. Depreciation expense in the amount of approximately \$131,000 was recorded.

The Collaborative has a term note outstanding at year end, which totaled approximately \$217,000.

Please refer to the Notes 4 and 8 of the basic financial statements for further discussion of the capital asset and debt activity.

### ***Requests for Information***

This financial report is designed to provide a general overview of the South Shore Educational Collaborative's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Administrator, South Shore Educational Collaborative, 75 Abington Street, Hingham, Massachusetts 02043.

# ***Basic Financial Statements***

**STATEMENT OF NET POSITION**

JUNE 30, 2016

		Governmental Activities
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$	686,670
Receivables, net of allowance for uncollectibles:		
Tuition due from other member communities.....		1,149,319
Departmental and other.....		5,011
NONCURRENT:		
Deposits.....		69,920
Capital assets, net of accumulated depreciation.....		331,671
TOTAL ASSETS.....		2,242,591
<b>LIABILITIES</b>		
CURRENT:		
Accounts payable.....		25,341
Accrued payroll.....		189,577
Payroll withholdings.....		254,354
Prepaid tuition.....		1,227,022
Compensated absences.....		29,635
Loans payable.....		75,206
NONCURRENT:		
Compensated absences.....		78,000
Loans payable.....		142,154
Other postemployment benefits.....		4,012,262
TOTAL LIABILITIES.....		6,033,551
<b>NET POSITION</b>		
Net investment in capital assets.....		114,311
Restricted for:		
Gifts and grants.....		19,374
Unrestricted.....		(3,924,645)
TOTAL NET POSITION.....	\$	(3,790,960)

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Primary Government:</b>				
<i>Governmental Activities:</i>				
Administration and office expense.....	\$ 1,447,458	\$ 526,198	\$ -	\$ (921,260)
Instruction and other student services.....	20,345,433	1,148,859	3,325,132	(15,871,442)
Facilities.....	2,418,000	-	70,346	(2,347,654)
Unallocated depreciation.....	130,720	-	-	(130,720)
Interest.....	16,232	-	-	(16,232)
<b>Total Governmental Activities.....</b>	<b>\$ 24,357,843</b>	<b>\$ 1,675,057</b>	<b>\$ 3,395,478</b>	<b>\$ (19,287,308)</b>

(Continued)

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

	Primary Government
	Governmental Activities
<b>Changes in net position:</b>	
Net (expense) revenue from previous page.....	\$ <b>(19,287,308)</b>
<i>General revenues:</i>	
Tuition.....	18,397,241
Unrestricted investment income.....	802
Total general revenues.....	18,398,043
Change in net position.....	(889,265)
<i>Net Position:</i>	
Beginning of year.....	(2,901,695)
End of year.....	\$ (3,790,960)
	(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>			
Cash and cash equivalents.....	\$ 413,328	\$ 273,342	\$ 686,670
Receivables, net of uncollectibles:			
Tuition due from member communities.....	1,149,319	-	1,149,319
Departmental and other.....	5,011	-	5,011
Deposits.....	69,920	-	69,920
<b>TOTAL ASSETS.....</b>	<b>\$ 1,637,578</b>	<b>\$ 273,342</b>	<b>\$ 1,910,920</b>
<b>LIABILITIES:</b>			
Accounts payable.....	\$ 25,198	\$ 143	\$ 25,341
Accrued payroll.....	188,513	1,064	189,577
Payroll withholdings.....	254,354	-	254,354
Prepaid tuition.....	1,227,022	-	1,227,022
<b>TOTAL LIABILITIES.....</b>	<b>1,695,087</b>	<b>1,207</b>	<b>1,696,294</b>
<b>FUND BALANCES:</b>			
Restricted.....	-	273,199	273,199
Unassigned.....	(57,509)	(1,064)	(58,573)
<b>TOTAL FUND BALANCES.....</b>	<b>(57,509)</b>	<b>272,135</b>	<b>214,626</b>
<b>TOTAL LIABILITIES AND FUND BALANCE.....</b>	<b>\$ 1,637,578</b>	<b>\$ 273,342</b>	<b>\$ 1,910,920</b>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2016

Total governmental fund balances.....	\$	214,626
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		331,671
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable.....		(217,360)
Other postemployment benefits.....		(4,012,262)
Compensated absences.....		<u>(107,635)</u>
Net effect of reporting long-term liabilities.....		<u>(4,337,257)</u>
Net position of governmental activities.....	\$	<u><u>(3,790,960)</u></u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Special education.....	\$ 18,617,701	\$ 2,400	\$ 18,620,101
Occupational and physical education.....	625,124	-	625,124
Operating grants and contributions.....	287,641	144,092	431,733
Intergovernmental - State provided pension benefits.....	3,180,040	-	3,180,040
Departmental and other.....	403,123	207,655	610,778
Investment income.....	802	-	802
<b>TOTAL REVENUES.....</b>	<b>23,114,431</b>	<b>354,147</b>	<b>23,468,578</b>
<b>EXPENDITURES:</b>			
Current:			
Administration and office expense.....	1,063,070	23,444	1,086,514
Instruction and other student services.....	14,437,852	177,191	14,615,043
Other student services.....	782,068	-	782,068
Facilities.....	2,418,000	-	2,418,000
Employee benefits.....	1,648,564	1,158	1,649,722
State funded pension benefits.....	3,180,040	-	3,180,040
Debt Services:			
Principal.....	71,830	-	71,830
Interest.....	16,232	-	16,232
<b>TOTAL EXPENDITURES.....</b>	<b>23,617,656</b>	<b>201,793</b>	<b>23,819,449</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(503,225)</b>	<b>152,354</b>	<b>(350,871)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>445,716</b>	<b>119,781</b>	<b>565,497</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b><u>(57,509)</u></b>	<b><u>272,135</u></b>	<b><u>214,626</u></b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds.....	\$	(350,871)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	6,000	
Depreciation expense.....	<u>(130,720)</u>	

Net effect of reporting capital assets.....		(124,720)
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resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Debt service principal payments.....		71,830
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	4,216	
Net change in other postemployment benefits accrual.....	<u>(489,720)</u>	

Net effect of recording long-term liabilities.....		<u>(485,504)</u>
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Change in net position of governmental activities.....	\$	<u><u>(889,265)</u></u>
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See notes to basic financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The South Shore Educational Collaborative (the “Collaborative”) was formed in 1976 as authorized by Chapter 40 Section 4E and Chapter 797 of the General Laws of the Commonwealth of Massachusetts, by member school districts from the Cities and Towns of Braintree, Cohasset, Hingham, Hull, Marshfield, Norwell, Quincy, Randolph, Scituate, and Weymouth. The primary purpose of the Collaborative is to expand the quality of educational services that can be provided more effectively and efficiently by pooling the resources and students of several school districts. Since inception, the Collaborative has been able to substantially broaden the quantity and quality of programs and services available to students in surrounding school districts.

The Collaborative’s programs and services are primarily intended for its members; however, nonmembers may also participate.

Governance of the Collaborative is vested in a ten member Board of Directors (the “Board”) composed of one representative appointed by each member school committee. The Board appoints an Executive Director who is the chief operating official for the Collaborative and who reports directly to the Board.

The accompanying basic financial statements of the South Shore Educational Collaborative have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Collaborative accounting policies are described herein.

**A. Reporting Entity**

For financial reporting purposes, the Collaborative has included all funds, organizations, agencies, boards, commissions, and institutions. The Collaborative has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Collaborative are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Collaborative (the primary government) and its component units. The Collaborative has no component units that require inclusion in these basic financial statements.

The primary government consists of all funds and departments which provide various services including special education, occupational education, supplemental services, professional development and administrative. The Collaborative Board of Directors and Executive Director are directly responsible for these activities.

**B. Government-Wide and Fund Financial Statements*****Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* are primarily supported by member assessments and intergovernmental revenue.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

*Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to recipients who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Other items not identifiable as program revenues are reported as general revenues.

The effect of interfund activity has been removed from the government-wide financial statements.

### *Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Investment income is susceptible to accrual. Other receipts and revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *nonmajor governmental funds* consist of other special revenue funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs. The Collaborative does not currently have any funds that are required to be reported as fiduciary funds.

### D. Cash and Investments

#### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

### E. Fair Value Measurements

The SSEC reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

The District did not have any financial instruments types meeting the requirements for reporting with fair value standards.

#### F. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

##### ***Departmental and Other***

Departmental and other receivables consist of various benefit payments which are under agreement with current and former employees to reimburse the Collaborative and tuition payments receivable from other Collaborative's for special education services provided.

##### ***Intergovernmental***

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

G. Inventories

*Government-Wide and Fund Financial Statements*

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

H. Capital Assets

*Government-Wide Financial Statements*

Capital assets, which include equipment, furniture and fixtures, and vehicles, are reported in the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Equipment, Furniture, & Fixtures.....	5-15
Vehicles.....	3-5

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

I. Deferred Outflows/Inflows of Resources

*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Collaborative did not have any elements that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Collaborative did not have any elements that qualify for reporting in this category.

*Government Fund Financial Statements*

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents amounts that have been recorded in the governmental fund financial statements but the revenue is not available and so will not be recognized as an inflow of resources (revenue) until it becomes available. The Collaborative did not have any elements that qualify for reporting in this category.

J. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

*Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

*Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position.

K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

*Government-Wide Financial Statements*

Transfers within governmental funds are eliminated from the governmental activities in the statement of activities.

*Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

L. Net Position and Fund Equity*Government-Wide Financial Statements (Net Position)*

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been “restricted for” the following:

“Grants and gifts” represents assets that have restrictions placed on them from outside parties.

Sometimes the Collaborative will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Collaborative’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### *Fund Financial Statements (Fund Balances)*

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the Collaborative’s intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Collaborative’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

#### M. Long-term debt

##### *Government-Wide Financial Statements*

Long-term debt is reported as liabilities in the government-wide statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

*Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as administrative expenditures.

N. Investment Income

Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of both the Massachusetts State Employee Retirement System and the Massachusetts Teachers Retirement System and additions to/deductions from the Systems fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

*Government-Wide Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

*Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

Q. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the year. Actual results could vary from estimates that were used.

## R. Total Column

### *Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

### *Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

## S. Individual Fund Deficits

A deficit exists in the Principle Licensure Program within the Special Revenue Fund. This deficit is anticipated to be funded through available funds and receipts collected during year 2017.

## **NOTE 2 – CASH AND INVESTMENTS**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Collaborative's deposits may not be returned to it. The Collaborative does not have a formal deposit policy for custodial credit risk.

At year-end, the carrying amount of deposits totaled \$686,670 and the bank balance totaled \$1,074,550. Of the bank balance, \$250,000 was covered by Federal Depository Insurance, and \$824,550 was subject to custodial credit risk because it was uninsured and uncollateralized.

### Investments

As of June 30, 2016, the Collaborative had no investments.

### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the entity will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Collaborative does not have a formal investment policy for custodial credit risk.

Interest Rate Risk

The Collaborative does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Collaborative has not adopted a formal policy related to Credit Risk.

Concentration of Credit Risk

The Collaborative places no limit on the amount the government may invest in any one issuer

**NOTE 3 – RECEIVABLES**

At June 30, 2016, receivables for the individual major and non-major governmental funds in the aggregate are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Due from member communities..... \$	1,149,319	\$ -	\$ 1,149,319
Departmental and other.....	<u>5,011</u>	<u>-</u>	<u>5,011</u>
Total..... \$	<u><u>1,154,330</u></u>	<u><u>-</u></u>	<u><u>1,154,330</u></u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<u>Capital assets being depreciated:</u>				
Equipment, Furniture, & Fixtures..... \$	774,455	\$ -	\$ -	\$ 774,455
Vehicles.....	<u>135,326</u>	<u>6,000</u>	<u>-</u>	<u>141,326</u>
Total capital assets being depreciated.....	<u>909,781</u>	<u>6,000</u>	<u>-</u>	<u>915,781</u>
<u>Less accumulated depreciation for:</u>				
Equipment, Furniture, & Fixtures.....	(345,932)	(121,983)	-	(467,915)
Vehicles.....	<u>(107,458)</u>	<u>(8,737)</u>	<u>-</u>	<u>(116,195)</u>
Total accumulated depreciation.....	<u>(453,390)</u>	<u>(130,720)</u>	<u>-</u>	<u>(584,110)</u>
Total governmental activities capital assets, net..... \$	<u><u>456,391</u></u>	<u><u>(124,720)</u></u>	<u><u>-</u></u>	<u><u>331,671</u></u>

Unallocated depreciation expense totaled \$130,720 for the year ended June 30, 2016.

**NOTE 5 – PREPAID TUITION**

Member communities are allowed to prepay a portion of the next year’s tuition. At June 30, 2016, the Collaborative had received approximately \$1,227,000 of prepaid tuition from member communities.

**NOTE 6 – LEASES**

The Collaborative has entered into two lease agreements for classroom and administrative office space under non-cancelable operating leases that expire on various dates through year 2033. The cost of the leases for the year ended June 30, 2016, totaled approximately \$1,600,000, and is reported as administration and facilities expenditures in the general fund.

The future minimum lease payments for 40 Pond Park Road are as follows:

<u>Years</u> <u>Ending June 30,</u>	<u>Governmental</u> <u>Activities</u>
2017.....	\$ <u>170,368</u>

New Lease Agreement

The Collaborative entered into a new lease agreement for a stand-alone building that serves as the Collaborative’s main administrative and classroom facility. The new lease began on July 1, 2015, and will run through June 30, 2033.

The future minimum lease payments for the new lease are as follows:

<u>Years</u> <u>Ending June 30,</u>	<u>Governmental</u> <u>Activities</u>
2017.....	\$ 1,586,700
2018.....	1,586,700
2019.....	1,586,700
2020.....	1,612,500
2021.....	1,612,500
2022.....	1,612,500
2023.....	1,698,500
2024.....	1,698,500
2025.....	1,698,500
2026.....	1,698,500
2027.....	1,784,500
2028.....	1,784,500
2029.....	1,784,500
2030.....	1,784,500
2031.....	1,818,900
2032.....	1,818,900
2033.....	<u>1,818,900</u>
Total.....	\$ <u>28,986,300</u>

**NOTE 7 – LOANS PAYABLE**

The Collaborative has an agreement with a bank to borrow up to \$1.2 million under a revolving line of credit arrangement. For the year ended June 30, 2016, the Collaborative had not drawn down any amounts on this line of credit.

As of June 30, 2016, the Collaborative had approximately \$217,000 of term loans payable outstanding as follows:

Purpose	Rate (%)	Outstanding At June 30, 2015	Renewed/ Issued	Retired/ Redeemed	Outstanding At June 30, 2016
Equipment and Leasehold Improvements.....	4.50%	\$ 289,190	\$ -	\$ 71,830	\$ 217,360

Debt service requirements for principal and interest for loans payable in future years are as follows:

Year	Principal	Interest	Total
2017.....	\$ 75,206	\$ 8,361	\$ 83,567
2018.....	78,710	4,857	83,567
2019.....	63,444	1,254	64,698
Total.....	\$ 217,360	\$ 14,472	\$ 231,832

**Changes in Long-term Liabilities**

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

	Balance June 30, 2015	Additions	Retirements and Other	Balance June 30, 2016	Current Portion
Compensated Absences.....	\$ 111,851	\$ 26,635	\$ (30,851)	\$ 107,635	\$ 29,635
Other Postemployment Benefits.....	3,522,542	559,173	(69,453)	4,012,262	-
Loans Payable.....	289,190	-	(71,830)	217,360	75,206
Total.....	\$ 3,923,583	\$ 585,808	\$ (172,134)	\$ 4,337,257	\$ 104,841

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The Collaborative has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Collaborative's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- **Restricted:** fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- **Unassigned:** fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2016, the governmental fund balances consisted of the following:

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Fund Balances</b>			
Restricted for:			
Federal History Grant.....	\$ -	\$ 603	\$ 603
Evans Henry Foundation.....	-	12,076	12,076
Community Fund Raising.....	-	18,179	18,179
Mini School Fundraising.....	-	18,986	18,986
Principles Licensure Program.....	-	32,352	32,352
Donations Cap Program.....	-	29	29
HS Alliance.....	-	6,371	6,371
Internet Technology.....	-	83,258	83,258
South Shore Special Education.....	-	2,807	2,807
SEC Computer Lab.....	-	2,014	2,014
School Improvement Grant.....	-	4,421	4,421
Nurse's Grant.....	-	2,442	2,442
Overhead.....	-	8,083	8,083
Revolving.....	-	19,154	19,154
Boston University Licensure.....	-	34,937	34,937
Food Services.....	-	26,777	26,777
Assistive Technology.....	-	275	275
Texas Instruments Grant.....	-	435	435
Unassigned.....	<u>(57,509)</u>	<u>(1,064)</u>	<u>(58,573)</u>
<b>Total Fund Balances (Deficits).....</b>	<b>\$ <u>(57,509)</u></b>	<b>\$ <u>272,135</u></b>	<b>\$ <u>214,626</u></b>

**NOTE 9– RISK FINANCING**

The Collaborative is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Collaborative carries commercial insurance. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The Collaborative participates in premium-based health care plans for its employees and retirees.

## **NOTE 10 – PENSION PLAN**

### *Plan Descriptions*

The Collaborative is a member of the Massachusetts State Employees' Retirement System (MSERS), a public employee retirement system that administers a cost-sharing multi-employer defined benefit plan covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The MSERS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

The Collaborative is also a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

### *Special Funding Situations*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Collaborative's teachers and retired teachers to the MTRS. Therefore, the Collaborative is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the Collaborative does not contribute directly to MTRS, the Collaborative does not have a net pension liability. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2015. The Collaborative's portion of the collective pension expense, contributed by the Commonwealth, of \$2,165,528 is reported in the general fund as intergovernmental revenue and pension expense in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the Collaborative is \$26,699,023 as of the measurement date.

A special funding situation was created by Massachusetts General Laws for all educational collaboratives in the Commonwealth. Collaboratives contribute amounts equal to the normal cost of non-teaching employees' benefits at a rate established by the Public Employees' Retirement Administration Commission (PERAC), currently 5.6% of covered payroll. Legally, the Collaboratives are only responsible for contributing the annual normal cost of their employees' benefits (i.e., the present value of the benefits earned by those employees in any given year) and are not legally responsible for the past service cost attributable to those employees or previously retired employees of the Collaboratives. Therefore, the Collaborative does not have a net pension liability. The Collaborative's required contribution to MSERS equaled its actual contribution for the year ended December 31, 2015 which was \$245,045 and 5.6% of covered payroll.

The Commonwealth as a nonemployer is legally responsible for the entire past service cost related to the non-teaching employees' of the Collaboratives and therefore has a 100% special funding situation. The total of the Commonwealth provided contributions are allocated based on each employer's covered payroll to the total covered payroll of employers in MSERS as of the measurement date of June 30, 2015. The Collaborative's portion of the collective pension expense, contributed by the Commonwealth, of \$1,014,512 is reported as

intergovernmental revenue and pension expense in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the Collaborative is \$9,100,860 as of the measurement date.

*Benefits Provided*

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Fiscal year 2016 was the fourth year of the implementation of GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45). As allowed by GASB 45, the Collaborative established the net other postemployment benefits (OPEB) obligation at zero at the beginning of the transition year (Year 2009) and has applied the measurement and recognition requirements of GASB 45 on a prospective basis.

*Plan Description* – The Collaborative administers a single-employer defined benefit healthcare plan (the "Plan"). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Collaborative's group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Collaborative and the unions representing Collaborative employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

At July 1, 2014, (the date of the actuarial valuation), the Plan's membership consisted of the following:

Current retirees, beneficiaries, and dependents...	12
Current active members.....	<u>250</u>
Total.....	<u><u>262</u></u>

*Funding Policy* – Contribution requirements are also negotiated between the Collaborative and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Collaborative contributes 50 percent of the cost of only medical insurance premiums for eligible retired plan members and their

spouses. Plan members receiving benefits contribute the remaining portion of their premium costs. For 2016, the Collaborative contributed approximately \$69,000 towards these benefits.

*Annual OPEB Cost and Net OPEB Obligation* – The Collaborative’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Collaborative’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Collaborative’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$	497,132
Interest on existing net OPEB obligation.....		140,902
Adjustments to annual required contribution.....		<u>(78,861)</u>
Annual OPEB cost/expense.....		559,173
Contributions made.....		<u>(69,453)</u>
Increase/(Decrease) in net OPEB obligation.....		489,720
Net OPEB obligation - beginning of year.....		<u>3,522,542</u>
Net OPEB obligation - end of year.....	\$	<u><u>4,012,262</u></u>

The Collaborative’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the previous year are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 559,173	12.4%	\$ 4,012,262
6/30/2015	523,630	10.7%	3,522,542
6/30/2014	651,958	7.3%	3,054,852

*Funded Status and Funding Progress* – The funded status of the Plan as of the most recent actuarial valuation date, July 1, 2014, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2014	\$ -	\$ 3,658,563	\$ 3,658,563	0%	\$ 12,547,935	29.2%
7/1/2012	-	3,632,527	3,632,527	0%	11,483,138	31.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The following additional information is provided as of the latest actuarial valuation:

Actuarial Methods:

Valuation date.....	July 1, 2014
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.0%
Remaining amortization period.....	23 years as of July 1, 2014, closed
Asset valuation method.....	Market Value

Actuarial Assumptions:

Investment rate of return.....	4.0% per annum
Inflation rate.....	2.50% per annum
Projected salary increases.....	3.0% per annum
Medical/drug cost trend rate.....	11% graded to 5% over 8 years

**NOTE 12 – CONTINGENCIES**

Various legal actions and claims are pending against the Collaborative. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2016 cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2016.

**NOTE 13 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 9, 2016, which is the date the financial statements were available to be issued.

**NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2016, the following GASB pronouncements were implemented:

- GASB Statement #72, *Fair Value Measurement and Application*. Notes to the basic financial statements were changed to provide additional disclosure on fair value measurement.
- GASB issued Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This pronouncement did not impact the basic financial statements.
- GASB Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.
- GASB Statement #79, *Certain External Investment Pools and Pool Participants*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.
- The GASB issued Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*, which is required to be implemented in 2018.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

# ***Required Supplementary Information***

# ***General Fund Budgetary Comparison Schedule***

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

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
<b>REVENUES:</b>					
Special education.....	\$ 18,882,572	\$ 18,853,780	\$ 18,617,701	\$ -	\$ (236,079)
Occupational and physical education.....	603,948	700,000	625,124	-	(74,876)
Operating grants and contributions.....	-	209,000	217,295	-	8,295
Departmental and other.....	808,235	460,923	473,469	-	12,546
Investment income.....	-	658	802	-	144
<b>TOTAL REVENUES.....</b>	<b>20,294,755</b>	<b>20,224,361</b>	<b>19,934,391</b>	<b>-</b>	<b>(289,970)</b>
<b>EXPENDITURES:</b>					
Administration and office expense.....	1,048,582	1,026,170	1,093,899	-	(67,729)
Instruction.....	14,337,707	14,458,201	14,437,852	-	20,349
Other student services.....	751,306	783,350	782,068	-	1,282
Facilities.....	2,392,356	2,489,553	2,427,221	-	62,332
Employee benefits.....	1,632,120	1,635,038	1,648,564	-	(13,526)
Debt service.....	86,567	88,062	88,062	-	-
<b>TOTAL EXPENDITURES.....</b>	<b>20,248,638</b>	<b>20,480,374</b>	<b>20,477,666</b>	<b>-</b>	<b>2,708</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>46,117</b>	<b>(256,013)</b>	<b>(543,275)</b>	<b>-</b>	<b>(287,262)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>746,331</b>	<b>746,331</b>	<b>746,331</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 792,448</b>	<b>\$ 490,318</b>	<b>\$ 203,056</b>	<b>\$ -</b>	<b>\$ (287,262)</b>

See notes to required supplementary information.

# ***Collaborative Pension Plan Schedules***

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts State Employees Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Collaborative along with related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Collaborative along with related ratios.

The Schedule of Collaborative's Contributions presents multi-year trend information on the Collaborative's required and actual contributions to the pension plan and related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS  
OF THE NET PENSION LIABILITY  
MASSACHUSETTS STATE EMPLOYEES' RETIREMENT SYSTEM**

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The Collaborative's teachers and retired teachers pensions are covered under the Massachusetts Teachers Retirement System while all other employees and retirees are covered under the Massachusetts State Employees Retirement System. This schedule only reports on the non teacher employees and retirees covered under the Massachusetts State Employees Retirement System.

A special funding situation was created by Massachusetts General Laws for all educational collaboratives in the Commonwealth. Collaboratives contribute amounts equal to the normal cost of employees' benefits at a rate established by PERAC, currently 5.6% of covered payroll. Legally, the collaboratives are only responsible for contributing the annual normal cost of their employees' benefits (i.e., the present value of the benefits earned by those employees in any given year) and are not legally responsible for the past service cost attributable to those employees or previously retired employees of the collaboratives. The Commonwealth as a nonemployer is legally responsible for the entire past service cost related to the collaboratives and therefore has a 100% special funding situation. Since the Collaborative does not contribute directly to MSERS for the past service cost, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Collaborative; the portion of the collective pension expense as both a revenue and pension expense recognized by the Collaborative; and the Plan's fiduciary net position as a percentage of the total liability.

<u>Fiscal Year</u>	<u>Commonwealth's 100% Share of the Net Pension Liability Associated with SSEC</u>	<u>SSEC's Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
2016.....	\$ 9,100,860	\$ 1,014,512	67.87%
2015.....	6,815,080	484,624	76.32%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS  
OF THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

---

The Collaborative's teachers and retired teachers pensions are covered under the Massachusetts Teachers Retirement System while all other employees and retirees are covered under the Massachusetts State Employees Retirement System. This schedule only reports on the teacher and retired teachers covered under the Massachusetts Teachers' Retirement System.

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the collaborative does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Collaborative; the portion of the collective pension expense as both a revenue and pension expense recognized by the Collaborative; and the Plan's fiduciary net position as a percentage of the total liability.

<u>Fiscal Year</u>	<u>Commonwealth's 100% Share of the Net Pension Liability Associated with the SSEC</u>	<u>SSEC's Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
2016.....	\$ 26,699,023	\$ 2,165,528	55.38%
2015.....	19,354,955	1,344,682	61.64%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**  
**MASSACHUSETTS STATE EMPLOYEES' RETIREMENT SYSTEM**

---

A special funding situation was created by Massachusetts General Laws for all educational collaboratives in the Commonwealth. Collaboratives contribute amounts equal to the normal cost of employees' benefits at a rate established by PERAC, currently 5.6% of covered payroll. Legally, the collaboratives are only responsible for contributing the annual normal cost of their employees' benefits (i.e., the present value of the benefits earned by those employees in any given year) and are not legally responsible for the past service cost attributable to those employees or previously retired employees of the collaboratives. The Commonwealth as a nonemployer is legally responsible for the entire past service cost related to the collaboratives and therefore has a 100% special funding situation. Since the collaborative does not contribute directly to MSERS for the past service cost, there is no net pension liability to recognize. This schedule discloses the Collaborative's required and actual contribution for the normal cost; covered payroll; and contributions recognized by the pension plan in relation to the covered payroll.

<u>Fiscal Year</u>	<u>SSEC's Statutory Required and Actual Contribution for Normal Cost</u>	<u>SSEC's Covered Payroll</u>	<u>The Amount of Contributions Recognized by the Pension Plan in Relation to the Covered Payroll</u>
2016.....	\$ 245,045	\$ 4,375,804	5.60%
2015.....	272,331	4,863,054	5.60%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

# ***Other Postemployment Benefits Plan Schedules***

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions compares, overtime, the annual required contributions to the actual contributions made.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

JUNE 30, 2016

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2014	\$ -	\$ 3,658,563	\$ 3,658,563	0%	\$ 12,547,935	29.2%
7/1/2012	-	3,632,527	3,632,527	0%	11,483,138	31.6%

**Schedule of Employer Contributions**

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2016	\$ 497,132	\$ 69,453	14.0%
6/30/2015	480,297	55,940	11.6%
6/30/2014	575,604	47,675	8.3%

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

YEAR ENDED JUNE 30, 2016

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Actuarial Methods:

Valuation date.....	July 1, 2014
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.0%
Remaining amortization period.....	23 years as of July 1, 2014, closed
Asset valuation method.....	Market Value

Actuarial Assumptions:

Investment rate of return.....	4.0% per annum
Inflation rate.....	2.50% per annum
Projected salary increases.....	3.0% per annum
Medical/drug cost trend rate.....	11% graded to 5% over 8 years

Plan Membership:

Current retirees, beneficiaries, and dependents..	12
Current active members.....	<u>250</u>
Total.....	<u><u>262</u></u>

See notes to required supplementary information.

**NOTE A – BUDGETARY BASIS OF ACCOUNTING**

A. Budgetary Information

The Collaborative adopts a balanced budget that is approved by the District’s Board of Directors. The Business Administrator presents an annual budget to the Board, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Board, which has the full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote. Increases to the budget subsequent to the approval of the annual budget require majority Board approval.

The majority of appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year’s original budget.

The Collaborative adopts an annual budget for the general fund in conformity with the guidelines described above. The original 2016 approved budget for the general fund authorized approximately \$20.2 million in appropriations. During 2016, the original budget was increased by approximately 232,000 primarily for instruction and facilities.

The Business Administrator has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, a budgetary basis of accounting is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2016, is presented below:

Net change in fund balance, budgetary basis.....	\$ (543,275)
<u>Basis of accounting differences:</u>	
Recognition of revenue for on-behalf pension payments.....	3,180,040
Recognition of expenditures for on-behalf pension payments.....	(3,180,040)
Net change in recording accrued expenditures.....	<u>40,050</u>
Net change in fund balance, GAAP basis.....	<u>\$ (503,225)</u>

**NOTE B – PENSION PLAN**

***Pension Plan Schedules***

A. Schedule of Collaborative’s Contributions

A special funding situation was created by Massachusetts General Laws for all Educational Collaboratives in the Commonwealth. Collaboratives contribute amounts equal to the normal cost of non-teaching employees’ benefits at a rate established by the Public Employees’ Retirement Administration Commission (PERAC), currently 5.6% of covered payroll. Legally, the collaboratives are only responsible for contributing the annual normal cost of their employees’ benefits (i.e., the present value of the benefits earned by those employees in any given year) and are

not legally responsible for the past service cost attributable to those employees or previously retired employees of the Collaboratives.

#### B. Schedules of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the Collaborative which create two special funding situations.

- The MSERS schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Collaborative; the portion of the collective pension expense as both revenue and pension expense recognized by the Collaborative; and the Plan's fiduciary net position as a percentage of the total liability.
- The MTRS schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Collaborative; the portion of the collective pension expense as both revenue and pension expense recognized by the Collaborative; and the Plan's fiduciary net position as a percentage of the total liability.

#### **NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Collaborative administers a single-employer defined benefit healthcare plan (the "Other Postemployment Benefit Plan"). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Collaborative's health insurance plan, which covers both active and retired members.

The Collaborative currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Collaborative has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

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

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

## ***Other Information***

**REQUIRED DISCLOSURES FOR MASSACHUSETTS EDUCATIONAL COLLABORATIVES**

The following information is provided to conform to the requirements of the Massachusetts Session Law, Chapter 43 of the Acts of 2012: An Act Relative to Improving Accountability and Oversight of Education Collaboratives. This law was adopted in March of 2012 and constitutes a comprehensive amendment Massachusetts General Law, Chapter 40, Section 4E which establishes the requirements for the formation and administration of Educational Collaboratives in Massachusetts.

**NOTE 1 – TRANSACTIONS BETWEEN THE EDUCATIONAL COLLABORATIVE AND ANY RELATED FOR-PROFIT OR NON-PROFIT ORGANIZATION**

There are no related organizations that the Collaborative is associated with and therefore no transactions to report.

**NOTE 2 – TRANSACTIONS OR CONTRACTS RELATED TO THE PURCHASE, SALE, RENTAL, OR LEASE OF REAL PROPERTY**

The Collaborative has entered into several lease agreements for classroom and administrative office space under non-cancelable operating leases that expire on various dates through 2033. The cost of the leases for the year ended June 30, 2016, totaled approximately \$1,600,000, and is reported as administration and facilities expenditures in the general fund. Future minimum lease payments are provided in Note 7 to the financial statements.

**NOTE 3 – NAMES, DUTIES, AND TOTAL COMPENSATION OF THE FIVE MOST HIGHLY COMPENSATED EMPLOYEES**

The following employees were the five highest compensated employees for the period ended June 30, 2016:

<u>Name</u>	<u>Employee Position</u>	<u>Total Compensation</u>
Henry W. Perrin, Jr	Executive Director	\$ 149,865
Mary Scott	Mini Program Director	123,568
Dawn Flaherty	Director of Ancillary Services	123,568
Patricia Mason	Community Program Director	123,568
Timothy Handorf	SSHS Supervisor Program Director	122,129

**NOTE 4 – AMOUNTS EXPENDED ON ADMINISTRATION AND OVERHEAD**

For the year ended June 30, 2016, the Collaborative expended approximately \$4,005,000 and \$372,000 for amounts related to administration and overhead, respectively.

**NOTE 5 – ACCOUNTS HELD BY THE COLLABORATIVE THAT MAY BE SPENT AT THE DISCRETION OF ANOTHER PERSON OR ENTITY**

At June 30, 2016, there are no accounts held by the Collaborative that may be spent at the discretion of another person or entity. The Collaborative did establish an OPEB Trust Fund in FY2017 that is under the direction of the OPEB Board of Trustees.

**NOTE 6 – AMOUNTS EXPENDED ON SERVICES FOR INDIVIDUALS WITH DISABILITIES, 22 YEARS OF AGE OR OLDER**

For the year ending June 30, 2016, the Collaborative had approximately \$300 in expenditures associated with their community adult program (CAP). The community adult program is a day support program serving individuals over the age of 22 with significant medical and complex learning needs.

**NOTE 7 – ANNUAL DETERMINATION AND DISCLOSURE OF CUMULATIVE SURPLUS**

Certified Cumulative Surplus is defined as the amount of general fund surplus in the collaborative accounts, as certified through an independent audit. Cumulative surplus is derived from a collaborative’s unexpended general funds over a number of fiscal years. General funds are for the most part, the funds that a collaborative receives from school districts for tuitions, dues, fees for service, surcharges and related interest, as well as indirect costs allowed under certain grant awards not earmarked under the conditions of the funding for a specific purpose.

The Board of Directors voted to approve and retain \$(57,509) as the amount designated as Cumulative Surplus from general funds remaining in the Collaborative’s accounts as of June 30, 2016. This amount does not exceed the limit of 25% of general fund expenditures for the year as shown in the following table:

(A)	Voted Cumulative Surplus as of June 30, 2015.....	\$	445,716	
(B)	1. Amount of (A) used to support the FY16 Budget.....	\$	(445,716)	
	2. Amount of (A) returned to member districts.....	\$	<u>          -</u>	
				<u>(445,716)</u>
(C)	Unexpended FY16 General Funds.....		(57,509)	
(D)	Cumulative Surplus as of June 30, 2016.....		<u>(57,509)</u>	
(E)	FY16 Total General Fund Expenditures.....		<u>23,617,656</u>	
(F)	Cumulative Surplus Percentage.....		<u><u>-0.24%</u></u>	

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# ***Report on Internal Control Over Financial Reporting and on Compliance***



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## **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**

### **Independent Auditor's Report**

To the Board of Directors  
South Shore Educational Collaborative  
Hingham, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Shore Educational Collaborative (the Collaborative), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements, and have issued our report thereon dated December 9, 2016.

### **Internal Control Over Financial Reporting**

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

## **Purpose of this Report**

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

*Powers + Juliani, LLC*

December 9, 2016