

SHORE EDUCATIONAL COLLABORATIVE

CHELSEA, MASSACHUSETTS

FINANCIAL STATEMENTS,  
REQUIRED SUPPLEMENTARY INFORMATION AND  
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2019

## TABLE OF CONTENTS

	PAGE
FINANCIAL STATEMENTS:	
INDEPENDENT AUDITORS' REPORT .....	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) .....	3-13
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION .....	14
STATEMENT OF ACTIVITIES .....	15
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET - GOVERNMENTAL FUNDS.....	16
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS .....	17
RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION .....	18
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES.....	19
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS.....	20
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS.....	21
NOTES TO FINANCIAL STATEMENTS.....	22-66
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED):	
MASSACHUSETTS DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION (DESE) REQUIRED SUPPLEMENTARY INFORMATION.....	67-69
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND .....	70
SCHEDULE OF CHANGES IN THE COLLABORATIVE'S NET OPEB LIABILITY AND RELATED RATIOS - RETIREE HEALTH INSURANCE PLAN .....	71

## TABLE OF CONTENTS (Continued)

	PAGE
SCHEDULE OF THE COLLABORATIVE'S CONTRIBUTIONS - RETIREE HEALTH INSURANCE PLAN .....	72
SCHEDULE OF INVESTMENT RETURNS - RETIREE HEALTH INSURANCE PLAN .....	73
SCHEDULE OF THE COLLABORATIVE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM .....	74
SCHEDULE OF THE COLLABORATIVE'S CONTRIBUTIONS - MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM.....	75
SCHEDULE OF THE COLLABORATIVE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - MASSACHUSETTS STATE EMPLOYEES' RETIREMENT SYSTEM.....	76
SCHEDULE OF THE COLLABORATIVE'S CONTRIBUTIONS - MASSACHUSETTS STATE EMPLOYEES' RETIREMENT SYSTEM.....	77
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION .....	78-82
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	83-84



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Shore Educational Collaborative  
Chelsea, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, the major fund, and the aggregate remaining fund information of Shore Educational Collaborative (the "Collaborative"), as of and for the year ended June 30, 2019, 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.

### **Auditors' Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, the major fund, and the aggregate remaining fund information of Shore Educational Collaborative as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Prior-Period Adjustment**

As discussed in Note R to the financial statements, the Collaborative changed the measurement date used to determine its net other postemployment benefits liability during the current fiscal year. Accordingly, the amount reported for net position on the Government-Wide Statement of Activities has been restated to reflect the new measurement date. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Massachusetts Department of Elementary and Secondary Education (DESE) required information, budgetary comparison information, schedule of changes in the Collaborative's net OPEB liability and related ratios - Retiree Health Insurance Plan, schedule of the Collaborative's contributions - Retiree Health Insurance Plan, schedule of investment returns - Retiree Health Insurance Plan, schedules of the Collaborative's proportionate share of the net pension liability for the Massachusetts Teachers' Retirement System (MTRS) and the Massachusetts State Employees' Retirement System (MSERS), and schedules of the Collaborative's contributions to the MTRS and MSERS on pages 3 through 13 and 67 through 82 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2019, on our consideration of the Collaborative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Collaborative's 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.

*Livingston + Haynes, P.C.*

Wellesley, Massachusetts

November 12, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

(Unaudited)

Shore Educational Collaborative (the "Collaborative") Management's Discussion and Analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the Collaborative's financial activity, (3) identify changes in the Collaborative's financial position (its ability to address subsequent year challenges), (4) identify any material deviations from the financial plan (the approved budget) and (5) identify individual fund issues or concerns.

Since Management's Discuss and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the Collaborative's financial statements found on pages 14 to 66.

### A. FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the Collaborative exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year ended June 30, 2019 by \$1,934,328 (net position). Of this amount, \$1,698,496 represents unrestricted net position (deficit), which may be used to meet the Collaborative's ongoing obligations to its clients and creditors.

The Collaborative's total net position increased in the current fiscal year by \$156,247 because of higher than expected enrollment in the student services program and strong financial management and monitoring of expenditure requests and decreased by \$797,084 due to the prior period adjustment made due to changing the measurement date for determining the net other postemployment benefits liability.

At the close of the fiscal year ended June 30, 2019, the Collaborative's governmental funds reported combined ending fund balances of \$10,398,949. This increased from the prior year by \$158,283 due to current-year activity. Approximately 56.6% of this amount (\$5,884,048) is available for spending at the Collaborative's discretion (unassigned fund balance). This unassigned fund balance was 23.3% of total governmental fund expenditures. This represents a \$206,568 increase in the unassigned fund balance from the prior fiscal year.

At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$8,476,010, or approximately 33.5% of total general fund expenditures.

The Collaborative's total outstanding long-term debt (which includes current portion) decreased by \$276,089 during the current fiscal year. This was primarily due to regularly scheduled pay downs of principal on the bonds payable outstanding during the current fiscal year.

## B. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provided here is intended to serve as an introduction to the Collaborative's basic financial statements. The Collaborative's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information intended to furnish additional detail to support the basic financial statements themselves.

The financial statements' focus is on both the Collaborative as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government) and enhance the Collaborative's accountability.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Collaborative's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the Collaborative's net position changed during the most recent fiscal 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the Collaborative that are principally supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Collaborative include the adult day program, student services, professional development, client workshop, fiscal agent services, Medicaid municipal billing services, and general and administrative. Presently, the Collaborative does not have any business-type activities.

The government-wide financial statements include not only the Collaborative itself (known as the primary government), but also a legally separate entity known as the Shore Educational Collaborative Foundation, Inc. ("the Foundation") for which the Collaborative is financially accountable. Financial information for the Foundation is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found immediately following this discussion and analysis on pages 14-15 of this report.

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. The Collaborative, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Collaborative can be divided into three categories - governmental funds, proprietary funds, and fiduciary funds.

## B. OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing the Collaborative's near-term 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.

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 Collaborative's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic governmental funds financial statements can be found immediately following the government-wide financial statements on pages 16-17 of this report.

Proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Collaborative does not have any proprietary funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the Collaborative. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Collaborative's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary funds financial statements can be found on pages 20-21 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 22-66 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information, including the budgetary comparison statement, as well as information concerning the Collaborative's progress in funding its obligation to provide pension benefits to its employees, and information on the total other postemployment benefits liability. Required supplementary information can be found on pages 67-82 of this report.

## C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of the Collaborative's financial position. In the case of the Collaborative, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,934,328 at June 30, 2019.



C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

The following is a summary of the Collaborative's net position as of June 30, 2019, compared to its net position as of June 30, 2018.

Shore Educational Collaborative Statement of Net Position June 30, 2019 and 2018		
	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 11,892,846	\$ 12,043,553
Capital assets	<u>10,233,683</u>	<u>10,076,718</u>
Total assets	22,126,529	22,120,271
 Total deferred outflows of resources	 218,671	 75,193
 Total assets and deferred outflows of resources	 22,345,200	 22,195,464
 Current liabilities	 1,777,605	 1,659,732
Long-term debt and other liabilities	<u>17,758,032</u>	<u>17,401,204</u>
Total liabilities	19,535,637	19,060,936
 Total deferred inflows of resources	 875,235	 559,363
 Total liabilities and deferred inflows of resources	 20,410,872	 19,620,299
 Net position:		
Net investment in capital assets	1,836,519	1,403,370
Restricted	1,796,305	1,796,210
Unrestricted	<u>(1,698,496)</u>	<u>(624,415)</u>
 Total net position	 <u>\$ 1,934,328</u>	 <u>\$ 2,575,165</u>

The largest portion of the Collaborative's net position, \$1,836,519 (94.9%), reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, furniture, equipment, leasehold improvements, logo development costs, and construction in progress), less any related outstanding debt that was used to acquire those assets. The Collaborative uses these capital assets to provide a variety of services to its clients. Accordingly, these assets are not available for future spending. Although the Collaborative's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The second largest portion of the Collaborative's net position, \$1,796,305 (92.9%), represents resources that are subject to external restriction on how they may be used. A majority of this amount, \$1,795,162 (99.9%) is restricted for future capital projects.

The remaining portion of the Collaborative's net position, \$(1,698,496) (87.8%), is unrestricted and may be used to meet the Collaborative's ongoing obligations to its clients and creditors.

C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

At the end of the current fiscal year and in the prior fiscal year, the Collaborative was only able to report positive balances in two reported categories of net position.

The Collaborative's net position increased in the current fiscal year by \$156,247 from the prior fiscal year before the prior-period adjustment relating to changing the measurement date for net other postemployment benefits liability. The reasons for this increase are discussed in the following section for governmental activities. During the current fiscal year, the Collaborative recorded increases in net other postemployment benefits liability of \$797,084 as a result of the prior period adjustment which decreased the overall net position.

The governmental activities current and other assets increased by \$6,258, primarily due to an increase in cash due to increased fees charged and collected for current and new program services introduced during this fiscal year. Deferred outflows of resources increased \$143,478 due to changes in the net other postemployment benefits liability and effects of the interest rate swap on the bonds payable. The governmental activities total liabilities increased \$474,701 due to changing the measurement date of the net postemployment benefits liability. Deferred inflows of resources increased \$315,872 due to changes in the net other postemployment benefits liability.

Governmental Activities. The key elements of the changes in the Collaborative's net position for the fiscal years ended June 30, 2019 and 2018, are as follows.

Shore Educational Collaborative  
Changes in Net Position  
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Revenues:		
Program revenues:		
Charges for services	\$ 17,796,472	\$ 17,383,774
Operating grants and contributions	5,896,434	5,468,399
Capital grants and contributions	-	-
General revenues:		
Other income	34,900	27,951
Interest income	6,581	6,252
Overhead income	1,953,381	1,791,750
Rental income	<u>14,400</u>	<u>14,400</u>
Total revenues	<u>25,702,168</u>	<u>24,692,526</u>
Expenses:		
Adult day program	9,698,295	9,337,193
Student services	13,008,853	12,242,769
Professional development	503,864	444,433
Client workshop	55,244	56,232
Fiscal agent services	91,294	74,672
Medicaid municipal billing services	248,154	237,175
General and administrative	<u>1,940,217</u>	<u>1,875,832</u>
Total expenses	<u>25,545,921</u>	<u>24,268,306</u>
Increase in net position	156,247	424,220

C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

Shore Educational Collaborative  
Changes in Net Position (Continued)  
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Net position - beginning, as previously reported	\$ 2,575,165	\$ 5,125,244
Prior period adjustment - change in measurement date for net other postemployment benefits liability	(797,084)	-
Cumulative effect of a change in accounting principle - implementation of GASB No. 75	<u>-</u>	<u>(2,974,299)</u>
Net position - ending	<u>\$ 1,934,328</u>	<u>\$ 2,575,165</u>

During the current fiscal year, net position for governmental activities increased \$156,247 from the prior fiscal year before the prior-period adjustment resulting from changing the measurement date of determining the other postemployment benefits liability. Net position decreased \$797,084 due to this prior-period adjustment for an ending balance of \$1,934,328. While the current economic conditions had an impact on the Collaborative, management was able to take various actions (e.g., increasing tuition rates, delaying certain nonrecurring expenses, and reducing expenses related to non-essential ongoing programs) that neutralized its effect on governmental activities. Total governmental activities revenues increased \$1,009,642 or 4.1% from the prior year. The major reason for this increase was due to an increase in operating grants and contributions of \$428,035 or 7.8% as a result of an increase in the pension revenue ("on-behalf payments") received from the Commonwealth of Massachusetts related to the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System. Another reason for the increase was due to charges for services increasing \$412,698 or 2.4% from the prior year due to increased tuition rates in the student services program and higher enrollment in both the student services and adult day program. The increase was also due to overhead income increasing \$161,631 or 9.0% from the prior year due to increased budget expenditures.

The Collaborative's total governmental activities expenses for the year ended June 30, 2019 increased by \$1,277,615 or 5.3% from the prior year. Six of the activities reported spending growth from the prior year, led by student services which accounted for \$766,084 or 59.9% of total spending growth. This was due to hiring additional temporary and permanent employees because of the increased enrollment and service requirements and also scheduled salary increases during the current fiscal year and the purchase of new and updated classroom technology. The activity with the second largest spending growth was the adult day program which accounted for \$361,102 or 28.2% of total spending growth. This was due to hiring additional temporary and permanent employees because of the increased enrollment and purchasing equipment related to program capacity enhancement.

One of the activities reported decreases in spending from the prior year. This activity was the client workshop which decreased \$988 from the prior year due to minimal decreases in client employment.

Governmental activities increased the Collaborative's net position by \$156,247 or 6.1% during fiscal 2019 before prior-period adjustment related to the other postemployment benefits liability. The key elements of this increase can be explained by higher than projected enrollments in the student services and adult day programs and strong financial management and monitoring of expenditures.

#### D. FINANCIAL ANALYSIS OF 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 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 the Collaborative's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Collaborative itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Collaborative's Board of Directors.

At June 30, 2019, the Collaborative's governmental funds reported combined ending fund balances of \$10,398,949, an increase of \$158,283 in comparison with the prior year. Approximately 55.6% of the reported combined ending fund balances (\$5,884,048) constitutes unassigned fund balance, which is available for spending at the Collaborative's discretion. The remainder of the fund balance is either nonspendable, restricted, or committed to indicate that it is 1) not in spendable form (\$126,634), 2) restricted due to external limitations on its use, such as by the intention of grantors, donors, or trustees (\$1,796,305), or 3) committed for particular purposes such as day habilitation adult program expansion, future programs, building, sick bank, professional development, the adult day program, fringe benefits, and other purposes (\$2,591,962).

The general fund is the chief operating fund of the Collaborative. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,884,048, while the total general fund balance was \$10,397,806. As a measure of the general fund's liquidity, it may be useful to compare both unassigned general fund balance and total general fund balance to total general fund expenditures and total governmental funds expenditures. Unassigned general fund balance represents 23.3% of both total general fund expenditures and total governmental funds expenditures, while total general fund balance represents 41.2% of that total general fund expenditures and 41.1% of total governmental funds expenditures.

During the current fiscal year, the fund balance of the Collaborative's general fund increased by \$158,283. This increase was due primarily to higher than projected enrollments in the student services program and adult day program and strong financial management and monitoring of expenditures. Revenues totaling \$25,702,168, increased by \$1,009,642 due to increases in enrollment and charged rates in the student services program. Expenditures totaling \$25,293,885 increased by \$1,750,860 due to an increase in capital outlay due to the on-going construction costs related to moving some of the Collaborative's operations to new leased space in the upcoming fiscal year and recognizing increased expenditures from on-behalf payments from the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System.

#### E. GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget. During the year there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations. Thus, there was no amended budget for the fiscal year ended June 30, 2019.

Final budget compared to actual results. Budgetary revenues were \$2,070,920 lower than the actual revenues. The most significant differences between budgeted revenues and actual revenues were as follows:

E. GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

<u>Revenue source</u>	<u>Budgeted Revenues</u>	<u>Actual Revenues</u>	<u>Difference</u>
Other income	\$ 884,400	\$ 3,883,944	\$ 2,999,544
Medicaid income	\$ 6,999,532	\$ 6,286,285	\$ (713,247)
Educational program fees	\$ 13,507,596	\$ 13,351,178	\$ (156,418)

Other income increased due to higher than expected increase in the pension revenue (on-behalf payments from the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System). Educational program fees decreased due to lower than expected enrollment in some student services programs. The decrease in the Medicaid income was due to many unexpected prolonged absences by adult day program clients.

Budgetary expenditures were \$1,681,915 lower than actual expenditures. The most significant differences between budgeted expenditures and actual expenditures were as follows:

<u>Expenditures</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Difference</u>
Salaries	\$ 13,205,704	\$ 13,049,164	\$ 156,540
Employee benefits	\$ 2,941,726	\$ 5,659,266	\$ (2,717,540)
Professional fees and contract services	\$ 1,010,500	\$ 851,683	\$ 158,817
Rent	\$ 1,322,500	\$ 583,271	\$ 739,229
Debt service	\$ 290,000	\$ 558,289	\$ (268,289)
Capital outlay	\$ 325,000	\$ 545,417	\$ (220,417)

Salaries were higher than budgeted due to filling vacancies that were not expected to have been filled. Employee benefits were higher than budgeted due to continuing rising premium increases for health insurance and workers' compensation and higher than expected on-behalf payments from the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System. Professional fees and contract services were below budget due to not moving into the new location during the current fiscal year and other member services not being fully utilized. Rent was below budget due to the Collaborative budgeting principal payments on the bonds payable in this category instead of on a separate line for debt service expenditures. Debt service was above budget due to the fact that the Collaborative does not budget the principal payments on the bonds payable as an expenditure in the budget that is prepared. Capital outlay was over budget due to unexpected additional construction costs related to the new location.

Overall, the actual change in fund balances was \$139,005 higher than the budgetary change in fund balances due to the reasons explained above from higher revenues than had been budgeted and having enough additional revenues to neutralize the additional expenditures.

F. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The Collaborative's investment in capital assets for its governmental activities as of June 30, 2019, amounts to \$10,233,683 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building, building improvements, furniture, equipment, logo development costs, construction in progress, and leasehold improvements. The total increase in the Collaborative's investment in capital assets for the current fiscal year was \$156,965 or 1.6%.

F. CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Major capital asset events during the current fiscal year included technology, equipment, networking and communication infrastructure purchases related to the new location.

Shore Educational Collaborative  
Schedule of Capital Assets  
(net of accumulated depreciation)

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 24,413	\$ 36,964
Land improvements	490,701	512,510
Furniture and equipment	128,926	132,542
Logo development costs	-	-
Building	4,047,835	4,197,987
Land	1,157,580	1,157,580
Construction in progress	500,996	16,251
Building improvements	<u>3,883,232</u>	<u>4,022,884</u>
Total	<u>\$ 10,233,683</u>	<u>\$ 10,076,718</u>

Additional information on the Collaborative's capital assets can be found in Note J on page 42 of this report.

Long-term debt. At June 30, 2019, the Collaborative had total long-term debt outstanding of \$10,192,326. The total debt is backed by the full faith and credit of the Collaborative and for which the Collaborative is liable.

Shore Educational Collaborative  
Schedule of Outstanding Long-Term Debt

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Bonds payable	<u>\$ 10,192,326</u>	<u>\$ 10,468,415</u>
Total Outstanding Long-Term Debt	<u>\$ 10,192,326</u>	<u>\$ 10,468,415</u>

During the current fiscal year, the Collaborative's total long-term debt decreased by \$276,089 or 2.6%. The reason for the decrease was the principal payments that were made on the bonds payable.

Additional information on long-term debt can be found in Note N to the financial statements of pages 54-58 of this report.

G. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

The Collaborative participates in two cost-sharing multiple-employer defined benefit plans - Massachusetts Teachers' Retirement System (MTRS) and Massachusetts State Employees' Retirement System (MSERS).

G. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the MTRS, the Collaborative is not required to report a liability for its proportionate share of the net pension liability due to the fact that the Collaborative does not contribute directly to MTRS and the Commonwealth of Massachusetts is responsible for the entire net pension liability associated with the Collaborative. At June 30, 2019, the proportionate share of the net pension liability associated with the Collaborative was \$14,899,536 which represented 0.06% to the total net pension liability for MTRS.

For the MSERS, the Collaborative is not required to report a liability for its proportionate share of the net pension liability due to the fact that the Commonwealth of Massachusetts is responsible for the entire net pension liability associated with the Collaborative. At June 30, 2019, the proportionate share of the net pension liability associated with the Collaborative was \$16,749,967 which represented 0.13% to the total net pension liability for MSERS.

The Collaborative also provides postemployment health benefits for certain retirees and their spouses. As of the end of the current fiscal year, there were 28 retired employees and their spouses receiving these benefits, which are currently being financed on a pay-as-you-go basis. During the fiscal year ended June 30, 2019, the Collaborative set up a trust to set funds aside to help fund the other postemployment benefits liability and put in an initial contribution of \$250,000 into the Trust. Also, during the fiscal year ended June 30, 2019, the Collaborative changed its measurement date for the other postemployment benefits liability and as a result, the Collaborative recorded a prior-period adjustment in order to align the other postemployment benefits liability with the new measurement date. The change resulted in a decrease in net position on the statement of net position of \$797,084. There was no effect to the governmental funds balance sheet. At June 30, 2019, an independent actuarial analysis determined that the Collaborative's future liability for these other postemployment benefits or net other postemployment benefits obligation was \$7,819,621. This amount was accounted for as a liability on the Collaborative's statement of net position.

Additional information on the Collaborative's pension arrangements and postemployment benefits can be found in Notes L and O on pages 44-53 and 58-64, respectively, of this report.

H. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors currently affect the Collaborative and were considered in developing the 2019-2020 fiscal year budget.

- Continuing increases in employee benefits, including health insurance and workers' compensation premiums.
- Exponential increases in other postemployment employee benefit liability costs.
- Increased capital outlay related to funding and maintaining classroom technologies.
- Implementation of salary increases in the Student Services and Adult Day Programs.
- Nominal increases to the Commonwealth of Massachusetts' Department of Developmental Services and MassHealth/Medicaid funding, while costs to deliver these services are rapidly increasing.
- Purchases related to occupying the new location and renovating the 100 Revere Beach Parkway location

H. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (Continued)

During the current fiscal year, the fund balance in the general fund increased by \$158,283 to \$10,397,806. Included in this total amount are \$126,634 in prepaid expenses reported as nonspendable, \$1,795,162 in funds restricted for capital projects, and \$2,591,962 in funds committed by the Board. These items are reappropriated in the budget for 2019-2020. All of these factors were considered in preparing the Collaborative's budget for the 2020 fiscal year.

Amendments are expected to be completed during the year that will be presented to the Board of Directors for approval.

I. REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Collaborative's finances for all those with an interest in the Collaborative's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Shore Educational Collaborative  
100 Revere Beach Parkway  
Chelsea, Massachusetts 02150



SHORE EDUCATIONAL COLLABORATIVE  
STATEMENT OF NET POSITION  
JUNE 30, 2019

	Primary Government	
	Governmental Activities	Component Unit
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,991,706	\$ 50,279
Accounts receivable	1,942,464	-
Other receivables	6,880	-
Due from component unit	30,000	-
Prepaid expenses	126,634	-
Restricted cash	1,795,162	-
Capital assets, not being depreciated	1,658,576	-
Capital assets, net of accumulated depreciation	<u>8,575,107</u>	<u>-</u>
TOTAL ASSETS	22,126,529	50,279
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows-other postemployment benefits liability	188,878	-
Deferred outflows-hedge	<u>29,793</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>218,671</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>22,345,200</u>	<u>50,279</u>
<b>LIABILITIES</b>		
Accounts payable	438,779	-
Accrued salaries and fringe benefits	831,698	-
Accrued expenses	223,420	-
Due to primary government	-	30,000
Long-term debt liabilities:		
Due within one year	283,708	-
Due in more than one year	9,908,618	-
Other liabilities due in more than one year:		
Derivative instrument-interest rate swap	29,793	-
Net other postemployment benefits liability	<u>7,819,621</u>	<u>-</u>
TOTAL LIABILITIES	19,535,637	30,000
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows-total other postemployment benefits liability	<u>875,235</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>875,235</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>20,410,872</u>	<u>30,000</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,836,519	-
Restricted for:		
Giving Tree Fund	1,143	-
Capital projects	1,795,162	-
Unrestricted (deficit)	<u>(1,698,496)</u>	<u>20,279</u>
TOTAL NET POSITION	<u>\$ 1,934,328</u>	<u>\$ 20,279</u>

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

SHORE EDUCATIONAL COLLABORATIVE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Program Revenues				Net Revenue (Expense) and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit
<b>Primary Government:</b>						
Governmental activities:						
Adult day program	\$ 9,698,295	\$ 6,308,986	\$ 3,259,259	\$ -	\$ (130,050)	\$ -
Student services	13,008,853	11,033,223	2,369,250	-	393,620	-
Professional development	503,864	253,798	-	-	(250,066)	-
Client workshop	55,244	285	-	-	(54,959)	-
Fiscal agent services	91,294	-	77,549	-	(13,745)	-
Medicaid municipal billing services	248,154	155,180	26,774	-	(66,200)	-
General and administrative	1,940,217	45,000	163,602	-	(1,731,615)	-
<b>TOTAL PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</b>	<b>\$ 25,545,921</b>	<b>\$ 17,796,472</b>	<b>\$ 5,896,434</b>	<b>\$ -</b>	<b>(1,853,015)</b>	<b>-</b>
<b>Component unit:</b>						
Shore Educational Collaborative Foundation, Inc.	\$ 74	\$ -	\$ 3,287	\$ -	-	3,213
<b>TOTAL COMPONENT UNIT</b>	<b>\$ 74</b>	<b>\$ -</b>	<b>\$ 3,287</b>	<b>\$ -</b>	<b>-</b>	<b>3,213</b>
General revenues:						
Other income					34,900	-
Interest income					6,581	-
Overhead income					1,953,381	-
Rental income					14,400	-
<b>TOTAL GENERAL REVENUES</b>					<b>2,009,262</b>	<b>-</b>
Change in net position					156,247	3,213
Net position - beginning, as previously reported					2,575,165	17,066
Prior-period adjustment - change in measurement date for net other postemployment benefits liability					(797,084)	-
Net position - beginning, as restated					1,778,081	17,066
NET POSITION - ENDING					<b>\$ 1,934,328</b>	<b>\$ 20,279</b>

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

SHORE EDUCATIONAL COLLABORATIVE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2019

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 7,990,563	\$ 1,143	\$ 7,991,706
Accounts receivable	1,942,464	-	1,942,464
Other receivables	6,880	-	6,880
Due from Foundation	30,000	-	30,000
Prepaid expenses	126,634	-	126,634
Restricted cash	<u>1,795,162</u>	<u>-</u>	<u>1,795,162</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 11,891,703</u></b>	<b><u>\$ 1,143</u></b>	<b><u>\$ 11,892,846</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 438,779	\$ -	\$ 438,779
Accrued salaries and fringe benefits	831,698	-	831,698
Accrued expenses	<u>223,420</u>	<u>-</u>	<u>223,420</u>
<b>TOTAL LIABILITIES</b>	<b>1,493,897</b>	<b>-</b>	<b>1,493,897</b>
<b>Fund balances:</b>			
<b>Nonspendable:</b>			
Prepaid expenses	126,634	-	126,634
<b>Restricted:</b>			
Giving Tree Fund	-	1,143	1,143
Capital projects	1,795,162	-	1,795,162
<b>Committed:</b>			
Dayhab adult program expansion	15,736	-	15,736
Future programs	111,687	-	111,687
Building	2,110,604	-	2,110,604
Sick bank	30,000	-	30,000
Professional development	6,600	-	6,600
Adult day program	94,576	-	94,576
Fringe benefits	219,237	-	219,237
Other purposes	3,522	-	3,522
Unassigned	<u>5,884,048</u>	<u>-</u>	<u>5,884,048</u>
<b>TOTAL FUND BALANCES</b>	<b><u>10,397,806</u></b>	<b><u>1,143</u></b>	<b><u>10,398,949</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 11,891,703</u></b>	<b><u>\$ 1,143</u></b>	<b><u>\$ 11,892,846</u></b>

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

SHORE EDUCATIONAL COLLABORATIVE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Educational program fees	\$ 13,351,178	\$ -	\$ 13,351,178
Medicaid income	6,286,285	-	6,286,285
Medicaid municipal billing services	155,180	-	155,180
Administrative overhead income	1,953,381	-	1,953,381
Other income	3,883,944	65,619	3,949,563
Interest income	6,581	-	6,581
<b>TOTAL REVENUES</b>	<b>25,636,549</b>	<b>65,619</b>	<b>25,702,168</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Salaries	13,049,164	41,964	13,091,128
Employee benefits	5,659,266	10,289	5,669,555
Payroll taxes	705,727	3,291	709,018
Advertising	756	-	756
Professional fees and contract services	851,683	3,665	855,348
Supplies	230,604	1,281	231,885
Telephone	80,012	-	80,012
Postage	7,780	48	7,828
Rent	583,271	-	583,271
Staff training	55,439	500	55,939
Rental of equipment	13,023	-	13,023
Transportation	46,403	189	46,592
Printing and publications	19,195	396	19,591
Food	159,557	18	159,575
Repairs and maintenance	199,557	-	199,557
Utilities	294,606	-	294,606
Insurance	83,842	252	84,094
Client recreation	26,913	-	26,913
Bad debt	58,729	-	58,729
Miscellaneous	48,678	700	49,378
Administrative overhead charges	1,950,355	3,026	1,953,381
<b>Total current expenditures</b>	<b>24,124,560</b>	<b>65,619</b>	<b>24,190,179</b>
<b>Debt service:</b>			
Principal	276,089	-	276,089
Interest	282,200	-	282,200
<b>Total debt service</b>	<b>558,289</b>	<b>-</b>	<b>558,289</b>
<b>Capital outlay</b>	<b>545,417</b>	<b>-</b>	<b>545,417</b>
<b>TOTAL EXPENDITURES</b>	<b>25,228,266</b>	<b>65,619</b>	<b>25,293,885</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>408,283</b>	<b>-</b>	<b>408,283</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
OPEB obligation funding	(250,000)	-	(250,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(250,000)</b>	<b>-</b>	<b>(250,000)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>158,283</b>	<b>-</b>	<b>158,283</b>
<b>Fund balances - beginning</b>	<b>10,239,523</b>	<b>1,143</b>	<b>10,240,666</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 10,397,806</b>	<b>\$ 1,143</b>	<b>\$ 10,398,949</b>

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

SHORE EDUCATIONAL COLLABORATIVE  
RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION  
JUNE 30, 2019

Total fund balances - governmental funds (page 16)	\$ 10,398,949
--	---------------

Amounts reported for governmental activities in the statement of net position (page 14) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	10,233,683
--	------------

Some assets and liabilities are not financial resources used in governmental activities and, therefore, are not reported in governmental funds.	(29,793)
---	----------

Certain long-term liabilities, such as bonds payable and other postemployment benefits liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(18,668,511)</u>
---	---------------------

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,934,328</u>
---	---------------------

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

SHORE EDUCATIONAL COLLABORATIVE  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE  
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds (page 17) \$ 158,283

Amounts reported for governmental activities in the statement of activities (page 15) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense in the current period. 156,965

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items. 558,289

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. (435,090)

Interest expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. (282,200)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 156,247

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

SHORE EDUCATIONAL COLLABORATIVE  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2019

	<u>Other Postemployment Benefits Trust Fund</u>
ASSETS	
Investments:	
Mutual funds	<u>\$ 250,026</u>
TOTAL ASSETS	250,026
NET POSITION	
Restricted for other postemployment benefits	<u>250,026</u>
TOTAL NET POSITION	<u>\$ 250,026</u>

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

SHORE EDUCATIONAL COLLABORATIVE  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	Other Postemployment Benefits Trust Fund
	<u>Trust Fund</u>
ADDITIONS:	
Contributions:	
Employer contributions to the trust	\$ 250,000
TOTAL CONTRIBUTIONS	250,000
Net investment income:	
Investment income	26
NET INVESTMENT INCOME	26
TOTAL ADDITIONS	250,026
DEDUCTIONS:	
Other postemployment benefits payments	-
TOTAL DEDUCTIONS	-
CHANGE IN NET POSITION	250,026
NET POSITION AT BEGINNING OF YEAR	-
NET POSITION AT END OF YEAR	\$ 250,026

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



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Shore Educational Collaborative (the "Collaborative") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Collaborative are described below.

Reporting Entity

The Collaborative is an unincorporated, wholly-owned instrumentality of the Commonwealth of Massachusetts. The Collaborative was established and operates under the provisions of Massachusetts General Laws Chapter 40, Section 4E as amended by Chapter 797 of the acts of 1974 and by Chapter 43 of the Acts of 2012. The Collaborative provides a variety of educational programs and services as well as provides professional development programs, consultation and billing services for the member school districts. The member school communities of the Collaborative include: Cambridge, Chelsea, Everett, Malden, Medford, Revere, Saugus, Somerville, and Winthrop. These are all separate legal entities with their own governing bodies. Their operations are not part of the Collaborative's financial statements. The Collaborative also provides educational programs for children and adults with varying levels of disabilities. Funding for the children's programs is through school department tuition, and funding for the adult programs is through contracts with the Commonwealth of Massachusetts' Department of Developmental Services. Substantially all of the Collaborative's revenues are derived from these member communities and the Commonwealth of Massachusetts.

The Collaborative's programs and services are primarily intended for its members; however, nonmembers may also participate on a space available basis.

Governance of the Collaborative is vested in a Board of Directors composed of one representative from each member school committee. The Board of Directors appoints an Executive Director who is the chief operating officer for the Collaborative and who reports directly to the Board of Directors. The Board of Directors also appoints a Treasurer who is the chief financial officer of the Collaborative and who reports to the Board of Directors through the Executive Director.

According to the Collaborative Agreement, each member community is annually assessed a membership fee which is determined annually by the Board of Directors. The fiscal year 2019 membership fee was \$5,000 per district.

The accompanying financial statements present the operations of the Collaborative, the primary government, as well as its discretely presented component unit, a legally separate organization for which the Collaborative is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the Collaborative but is included because the Collaborative is financially accountable for and is able to impose its will on the organization. Unless otherwise indicated, the notes to the financial statements pertain only to the Collaborative because certain disclosures of the component unit are not significant relative to the Collaborative.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Unit

The following component unit is discretely presented in the government-wide financial statements because of the nature and/or significance of its relationship with the Collaborative. The component unit described below is considered a major component unit.

Shore Educational Collaborative Foundation, Inc. (the "Foundation") - a non-profit organization, was established in 2004 to augment, support and advance the work of the Collaborative. The Foundation is classified as a public charity exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is governed by a Board that is composed of some of the same members as the Collaborative's Board. All activities and budgets of the Foundation are approved by the Board of Directors of the Foundation. The Foundation does not issue a separate audited financial statement.

Basis of Presentation

The Collaborative's basic financial statements include both government-wide financial statements (reporting the Collaborative as a whole) and fund financial statements (reporting the Collaborative's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental activities or business-type activities. Governmental activities are generally financed through intergovernmental assessments or other non-exchange transactions. Presently, the Collaborative does not have any business-type activities.

*Government-Wide Financial Statements*

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. They include all funds of the reporting entity except for fiduciary funds. All fiduciary activities are reported only in the fund financial statements. Governmental activities are primarily supported by member assessments, intergovernmental revenues (such as grants or contracts with other governmental entities) and other nonexchange transactions. The primary government is reported separately from its discretely presented component unit.

The government-wide statement of net position will include non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the Collaborative's capital assets. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, any interfund services provided and used are not eliminated as this process would distort the direct costs and program revenues reported in the various functions.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Depreciation expense is allocated to functions/programs of the primary government. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Assessments and other items not properly included among program revenues are reported instead as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Collaborative.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund is reported as the general fund in the fund financial statements.

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

*Fund Financial Statements*

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

Funds are organized as major funds or non-major funds within the governmental and fiduciary statements, 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.

The emphasis in fund financial statements is on the major funds in the governmental activities categories. GASB pronouncements set forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Collaborative may electively add funds, as major funds, which have specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

*Fund Financial Statements (Continued)*

Governmental funds are identified as general, special revenue, capital projects or permanent funds based upon the certain guidelines.

The following is a description of the governmental funds of the Collaborative:

*General fund* - is the Collaborative's only major governmental fund, and is the general operating fund of the Collaborative. It is used to account for all financial resources not accounted for and reported in another fund.

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

*Special revenue fund* - 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 funds are used to report assets held in a trustee or agent capacity for others and therefore are not available to support Collaborative programs. The reporting focus is on net position and changes in net position presented in fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (retirees) and cannot be used to address activities or obligations of the Collaborative, these funds are not incorporated into the government-wide financial statements.

The following fiduciary fund types are reported by the Collaborative:

*Other postemployment benefits trust fund* - used to account for other postemployment benefits (OPEB), which accumulate resources to provide funding for future OPEB liabilities.

The accounting and financial reporting treatment is determined by the basis of accounting and the applicable measurement focus.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

*Government-Wide Financial Statements*

The government-wide financial statements are reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Fund Financial Statements*

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

State general aid and other entitlements are recognized as revenue in the period the Collaborative's entitled to the resources and the amounts are available. Expenditure-driven programs currently reimbursable are recognized as revenue when the qualifying expenditures have been incurred and the amounts are available. Charges for services provided to other education agencies and private parties are recognized as revenue when services are provided. Amounts owed to the Collaborative for services already performed, which are not available, are recorded as receivables. Amounts received prior to the entitlement period are also recorded as unearned revenue.

Revenues susceptible to accrual include state aid, expenditure-driven programs and interest income.

Measurement Focus

Measurement focus refers to the type of resources being measured such as current financial resources or economic resources.

*Government-Wide Financial Statements*

On the statement of net position and statement of activities, governmental activities are presented using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting.

The Foundation, shown as a discretely presented component unit, does not meet the definition of a governmental organization and is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

*Fund Financial Statements*

The measurement focus of all governmental funds is the flow of current financial resources concept. Under this concept, sources and uses of financial resources, including capital outlays, debt proceeds, and debt retirements, are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or a reservation of fund equity. Liabilities for claims, judgments, compensated absences and pension contributions, which will not be currently liquidated using expendable available financial resources, are included as liabilities in the Collaborative's financial statements but are excluded from the governmental fund financial statements. The related expenditures are recognized in the governmental fund financial statements when the liabilities are liquidated.

When fund balance resources are available for a specific purpose in more than one classification, it is the Collaborative's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Impact of Recently Issued Accounting Principles

*Recently Issued and Adopted Accounting Pronouncements*

During the fiscal year ended June 30, 2019, the following GASB pronouncements were implemented:

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes accounting and financial reporting standards for legal obligations to retire certain capital assets such as decommissioning nuclear power plants and removing sewage treatment plants.. The adoption of GASB No. 83 does not have any impact on the Collaborative's financial statements.

The GASB issued Statement No. 84, *Fiduciary Activities*, which clarifies when a government has fiduciary responsibility and is required to present fiduciary fund financial statements. The adoption of GASB No. 84 does not have any impact on the Collaborative's financial statements.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Principles (Continued)

*Recently Issued and Adopted Accounting Pronouncements (Continued)*

The GASB issued Statement No. 88, *Certain Disclosure Related to Debt, including Direct Borrowing and Direct Placements*, which is expected to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. GASB No. 88 defines "debt" for note disclosure as: a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Collaborative has included the additional required disclosures from this GASB in Notes H and N in these financial statements. The adoption of this GASB did not have a significant effect on the Collaborative's financial statements.

*Recently Issued Accounting Pronouncements*

The following GASB pronouncements will be implemented in future fiscal years:

The GASB issued Statement No. 87, *Leases*, which is required to be implemented in fiscal year 2021. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in fiscal year 2021. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, which is required to be implemented in fiscal year 2020. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 91, *Conduit Debt Obligations*, which is required to be implemented in fiscal year 2022. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

Cash and Cash Equivalents and Investments

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

Restricted Cash

Restricted cash includes the remaining cash, originally drawn from bond proceeds, available to complete capital projects (see Note N).

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Collaborative 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 Collaborative 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 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.

Accounts Receivable

The Collaborative carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis the Collaborative evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received. At June 30, 2019, no allowance for doubtful accounts was considered necessary as management considers all accounts receivable to be fully collectible.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

The amount of inventories is not material to the government-wide and fund financial statements of the Collaborative and, therefore, is recorded as expenditures at the time of purchase.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid expenses is recorded as expenditures/expenses when consumed rather than when purchased. Prepaid expenses include prepaids as well as security deposits.

Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on the collective bargaining agreements, state laws, and executive policies. The Collaborative's policies allow no carryover of vacation or sick pay.

Income Tax Status

The Collaborative was established under Chapter 40 Section 4(e) under the General Laws of Massachusetts and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements.

Capital Assets

Capital assets, which include land, land improvements, leasehold improvements, furniture and equipment, logo development costs, building, building improvements, and construction in progress, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Collaborative as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets purchased, acquired or developed are carried at historical cost or estimated historical cost if historical cost is not available. Contributed capital assets are recorded at fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed. Any significant construction commitments are encumbered at year end.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of governmental activities is expensed as incurred.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Land and construction in progress are not depreciated. The other capital assets of the Collaborative are depreciated using the straight-line method over the following estimated useful lives:

Building	39 years
Furniture and equipment	5-10 years
Land improvements	25 years
Leasehold improvements	3-12 years
Logo development costs	15 years
Building improvements	39 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Collaborative has two items that qualify for reporting in this category. The Collaborative reports deferred outflows of resources related to the accumulated increase in fair value of the interest rate swap contract reported in the government-wide statement of net position. It represents the fair value of future payments that will need to be made under the interest rate swap contract that the Collaborative has entered into. The Collaborative also reports deferred outflows of resources related to the net other postemployment benefits liability.

Deferred Inflows of Resources

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 represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Collaborative reports deferred inflows of resources related to the other postemployment benefits liability.

Long-Term Obligations and Related Costs

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Principal payments reduce the liabilities as paid. Bond premiums and discounts are deferred and amortized over the term of the bonds using the effective interest method. Bonds payable are reported net of the applicable discount or premium. Bond issuance costs are reported as expenses in the periods in which they are incurred.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations and Related Costs (Continued)

In the fund financial statements, the face amount of debt issued and related premiums or discounts are reported as other financing sources as well as the other amounts paid to refinance bonds payable. The regular payments of principal are included as debt service expenditures. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

The Collaborative uses derivatives to manage risks related to interest rate movements and has entered into interest rate swap agreements to modify interest rates on outstanding debt (see Note N). The Collaborative measures its derivative instruments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Future changes in the fair values of the interest rate swap agreements are recorded each period and adjust the corresponding asset or liability and deferred outflow or inflow of resources as necessary.

Equity Classifications

*Government-Wide Financial Statements*

Equity is classified as net position. Net position is comprised of the various net earnings (losses) from operating and nonoperating revenues, expenses, operating transfers, and contributed capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted.

Net investment in capital assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding debt of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of the amount of net investment in capital assets.

Restricted net position consists of net position for which constraints are placed thereon by (1) external parties, such as lenders, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation, including self-imposed legal mandates. Restricted net position is based on the same criteria used to report restricted governmental fund balances.

Unrestricted net position consists of all other net positions not included in the above categories.

**Net Position Flow Assumption**

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 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.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

*Fund Financial Statements*

Governmental fund equity is classified as fund balance. The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used. Classifications are hierarchical and are based primarily on the extent to which the Collaborative is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. The Collaborative's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of restricted, committed, assigned, or unassigned.

The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form - such as inventory or prepaid expenses or (b) are legally or contractually required to be maintained intact - such as a trust that must be retained in perpetuity. The Collaborative has classified prepaid expenses as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Collaborative has classified the Giving Tree Fund as restricted due to a donor restricting the use of these funds to the adult day program and the restricted cash as restricted due to the creditor requiring this to be used for capital projects.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Collaborative's Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation. The Collaborative has various amounts that have been committed by the Board of Directors for various purposes.
- Assigned: This classification includes amounts that are constrained by the Collaborative's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Collaborative's Board of Directors or through the Collaborative's Board of Directors delegating this responsibility to the Collaborative's senior management through the budgetary process. The Collaborative had no assigned funds at June 30, 2019.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

*Fund Financial Statements (Continued)*

- Unassigned: Unassigned fund balance is the residual classification for the general fund. This classification represents the general 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.

**Fund Balance Flow Assumptions**

Sometimes the Collaborative will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental 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 fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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 the Massachusetts Teachers' Retirement System (MTRS) and the Massachusetts State Employees' Retirement System (MSERS) and additions to/deductions from MTRS' and MSERS' fiduciary net position have been determined on the same basis as they are reported by MTRS and MSERS. 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.

Other Postemployment Benefits

In addition to providing pension benefits (see Note L), the Collaborative provides health coverage for all employees retiring from the Collaborative after June 30, 2007. The Collaborative will contribute 50% to the cost of the coverage while the employee is responsible for the other 50%. The Collaborative recognizes its share of the cost of providing such benefits in the periods in which the related services are received by the Collaborative. For the year ended June 30, 2019, the expenditures totaled \$749,539. The Collaborative obtained this amount based on an actuarial valuation of its obligations for postemployment health benefits. The actuarial assumptions included a 3.50% rate of return on investments (net of investment expenses), an inflation rate of 2.75%, and a health care cost trend rate of 4.5%. During the fiscal year ended June 30, 2019, a separate trust was set-up to invest funds in order to fund this liability. This trust is included in the fiduciary fund financial statements. See Note O.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Costs

Directly identifiable costs are charged to programs or general and administrative functions as applicable. Costs related to more than one function are allocated based on criteria intended to associate the cost with whichever function benefits.

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position:

The governmental funds balance sheet includes a reconciliation between total fund balances - governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds". The details of this \$10,233,683 are as follows:

Leasehold improvements	\$ 444,867
Less: Accumulated amortization-leasehold improvements	(420,454)
Land improvements	545,223
Less: Accumulated depreciation-land improvements	(54,522)
Furniture and equipment	1,638,771
Less: Accumulated depreciation-furniture and equipment	(1,509,845)
Logo development costs	20,000
Less: Accumulated amortization-logo development costs	(20,000)
Building	5,855,910
Less: Accumulated depreciation-building	(1,808,075)
Land	1,157,580
Construction in progress	500,996
Building improvements	5,446,420
Less: Accumulated depreciation-building improvements	<u>(1,563,188)</u>
Net adjustment to increase total fund balances - governmental funds to arrive at net position of governmental activities	<u>\$ 10,233,683</u>

Another element of that reconciliation explains that "some assets and liabilities are not financial resources used in governmental activities and, therefore, are not reported in governmental funds". The details of this \$29,793 are as follows:

Derivative instrument-interest rate swap - liability	<u>\$ 29,793</u>
Net adjustment to reduce total fund balances - governmental funds to arrive at net position of governmental activities	<u>\$ 29,793</u>

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(Continued)

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position (Continued):

The final element of that reconciliation explains that "certain long-term liabilities, such as bonds payable and other postemployment benefits liability, are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$18,668,511 difference are as follows:

Bonds payable due within one year	\$ 283,708
Bonds payable due in more than one year	9,908,618
Total other postemployment benefits liability	7,819,621
Deferred outflows-total other postemployment benefits liability	(188,878)
Deferred inflows-total other postemployment benefits liability	875,235
Deferred outflows-hedge from interest rate swap	<u>(29,793)</u>
Net adjustment to reduce total fund balances - governmental funds to arrive at net position of governmental activities	<u>\$ 18,668,511</u>

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net change in fund balances - total governmental funds and change in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense in the current period". The details of this \$156,965 difference are as follows:

Capital outlay	\$ 545,417
Depreciation expense	<u>(388,452)</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position of governmental activities	<u>\$ 156,965</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items". The details of this \$558,289 difference are as follows:

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(Continued)

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities (Continued):

Principal repayments of bonds payable	\$ 276,089
Interest expense of bonds payable	<u>282,200</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position of governmental activities	   <u>\$ 558,289</u>

Another element of that reconciliation states that "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". The details of this \$435,090 difference are as follows:

Change in total other postemployment benefits liability	<u>\$ 435,090</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net position of governmental activities	   <u>\$ 435,090</u>

NOTE C - BUDGETS AND BUDGETARY ACCOUNTING

Budgetary Information

The Board follows procedures established by State statutes in establishing budget balances for governmental funds as described below:

- Budgets are prepared and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law.
- Appropriations are controlled at the object level (e.g. salaries, purchased services, and capital outlay) within each functional activity (e.g. adult day program and student services) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report. This object level is the legal level of budgetary control.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE C - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Budgetary Information (Continued)

- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services (i.e. purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.
- The Collaborative's primary funding sources are state grants which have grant periods that may be longer than twelve months.
- Because of the Collaborative's dependency on state and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding.
- The Collaborative's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ending June 30.

During the fiscal year ended June 30, 2019, there were no budget amendments that were required.

Excess of Appropriations over Expenditures

For the year ended June 30, 2019, expenditures in the general fund exceeded appropriations by \$1,681,915 due to higher than expected pension costs from MTRS and MSERS during the fiscal year ended June 30, 2019. These over expenditures were funded by greater than anticipated revenues.

NOTE D - CASH AND CASH EQUIVALENTS AND DEPOSITS

The deposits of the Collaborative consist of cash and cash equivalents and money market accounts.

Interest rate risk: Interest rate risk is the risk that interest rates will adversely affect the fair value of an investment. 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 does not have a deposit policy for concentration of credit risk. The Collaborative places no limit on the amount that the Collaborative may invest in any one issuer.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE D - CASH AND CASH EQUIVALENTS AND DEPOSITS (Continued)

Custodial credit risk deposits: In the case of deposits, the risk is 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. As of June 30, 2019, the Collaborative's bank balance was \$10,203,299 and \$9,952,121 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2019, the Foundation's bank balance was \$50,279 and \$-0- of that amount was exposed to custodial credit risk because all of it is insured by federal deposit insurance coverage.

NOTE E - ACCOUNTS RECEIVABLE

The majority of accounts receivable are due from the nine member communities and the Commonwealth of Massachusetts. These receivables and the remaining accounts receivable are considered to be fully collectible. As such, no allowance for uncollectible accounts receivable is recorded.

Accounts receivable as of June 30, 2019 in the Collaborative's major fund, in the aggregate, are as follows:

	<u>General Fund</u>	<u>Percentage of Balance</u>
Accounts receivable, net:		
Member communities	\$ 554,174	28.5%
Commonwealth of Massachusetts:		
Department of Elementary and Secondary Education	14,911	0.8
Commonwealth Care	28,986	1.5
Massachusetts Commission for the Blind	1,062	0.0
Department of Health & Human Services	1,084,550	55.8
Department of Developmental Services	<u>148,811</u>	<u>7.7</u>
Total Commonwealth of Massachusetts	1,278,320	65.8
Other	<u>109,970</u>	<u>5.7</u>
Total accounts receivable, net	<u>\$1,942,464</u>	<u>100.0%</u>

NOTE F - DUE FROM COMPONENT UNIT/FOUNDATION

The amount due from the Foundation of \$30,000 is considered to be fully collectible. As such, no allowance for uncollectible receivables is recorded.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE G - ACCRUED EXPENSES

The Collaborative's accrued expenses as recorded in the governmental activities statement of net position and in the governmental funds balance sheet consists of the following at June 30, 2019:

Accrued rent	\$ 168,836
Accrued legal and audit	36,750
Accrued payroll taxes	846
Other accrued expenses	609
Accrued interest	<u>16,379</u>
Total accrued expenses	<u>\$ 223,420</u>

NOTE H - DEMAND LINE OF CREDIT

The Collaborative has a \$750,000 secured line of credit with a bank to finance working capital. Under the line of credit, each loan will bear interest at the bank's prime interest rate plus 1%. At June 30, 2019 the bank's prime rate was 5.0%. The line of credit is secured by a mortgage on land and building in Chelsea and secured by substantially all assets of the Collaborative. During the fiscal year ended June 30, 2019, the Collaborative did not draw on this line. The bank will review the line annually with the next review occurring on February 28, 2020.

A summary of changes of the demand line of credit consists of the following at June 30, 2019:

	Balance July 1, 2018	Additions	Repayments	Balance June 30, 2019
Demand line of credit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE I - INVESTMENTS

The Collaborative holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Collaborative's mission, the Collaborative determines that the disclosures related to these investments only need to be disaggregated by major type. The Collaborative chooses a narrative format for disclosing the levels with the fair value hierarchy.

The Collaborative categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 are significant unobservable inputs.

The Collaborative has contributed \$250,000 to a public employee retirement trust account with U.S. Bank National Association as trustee, on behalf of its retirees' health insurance trust fund. The trustee invests the funds in Vanguard mutual funds. As of June 30, 2019, the balance in these investments consisted of mutual funds with a fair value of \$250,026. These investments are classified in Level 1 of the fair value hierarchy and are valued using prices quoted in active markets for those securities.

Net increase in fair value on the investments for the year ended June 30, 2019 was \$26. There were no realized gains or losses during the year ended June 30, 2019. There were no investment fees charged for the year ended June 30, 2019.

The Collaborative manages its investments in accordance with state public finance laws that require that all monies held in the name of the Collaborative, which are not required to be kept liquid for purposes of distribution, shall be invested in such a manner as to require the payment of interest on the money at the highest possible rate reasonably available, taking account of safety, liquidity and yield. The Collaborative has directed an investment management service to manage the funds as conservatively as possible. However, the investments are still subject to market risk of loss. For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Collaborative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Collaborative's investments are uninsured, not registered in the name of the Collaborative, and held by the counterparty's trust department or agent but not in the Collaborative's name.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE J - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Deletions	Transfers/ Reclassifi- cations	Balance June 30, 2019
<b><u>Governmental activities:</u></b>					
Capital assets, not being depreciated:					
Land	\$ 1,157,580	\$ -	\$ -	\$ -	\$ 1,157,580
Construction in progress	<u>16,251</u>	<u>484,745</u>	<u>-</u>	<u>-</u>	<u>500,996</u>
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	1,173,831	484,745	-	-	1,658,576
Capital assets, being depreciated:					
Leasehold improvements	440,667	4,200	-	-	444,867
Land improvements	545,223	-	-	-	545,223
Furniture and equipment	1,582,299	56,472	-	-	1,638,771
Logo development costs	20,000	-	-	-	20,000
Building	5,855,910	-	-	-	5,855,910
Building improvements	<u>5,446,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,446,420</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	13,890,519	60,672	-	-	13,951,191
Less accumulated depreciation for:					
Leasehold improvements	(403,703)	(16,751)	-	-	(420,454)
Land improvements	(32,713)	(21,809)	-	-	(54,522)
Furniture and equipment	(1,449,757)	(60,088)	-	-	(1,509,845)
Logo development costs	(20,000)	-	-	-	(20,000)
Building	(1,657,923)	(150,152)	-	-	(1,808,075)
Building improvements	<u>(1,423,536)</u>	<u>(139,652)</u>	<u>-</u>	<u>-</u>	<u>(1,563,188)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(4,987,632)</u>	<u>(388,452)</u>	<u>-</u>	<u>-</u>	<u>(5,376,084)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>8,902,887</u>	<u>(327,780)</u>	<u>-</u>	<u>-</u>	<u>8,575,107</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 10,076,718</u>	<u>\$ 156,965</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,233,683</u>

Depreciation expense was charged to functions/programs of the governmental activities of the Collaborative as follows:

Governmental activities:	
Adult day program	\$ 79,073
Student services	211,896
Professional development	6,232
General and administrative	<u>91,251</u>
Total depreciation expense - governmental activities	<u>\$ 388,452</u>

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

**NOTE K - OPERATING LEASES**

The Collaborative leases space for its classrooms from various member communities as a tenant-at-will for an annual amount of \$10,000.

In addition, the Collaborative leases space for its adult day program under two different leases and the Collaborative leases space under another lease for its administrative offices and its adult day program. The first lease for the adult day program was entered into on July 16, 2012 for a building in Peabody. The lease term is for seven years through May 31, 2020. For the first seven months of the lease, the monthly rent was completely abated and then for the next three months the Collaborative paid a reduced monthly lease payment of \$18,559. Starting June 1, 2013, the annual lease amount was \$228,008 and will continue to increase \$5,303 a year until May 31, 2020. Due to the first seven months of abated rent, the total cost of the lease will be recognized evenly over the lease term using the straight-line method. The Collaborative is also responsible for paying all operating costs, insurance, utilities, and real estate taxes.

The second lease for the adult day program was entered into on January 24, 2011 for a building in Woburn. The lease term commenced on March 1, 2011 and continues through November 30, 2021 with an option to renew the lease for an additional five years. The annual payment for March 1, 2011 through December 31, 2011 was \$183,320. Starting January 1, 2012, the annual lease amount increased \$10,000 a year until November 30, 2021. However, for the first twelve months of the lease, the monthly rent was abated by \$13,749 per month. Due to this, the total cost of the lease will be recognized evenly over the lease term using the straight-line method. The Collaborative is responsible for paying all utilities, management fees and real estate taxes.

The third lease for both its administrative offices and its adult day program was entered into on July 30, 2018 for a building in Chelsea. The lease term will commence when the building is occupied which is expected to be in November 2019 and the lease will continue through October 31, 2034. There are two successive options to extend the lease term for two additional five-year periods. The annual payment for November 1, 2019 through October 31, 2020 will be \$668,346. Starting November 1, 2020, the annual lease amount will increase 2% a year until October 31, 2034. Since the payments are increasing over the life of the lease without leasing any additional space, the total cost of the lease will be recognized evenly over the lease term using the straight-line method. The Collaborative also was issued by TD Bank a letter of credit in the amount of \$167,087 to act as a security deposit for this lease. The Collaborative amended its demand line of credit so that if the letter of credit would need to be used, the amount would be removed from the demand line of credit. The Collaborative is responsible for paying all real estate taxes, insurance, utility charges and personal property taxes as well as any other charges deemed payable by the landlord.

The landlord agreed to make improvements to the property of \$1,750,000. Any amounts needed above that amount would be paid by the Collaborative. As of June 30, 2019, the Collaborative had incurred costs of \$250,000 related to improvements to the property and the Collaborative expects to incur an additional \$850,000 of costs during FY2020 related to improvements to the property.

Total rent expense for all operating leases for the year ended June 30, 2019 was \$583,271. Included in this amount, rent expense for all tenancy-at-will leases for the year ended June 30, 2019 was \$10,000.

The Collaborative also has various leases for automobiles used in the adult day program and various leases for office equipment used in all programs. Total expense for these leases for the year ended June 30, 2019 was \$21,540.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE K - OPERATING LEASES (Continued)

The following is a schedule of future minimum rental payments required under the above operating leases:

Year Ending June 30,

2020	\$ 1,010,260
2021	1,013,782
2022	838,494
2023	704,734
2024	718,949
2025-2029	3,814,877
2030-2034	4,210,050
2035-2039	<u>293,754</u>
Total minimum lease payments	<u>\$ 12,604,900</u>

NOTE L - PENSION PLANS

The Collaborative participates in two cost-sharing multiple-employer defined benefit plans - Massachusetts Teachers' Retirement System (MTRS) and Massachusetts State Employees' Retirement System (MSERS).

Massachusetts Teachers' Retirement System (MTRS)

*Plan description*

Teaching-certified employees of the Collaborative are provided with pensions through the MTRS - a public employee retirement system (PERS) that administers a cost-sharing multiple-employer defined benefit pension plan, as defined in GASB Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth of Massachusetts on behalf of municipal teachers and municipal teacher retirees. The Commonwealth of Massachusetts is a nonemployer contributing entity and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS issues a publicly available annual report that includes financial statements and required supplementary information, which may be obtained by writing to Public Employee Retirement Administrative Commission (PERAC), 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Management of the MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB).

*Benefits provided*

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

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

*Benefits provided (Continued)*

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

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

*Contributions*

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

In addition, members who join the system on or after April 2, 2012 will have their withholding rate reduced to 8% after achieving 30 years of creditable service.

The Commonwealth of Massachusetts is a nonemployer contributor in MTRS and is required by statute to make all actuarially determined employer contributions on behalf of the member employers participating in MTRS. Therefore, the Collaborative is considered to be in a 100% special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth of Massachusetts is a nonemployer contributing entity. The contributions made by the Commonwealth of Massachusetts are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Thus, the Collaborative is not required to make any contribution. Employees are required to contribute as detailed above. The Collaborative had no contractually required contribution to the MTRS for the fiscal year ended June 30, 2019. During the fiscal year ended June 30, 2019, the Commonwealth of Massachusetts was responsible for 100% of the Collaborative's contractually required contributions to MTRS.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2019, the Collaborative was not required to report a liability for its proportionate share of the net pension liability due to the fact that the Collaborative does not contribute directly to MTRS and the Commonwealth of Massachusetts is responsible for the entire net pension liability associated with the Collaborative.

At June 30, 2019, the proportionate share of the net pension liability associated with the Collaborative was \$14,899,536. The Collaborative's portion of the net pension liability was based on the Collaborative's proportionate share of contributions to the pension plan relative to the contributions of all MTRS participating employers.

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, 2019, the Collaborative's proportionate share of the net pension liability represented 0.06% of the total net pension liability for MTRS which had not changed from its portion measured as of June 30, 2018.

For the fiscal year ended June 30, 2019, the Collaborative recognized pension expense of \$1,509,852 and revenue of \$1,509,852 for support provided by the Commonwealth. This amount is recorded as an operating grant and contribution and a corresponding expense on the statement of activities and as other income and a corresponding expenditure on the statement of revenues, expenditures, and changes in fund balances.

The Collaborative was not required to record any deferred inflows or deferred outflows related to MTRS due to the same reasons as listed above.

*Actuarial assumptions*

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

1. (a) 7.35% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

*Actuarial assumptions (Continued)*

3. Mortality rates were as follows:
  - a. Pre-retirement - reflects RP-2014 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct)
  - b. Post-retirement - reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct)
  - c. Disability - assumed to be in accordance with the RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).
4. Experience study was performed dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	39.0%	5.0%
Portfolio Completion Strategies	13.0	3.7
Core Fixed Income	12.0	0.9
Private Equity	12.0	6.6
Value Added Fixed Income	10.0	3.8
Real Estate	10.0	3.8
Timber/Natural Resources	<u>4.0</u>	3.4
Total	<u>100.0%</u>	

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

*Discount rate*

The discount rate used to measure the total pension liability was 7.35%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There was a 0.15% decrease in the discount rate used from the previous fiscal year.

*Sensitivity of the Collaborative's proportionate share of the net pension liability to changes in the discount rate*

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate as of June 30, 2018. In particular, the table presents the Collaborative's proportionate share of the net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

	1% Decrease to 6.35%	Current Discount Rate 7.35%	1% Increase to 8.35%
June 30, 2018	<u>\$ 18,525,800</u>	<u>\$ 14,899,536</u>	<u>\$ 11,795,300</u>

*Pension plan fiduciary net position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued Commonwealth of Massachusetts' financial report.

*Payables to the Pension Plan*

At June 30, 2019, the Collaborative reported a payable to the MTRS of \$87,552 for legally required employee contributions which had been withheld from employee wages but not yet remitted to MTRS. This amount is included in accounts payable on the statement of net position and governmental funds balance sheet.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE L - PENSION PLANS (Continued)

Massachusetts State Employees' Retirement System (MSERS)

*Plan description*

Non-teaching-certified employees of the Collaborative are provided with pensions through the MSERS - a PERS that administers a cost-sharing multiple-employer defined benefit pension plan, as defined by GASB Statement No. 67. The MSERS issues a publicly available annual report that includes financial statements and required supplementary information, which may be obtained by writing to Public Employee Retirement Administrative Commission (PERAC), 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Management is vested in the Massachusetts State Retirement Board (the MSRB).

*Benefits provided*

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

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

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

*Contributions*

Member contributions for MSERS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
1979 to present	An additional 2% of regular compensation in excess of \$30,000

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE L - PENSION PLANS (Continued)

Massachusetts State Employees' Retirement System (MSERS) (Continued)

*Contributions (Continued)*

In addition, members who join the system on or after April 2, 2014 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

Per Chapter 32 of the MGL, contribution requirements of the active employees and participating entities are established and may be amended by the Legislature. Employees are required to contribute as detailed above. The Collaborative contributes an amount equal to the normal cost of employees' benefits participating in MSERS at a rate established by the Public Employees' Retirement Administration Commission (PERAC), currently 5.6% of covered payroll. Legally, the Collaborative is 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 is not legally responsible for the past service cost attributable to those employees or previously retired employees of the Collaborative. The Commonwealth of Massachusetts is legally responsible for the entire past service cost related to the Collaborative and therefore has a 100% special funding situation (similar to the MTRS).

The following is a listing of the last four years of contributions to MSERS by the Collaborative:

2019	\$ 473,504
2018	447,179
2017	398,493
2016	400,266

The Collaborative had no additional contractually required contribution to the MSERS for the fiscal year ended June 30, 2019. The Commonwealth of Massachusetts was responsible for any remaining contractually required contributions to MSERS during the fiscal year ended June 30, 2019.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2019, the Collaborative was not required to report a liability for its proportionate share of the net pension liability due to the fact that the Commonwealth of Massachusetts is responsible for the entire net pension liability associated with the Collaborative.

At June 30, 2019, the proportionate share of the net pension liability associated with the Collaborative was \$16,749,967. The Collaborative's portion of the net pension liability was based on the Collaborative's proportionate share of employer and nonemployer allocations to the pension plan relative to the employer and nonemployer contributions of all MSERS participating entities.

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At June 30, 2019, the Collaborative's proportionate share of the net pension liability represented 0.13% of the total net pension liability for MSERS which had increased 0.01% from its portion measured as of June 30, 2018.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE L - PENSION PLANS (Continued)

Massachusetts State Employees' Retirement System (MSERS) (Continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

For the fiscal year ended June 30, 2019, the Collaborative recognized pension expense of \$2,206,690 and revenue of \$2,206,690 for support provided by the Commonwealth. This amount is recorded as an operating grant and contribution and a corresponding expense on the statement of activities and as other income and a corresponding expenditure on the statement of revenues, expenditures, and changes in fund balances.

The Collaborative was not required to record any deferred inflows or deferred outflows related to MSERS due to the same reasons as listed above.

*Actuarial assumptions*

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

1. (a) 7.35% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 of allowance each year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
  - a. Pre-retirement - reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 and set forward 1 year for females
  - b. Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 and set forward 1 year for females
  - c. Disability - the mortality rate reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 and set forward 1 year.
4. Experience studies were performed dated February 27, 2014 and encompasses the period January 1, 2006 to December 31, 2011.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE L - PENSION PLANS (Continued)

Massachusetts State Employees' Retirement System (MSERS) (Continued)

*Actuarial assumptions (Continued)*

Investment assets of the MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	39.0%	5.0%
Portfolio Completion Strategies	13.0	3.7
Core Fixed Income	12.0	0.9
Private Equity	12.0	6.6
Value Added Fixed Income	10.0	3.8
Real Estate	10.0	3.8
Timber/Natural Resources	<u>4.0</u>	3.4
Total	<u>100.0%</u>	

*Discount rate*

The discount rate used to measure the total pension liability was 7.35%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There was a 0.15% change in the discount rate used from the previous fiscal year.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE L - PENSION PLANS (Continued)

Massachusetts State Employees' Retirement System (MSERS) (Continued)

*Sensitivity of the Collaborative's proportionate share of the net pension liability to changes in the discount rate*

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate as of June 30, 2018. In particular, the table presents the Collaborative's proportionate share of the net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

	1% Decrease to 6.35%	Current Discount Rate 7.35%	1% Increase to 8.35%
June 30, 2018	<u>\$ 22,576,800</u>	<u>\$ 16,749,967</u>	<u>\$11,772,100</u>

*Pension plan fiduciary net position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued Commonwealth of Massachusetts' financial report.

*Payables to the Pension Plan*

At June 30, 2019, the Collaborative reported payables to the MSERS of \$69,104 for legally required employer contributions and \$89,592 for legally required employee contributions which had been withheld from employee wages but not yet remitted to MSERS. These amounts are included in accounts payable and accrued salaries and fringe benefits on the statement of net position and governmental funds balance sheet.

NOTE M - DISCRETELY PRESENTED COMPONENT UNIT

In fiscal year 2004, a not-for-profit organization, Shore Educational Collaborative Foundation, Inc. ("the Foundation"), was established. This organization's board of directors has some of the same members as the Collaborative's. As a result, the Foundation has been included as a component unit on the statement of net position and the statement of activities. According to Massachusetts Session Law, Chapter 43 of the Acts of 2012: An Act Relative to Improving Accountability and Oversight of Education Collaboratives, the Foundation does not qualify as a related party as defined by the law and, therefore, any transactions between the Foundation and the Collaborative do not constitute related party transactions.

At June 30, 2019, the Collaborative has a receivable from the Foundation for \$30,000, which was used as start-up funds for the Foundation.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE N - LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities reported in the statement of net position at June 30, 2019:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Bonds payable					
Refinanced building and land acquisition	\$ 9,003,220	\$ -	\$ 215,240	\$ 8,787,980	\$ 221,080
Renovation	<u>1,465,195</u>	<u>-</u>	<u>60,849</u>	<u>1,404,346</u>	<u>62,628</u>
Total bonds payable	10,468,415	-	276,089	10,192,326	283,708
Net other postemployment benefits liability	7,206,249	1,000,382	387,010	7,819,621	-
Derivative instrument- interest rate swap	<u>2,632</u>	<u>27,161</u>	<u>-</u>	<u>29,793</u>	<u>-</u>
Total	<u>\$17,677,296</u>	<u>\$1,027,543</u>	<u>\$ 663,099</u>	<u>\$18,041,740</u>	<u>\$ 283,708</u>

Repayment of principal and interest maturities on the bonds payable are principally made from education program fees and Medicaid income. Also, the net other postemployment benefits liability is generally liquidated by the general fund.

See Note O for information on the net other postemployment benefits liability and see below for information on the bonds payable and the derivative instrument.

Bond Payable - Refinanced Building and Land Acquisition

On November 4, 2016 the Collaborative entered into an agreement to participate in the Massachusetts Development Finance Agency Revenue Bonds Series 2016A to refinance its previous outstanding bonds. The Collaborative's bond components from this new bond totaled \$9,350,000. Interest on the bond is payable and commenced on November 4, 2016 and on the eleventh day of each month thereafter, at a rate of the sum of 1.395% plus 0.6975 times one-month LIBOR. The initial rate was 1.8%. The maturity date is November 11, 2046. The Collaborative entered into an interest rate swap agreement with TD Bank to effect a fixed interest rate on the bond of 2.647% for the remaining outstanding principal balance not covered by previous interest rate swaps that expired in 2017 and 2018. See below for more information on the interest rate swap. Principal payments on the bond are payable in monthly installments and commenced on November 11, 2016 and on the eleventh day of every month thereafter.

Bond proceeds of \$200,024 were withheld at closing to fund future capital projects. This amount is included in restricted cash on the statement of net position and the governmental fund balance sheet.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Refinanced Building and Land Acquisition (Continued)

*Interest Rate Swap - Refinanced Building and Land Acquisition*

**Objective of the Interest Rate Swap**

As a means to lower its borrowing costs and increase its savings, when compared against fixed rate bonds at the time of issuance in November 2016, the Collaborative entered into an ISDA interest rate swap contract in connection with its refinanced building and land acquisition bond payable with TD Bank for an initial notional amount of \$339,064. The intention of the swap was to effectively change the Collaborative's variable interest rate on the bond to a synthetic fixed rate of 2.647%. The interest rate swap is considered a hedging derivative instrument and is classified as a cash flow hedge.

**Terms**

The refinanced building and acquisition bond payable matures on November 11, 2046, and the related swap agreement matures on November 11, 2026. The swap's initial notional amount of \$339,064 matched the \$9,350,000 variable-rate bond on an amortizing schedule less the notional amounts already covered by the previous interest rate swaps that expired in 2017 and 2018. The swap was entered into at the same time the bond was issued (November 2016). As the other interest rate swaps matured in 2017 and 2018, the notional amount that those interest swaps covered was added to the notional amount outstanding under this swap. Thus, starting in fiscal year 2017, the notional amount of the swap increased as the other swaps expired so that the entire amount of the outstanding principal at any time is covered. Consequently, the principal amount of the associated debt will continue to decline.

Under the swap agreement, the Collaborative pays a fixed interest rate of 2.647% to TD Bank and TD Bank makes payments as directed in the bond payable at the floating rate of 0.6975% of the one-month LIBOR plus 1.395%. At no time will the notional amount on the interest rate swap agreement exceed the outstanding principal of the bond payable. Payments under the swap agreement will be reflected as adjustments to interest expense in the statement of activities and as adjustments to debt service in the statement of revenues, expenditures and changes in fund balance. At June 30, 2019, the swap agreement has a notional amount of \$8,787,980 and the net amount received on the interest rate swap during the fiscal year ended June 30, 2019 was \$33,688.

In accordance with the swap agreement and on a monthly basis, interest expense is calculated based on the option rate selected and the fixed rate. If the interest expense calculated is greater based on the option rate, TD Bank pays the difference to the Collaborative. However, if the interest expense calculated is greater based on the fixed rate, the Collaborative pays the difference to TD Bank. Depending on the fluctuations in LIBOR, the Collaborative's interest rate exposure and its related impact on interest expense and net cash flow may increase or decrease. The Collaborative is exposed to credit loss in the event of nonperformance by the lending institution; however, nonperformance is not anticipated.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Refinanced Building and Land Acquisition (Continued)

*Interest Rate Swap - Refinanced Building and Land Acquisition (Continued)*

**Fair Value**

The swap had a negative fair value of \$29,793 as of June 30, 2019, representing a change in fair value of \$449,040 from June 30, 2018. The fair value of the swap was offset by a deferred outflow of resources of the same amount on the statement of net position. Fair values were based on mark-to-market valuations as of the fiscal year end that were established by market quotations from TD Bank representing estimates of the amounts that would be paid for replacement transactions. This estimates the net present value of the expected cash flows between the parties to the swap agreement, using relevant mid-market data inputs based on the assumption of no unusual market conditions or forced liquidation and does not include an assessment of nonperformance risk. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

The swap's fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the Collaborative's variable-rate bond adjusts to changing interest rates, the bond does not have a corresponding fair value increase or decrease.

**Interest Rate and Credit Risk**

The fair value of the interest rate swap is highly sensitive to interest rate changes and, as a result, the Collaborative is exposed to interest rate risk. As of June 30, 2019, the Collaborative was not exposed to credit risk because the interest rate swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Collaborative would not be exposed to credit risk. TD Bank was rated AA- by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2019.

**Basis Risk**

As noted above, the swap exposes the Collaborative to basis risk should the rate on the bond increase to above the 0.6975% of the one-month LIBOR plus 1.395%, thus increasing the synthetic rate of the bond. If a change occurs that results in the rate on the bond to be below the 0.6975% of the one-month LIBOR plus 1.395%, then the synthetic rate on the bond will decrease.

**Termination Risk**

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision". The Collaborative or TD Bank may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the bond would no longer carry a synthetic interest rate. Also, if at the time of termination, the swap has a negative fair value, the Collaborative would be liable to TD Bank for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, TD Bank would be liable to the Collaborative for a payment equal to the swap's fair value.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Renovation

On November 4, 2016, the Collaborative entered into an agreement to participate in the Massachusetts Development Finance Agency Revenue Bonds Series 2016B to fund renovations at the Collaborative. The Collaborative's bond components totaled \$1,500,000. Interest on the bond was payable and commenced on November 4, 2016 and on the eleventh day of each month thereafter, at a fixed rate of 2.84%. The maturity date is November 11, 2036. Principal payments on the bond are payable in monthly installments and commenced on December 11, 2017 and on the eleventh day of every month thereafter.

Bond proceeds of \$1,500,000 were withheld at closing to fund future capital projects. This amount is included in restricted cash on the statement of net position and the governmental fund balance sheet.

Bonds Payable

Both the refinanced building and land acquisition and the renovation bonds described above are secured by a first mortgage on land and building in Chelsea and secured by substantially all assets of the Collaborative. In addition, the Collaborative has assigned the right, title, and interest in any leases and rents on the property to the bond holders. The bonds described above are subject to covenants that restrict the Collaborative's ability to incur additional debt or pledge or lien or dispose of any of its assets. If there is a default in one bond, then there is a default in both bonds.

*Swap Payments and Associated Debt*

Using rates as of June 30, 2019, debt service requirements of the variable-rate bonds and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Swap, Net</u>	<u>Total</u>
2020	\$ 283,708	\$ 306,965	\$ (37,395)	\$ 553,278
2021	291,533	298,251	(36,432)	553,352
2022	299,572	289,295	(35,442)	553,425
2023	307,835	280,094	(34,426)	553,503
2024	316,331	270,638	(33,382)	553,587
2025-2029	1,717,476	1,079,334	(11,570)	2,785,240
2030-2034	1,967,849	829,601	-	2,797,450
2035-2039	1,990,260	546,883	-	2,537,143
2040-2044	1,993,468	282,256	-	2,275,724
2045-2049	<u>1,024,294</u>	<u>34,235</u>	<u>-</u>	<u>1,058,529</u>
	<u>\$10,192,326</u>	<u>\$ 4,217,552</u>	<u>\$ (188,647)</u>	<u>\$14,221,231</u>

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE N - LONG-TERM LIABILITIES (Continued)

Bonds Payable (Continued)

*Swap Payments and Associated Debt (Continued)*

The total interest incurred by the Collaborative during the current fiscal year related to the bonds payable was \$282,200. Interest expense was charged to functions/programs of the Collaborative as follows:

Governmental activities:	
Adult day program	\$ 53,752
Student services	190,821
Professional development	10,750
General and administrative	<u>26,877</u>
	<u>\$ 282,200</u>

NOTE O - OTHER POSTEMPLOYMENT BENEFITS

The Collaborative provides other postemployment benefits ("OPEB") for its employees through a single-employer, defined benefit OPEB plan which is administered by the Collaborative. The Collaborative follows the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The Collaborative has also established a trust that follows the provisions of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans* that is intended to set funds aside for future retiree health insurance. The trust does not issue a separate, publicly available financial report and its financial activities are reported in the fiduciary financial statements.

Plan Description

The Collaborative's Retiree Health Insurance Plan (the "Plan") provides postemployment health care benefits to eligible retired Collaborative employees through the Collaborative's group health insurance plans, which cover both active and retired members. Medical insurance is offered through Tufts Health Plan and dental insurance is offered through Blue Cross Blue Shield of Massachusetts. Employees as well as their spouses are covered by the Plan. The employee must retire directly from the Collaborative with an immediate pension payable from one of the two public retirement systems as described in Note L. The employee also must have had at least ten years of cumulative service with the Collaborative and the last five years must be consecutive work at the Collaborative. In addition, the employee must have been covered under one of the Collaborative's health insurance plans for one year.

The Plan is a single-employer defined benefit OPEB plan administered by the Collaborative. The Collaborative has the authority to establish and amend the Plan's benefit terms and financing requirements.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy

The contribution requirements of Plan members and the Collaborative are established and may be amended by the Collaborative's Board of Directors. The Plan provides medical and dental insurance coverage for retirees and their spouses. The Collaborative's required contribution is based on a pay-as-you-go financing requirement. The Collaborative contributes 50% of the cost of the medical insurance premiums and the employee is responsible for the other 50%. For dental insurance premiums, the employee is responsible for 100% of the premiums. Life insurance is not offered under the Plan. The cost of administering the Plan is paid by the Collaborative. For the year ended June 30, 2019, the Collaborative contributed \$314,449 towards these benefits, including the pre-funded contribution discussed below.

The Commonwealth of Massachusetts passed special legislation that has allowed the Collaborative to establish a other postemployment benefits trust fund and to enable the Collaborative to begin pre-funding its other postemployment benefits (OPEB) liability. During the year ended June 30, 2019, the Collaborative pre-funded future OPEB liabilities totaling \$250,000 by contributing funds to the Other Postemployment Benefits Trust Fund in excess of the pay-as-you-go required contribution. These funds are reported within the Fiduciary Funds financial statements. As of June 30, 2019, the balance of the fund totaled \$250,026.

Plan members contribute nothing while active.

Investment Policy

The Collaborative has not established a formal investment policy. As of June 30, 2019, all of the Collaborative's plan investments were in Vanguard mutual funds through Public Agency Retirement Services, the trust administrator. The annual money-weighted rate of return as of the actuarial valuation date of June 30, 2019 was 0.25%.

Measurement Date

GASB Statement No. 75 requires the net OPEB liability to be measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the end of the employer's current fiscal year, consistently applied from period to period. In prior years, the Collaborative had used a measurement date of prior fiscal year. In the current year, the Collaborative decided to change the measurement date and accordingly, the net OPEB liability was measured as of June 30, 2019 for the current fiscal year ended. As a result, a prior period adjustment was made to align the OPEB liability with the new measurement date. See Note R for more details on the prior period adjustment.

Plan Membership

The following is the Plan's membership at June 30, 2019:

Active members	243
Inactive employees or beneficiaries currently receiving benefits	<u>28</u>
Total	<u>271</u>

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Components of Net OPEB Liability

The components of the net OPEB liability of the Collaborative at June 30, 2019 were as follows:

Total OPEB liability	\$ 8,069,647
Less: OPEB Plan's fiduciary net position	<u>(250,026)</u>
Net OPEB liability	<u>\$ 7,819,621</u>

The OPEB Plan's fiduciary net position as a percentage of the total OPEB liability	3.10%
---	-------

Significant Actuarial Methods and Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods:

Valuation date	Actuarially Determined Contribution was calculated as of July 1, 2018
Actuarial cost method:	Individual Entry Age Normal
Asset valuation method:	Market value of assets as of the measurement date of June 30, 2019
Investment rate of return:	5.86%, net of OPEB Plan investment expense, including inflation
Discount rate:	3.50% per annum, net of OPEB plan investment expense, including inflation (previously 3.25%)
Inflation rate:	2.75% as of June 30, 2019 and for future periods
Salary increases:	3.00% annually as of June 30, 2019 and for future periods
Municipal bond rate:	2.79% as of June 30, 2019
Mortality rates:	
Pre-Retirement Mortality:	<u>Non-teachers:</u> RP-2014 Mortality table for Blue Collar Employees projected generationally with scale MP-2016 for males and females <u>Teachers:</u> RP-2014 Mortality table for White Collar Employees projected generationally with scale MP-2016 for males and females

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Significant Actuarial Methods and Assumptions (Continued)

Post-Retirement Mortality:	<p><u>Non-teachers:</u> RP-2014 Mortality table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females</p> <p><u>Teachers:</u> RP-2014 Mortality table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females</p>
Disabled Mortality:	<p><u>Non-teachers:</u> RP-2014 Mortality table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year</p> <p><u>Teachers:</u> RP-2014 Mortality table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females</p>

Rate of Return

For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 0.25%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Plan's expected future real rate of return of 3.48% is added to the expected inflation of 2.75% less investment expense of 0.37% to produce the long-term expected nominal rate of return of 5.86%. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2019 as summarized below:

<u>Asset Class</u>	<u>Long-Term Expected Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity - Large Cap	37.1%	4.00%
Domestic Equity - Small/Mid Cap	0.0	6.00
International Equity - Developed Market	15.9	4.50
International Equity - Emerging Market	0.0	7.00
Domestic Fixed Income	39.0	2.00
International Fixed Income	0.0	3.00
Alternatives	0.0	6.50
Real Estate	<u>8.0</u>	6.25
Total	<u>100.0%</u>	



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the Plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments to current plan members. Therefore, the long-term expected rate of return on the OPEB plan assets was applied to all periods of projected future benefits payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balances at June 30, 2018	\$ 7,206,249	\$ -	\$ 7,206,249
Prior-period adjustment	797,084	-	797,084
Benefit payments during FY2018	<u>(72,561)</u>	<u>-</u>	<u>(72,561)</u>
Balances at June 30, 2018 with adjustment	7,930,772	-	7,930,772
Changes for the year:			
Service cost	571,369	-	571,369
Interest	296,457	-	296,457
Change in assumptions	(884,860)	-	(884,860)
Differences between actual and expected experience	220,358	-	220,358
Net investment income	-	26	(26)
Employer contributions	-	250,000	(250,000)
Benefit payments	<u>(64,449)</u>	<u>-</u>	<u>(64,449)</u>
Net change	<u>138,875</u>	<u>250,026</u>	<u>(111,151)</u>
Balances at June 30, 2019	<u>\$ 8,069,647</u>	<u>\$ 250,026</u>	<u>\$ 7,819,621</u>

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Collaborative, calculated using the discount rate of 3.50%, as well as what the Collaborative's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage point higher (4.50%) than the current discount rate:

	<u>1% Decrease to 2.50%</u>	<u>Current Discount Rate 3.50%</u>	<u>1% Increase to 4.50%</u>
Net OPEB liability	<u>\$ 9,396,990</u>	<u>\$ 7,819,621</u>	<u>\$ 6,586,379</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Collaborative, calculated using the current healthcare cost trend rate of 4.50%, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that is 1-percentage-point lower (3.50%) or 1-percentage point higher (5.50%) than the current healthcare cost trend rates:

	<u>1% Decrease to 3.50%</u>	<u>Current Trend Rate 4.50%</u>	<u>1% Increase to 5.50%</u>
Total OPEB liability	<u>\$ 6,370,430</u>	<u>\$ 7,819,621</u>	<u>\$ 9,739,193</u>

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Collaborative recognized OPEB expense of \$749,539, which was determined as follows:

Service cost	\$ 571,369
Interest	296,457
Deferred outflows from Plan experience	8,127
Deferred inflows from changes of assumptions	(126,409)
Deferred inflows from earnings on Plan	<u>(5)</u>
OPEB expense	<u>\$ 749,539</u>

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At June 30, 2019, the Collaborative reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 188,878	\$ (116,763)
Changes of assumptions	-	(758,451)
Net difference between projected and actual earnings on OPEB plan investments	<u>-</u>	<u>(21)</u>
Total	<u>\$ 188,878</u>	<u>\$ (875,235)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ending June 30,

2020	\$ (118,287)
2021	(118,287)
2022	(118,287)
2023	(118,288)
2024	(118,280)
Thereafter	<u>(94,928)</u>
Net decrease in OPEB expense	<u>\$ (686,357)</u>

Plan contributions are made, and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to discount, trend rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE P - CONCENTRATIONS

At June 30, 2019, approximately 43% of the Collaborative's employees work under collective bargaining agreements. 58% of these employees are represented by unions whose existing agreements expired August 31, 2017. Negotiations are currently underway to negotiate a successor agreement. 42% of these employees are represented by unions whose existing agreements will expire on June 30, 2021. The Collaborative's other employees are not represented by a union.

NOTE Q - 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 R - PRIOR PERIOD ADJUSTMENT

Beginning net position of the governmental activities has been revised to reflect the change in the measurement date for the net postemployment benefits liability (OPEB) from using the prior year end date (June 30, 2018) to using the current year end date (June 30, 2019). To reflect this change, the Collaborative has revised the OPEB liability, which has resulted in the adjustment of the June 30, 2018 balance of the governmental activities net position by decreasing it \$797,084. Accordingly, previously reported net position, which had a balance of \$2,575,165, has been revised and reduced to \$1,778,081.

NOTE S - SUBSEQUENT EVENTS

On July 9, 2019, the Collaborative signed a second amendment to its lease for its Peabody building. The amendment extends the lease term for an additional 10 years commencing on June 1, 2020 until May 31, 2030. Starting June 1, 2020, the annual lease amount will be \$301,182 and will increase \$8,484 per year until May 31, 2030. The Collaborative has the option to extend the lease for an additional term of five years. There were no other changes made to the terms of the lease.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE S - SUBSEQUENT EVENTS (Continued)

The following is a revised schedule of future minimum rental payments required under all the operating leases:

Year Ending June 30,

2020	\$ 1,035,359
2021	1,314,964
2022	1,140,382
2023	1,015,107
2024	1,037,806
2025-2029	5,536,422
2030-2034	4,548,349
2035-2039	<u>293,754</u>

Total minimum lease payments	<u>\$ 15,922,143</u>
------------------------------	----------------------

Management has evaluated the impact of all other subsequent events on the Collaborative through November 12, 2019, the date the financial statements were available to be issued, and has determined that there were no other subsequent events requiring adjustment or disclosure in the financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

SHORE EDUCATIONAL COLLABORATIVE  
MASSACHUSETTS DEPARTMENT OF ELEMENTARY AND  
SECONDARY EDUCATION (DESE) REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)  
JUNE 30, 2019

The following information is provided to conform with 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 of Massachusetts General Law, Chapter 40, Section 4E which establishes the requirements for the formation and administration of educational collaboratives in Massachusetts.

The Names, Duties, and Total Compensation of the Five Most Highly Compensated Employees

The following were the five highest paid employees at the Collaborative during the year ended June 30, 2019:

<u>Employee</u>	<u>Duties</u>	<u>Total Compensation</u>
Jacki Clark	Executive Director	\$175,568
Robert Alconada	Assistant Executive Director	\$151,342
Eugene Lacava	Chief Information Officer	\$120,277
Catherine MacNeil	Educational Coordinator	\$107,117
Lisa Hunt	Educational Coordinator	\$105,917

Transactions Between the Collaborative and Any Related For-Profit or Non-Profit Organization

The Collaborative does not have any related for-profit or non-profit organizations that qualify under the statute as related parties.

The Amounts Expended on Services for Individuals with Disabilities, 22 Years of Age or Older

The amounts expended on services for individuals with disabilities, age 22 and older for the fiscal year ended June 30, 2019 were \$9,698,295.

The Amounts Expended on Administration and Overhead

The amounts expended on administration and overhead for the fiscal year ended June 30, 2019 were \$1,940,217.

Any Accounts Held by the Collaborative that May be Spent at the Discretion of Another Person or Entity

At June 30, 2019, the Collaborative does not hold any accounts that may be spent at the discretion of another person or entity.

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE  
MASSACHUSETTS DEPARTMENT OF ELEMENTARY AND  
SECONDARY EDUCATION (DESE) REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
(Unaudited)  
JUNE 30, 2019

Transactions or Contracts Related to the Purchase, Sale, Rental or Lease of Real Property

The Collaborative owns the building that holds its location in Chelsea. The purchase of this building was financed through a bond from the Massachusetts Development Finance Agency. See Note N for more information on this bond and Note J for details of the building cost.

The Collaborative leases space for its adult day program in Woburn and Peabody as well as some classroom space from its member communities through operating leases. The Collaborative also leases space for its administrative offices and its adult day program in Chelsea through an operating lease. See Note K for information on these operating leases.

The Collaborative's Capital Plan

During the fiscal year ended June 30, 2019, the Collaborative's capital plan included continued purchases of technology for the student services and adult day programs. As of June 30, 2019, the Collaborative has begun a project to renovate its Chelsea location. The Collaborative is currently only in the study stages and is currently working with an architectural firm to draw up potential plans for the renovations. The costs associated with this planning of \$20,085 as of June 30, 2019 are included in capital assets but not being depreciated in the statement of net position. The Collaborative expects to spend in the next few years approximately \$1,500,000 to complete these renovations.

The Collaborative is also working on plans to move into a new leased building for its adult day program as well as its administrative offices. The Collaborative has signed a lease for this building but it will not take effect until the Collaborative occupies the building which is expected to occur in November 2019. The Collaborative has been working on plans to renovate it to the Collaborative's needs. The costs for this renovation are to be covered by the landlord of the building up to \$1,750,000 with any excess costs to be covered by the Collaborative. As of June 30, 2019, the Collaborative has incurred an additional \$250,000 in costs to improve the building and expects to spend an additional \$850,000 in the next year in order to finish the renovations to the building. The Collaborative has also purchased various equipment and furniture to be used in the new building for a total cost of \$230,911. As of June 30, 2019, the total costs associated with the building improvements and the equipment and furniture are \$480,911 and are included in capital assets but not being depreciated in the statement of net position.

The other capital projects that are planned for fiscal years 2020 through 2021 include the following:

- Purchase of new classroom furniture and equipment at the Chelsea location for approximately \$50,000 and purchase of new office equipment for approximately \$150,000
- Purchase of accounting software for between \$50,000 to \$100,000
- Improvements to the outside of the Chelsea property for approximately \$75,000 and painting of the interior of the Chelsea location in the Student Services area for approximately \$50,000

See accompanying notes to Required Supplementary Information.



SHORE EDUCATIONAL COLLABORATIVE  
MASSACHUSETTS DEPARTMENT OF ELEMENTARY AND  
SECONDARY EDUCATION (DESE) REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
(Unaudited)  
JUNE 30, 2019

The Collaborative's Capital Plan (Continued)

- Replacement of five 80-gallon water heaters at the Chelsea location for approximately \$15,000
- Upgrade the interior lighting of the Peabody location for approximately \$40,000
- Renovate the kitchen area of the Peabody location for approximately \$10,000
- Modify the front entrance of the Peabody location for approximately \$15,000
- Paint the interiors of the Peabody and Woburn locations for approximately \$60,000
- Renovate bathrooms in the Peabody location for approximately \$40,000
- Reseal and restripe the parking lot at the Woburn location for approximately \$12,500
- Replace carpet in the administrative offices at the Woburn location with tile for approximately \$30,000

Cumulative Surplus Calculation - FY19

		<u>Pages in Financial Statements</u>
(A)	Voted Cumulative Surplus as of 6/30/18	\$ 10,240,666 17
(B)	1 Amount of (A) used to support the FY19 Budget	\$(4,514,901)
	2 Amount of (A) returned to member districts	<u>-</u>
		(4,514,901)
(C)	Unexpended FY19 General Funds	<u>158,283</u> 17
(D)	Cumulative Surplus as of 6/30/19	<u>\$ 5,884,048</u>
(E)	FY19 Total General Fund Expenditures	\$ 25,228,226 17
(F)	FY19 Cumulative Surplus Percentage	23.3% 69

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
(Unaudited)  
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			Variance with Final Budget-Positive (Negative)
	Original	Final	Actual	
Revenues:				
Educational program fees	\$ 13,507,596	\$ 13,507,596	\$ 13,351,178	\$ (156,418)
Medicaid income	6,999,532	6,999,532	6,286,285	(713,247)
Medicaid municipal billing services	225,000	225,000	155,180	(69,820)
Administrative overhead income	1,941,601	1,941,601	1,953,381	11,780
Other income	884,400	884,400	3,883,944	2,999,544
Interest income	7,500	7,500	6,581	(919)
TOTAL REVENUES	23,565,629	23,565,629	25,636,549	2,070,920
Expenditures:				
Current:				
Salaries	13,205,704	13,205,704	13,049,164	156,540
Employee benefits	2,941,726	2,941,726	5,659,266	(2,717,540)
Payroll taxes	736,006	736,006	705,727	30,279
Advertising	8,000	8,000	756	7,244
Professional fees and contract services	1,010,500	1,010,500	851,683	158,817
Supplies	360,750	360,750	230,604	130,146
Telephone	102,750	102,750	80,012	22,738
Postage	14,500	14,500	7,780	6,720
Rent	1,322,500	1,322,500	583,271	739,229
Staff training	65,000	65,000	55,439	9,561
Rental of equipment	12,450	12,450	13,023	(573)
Transportation	86,500	86,500	46,403	40,097
Printing and publications	25,000	25,000	19,195	5,805
Food	144,500	144,500	159,557	(15,057)
Repairs and maintenance	306,500	306,500	199,557	106,943
Utilities	430,500	430,500	294,606	135,894
Insurance	130,614	130,614	83,842	46,772
Client recreation	20,000	20,000	26,913	(6,913)
Bad debt	-	-	58,729	(58,729)
Miscellaneous	66,250	66,250	48,678	17,572
Administrative overhead charges	1,941,601	1,941,601	1,950,355	(8,754)
Total current expenditures	22,931,351	22,931,351	24,124,560	(1,193,209)
Debt service:				
Principal	-	-	276,089	(276,089)
Interest	290,000	290,000	282,200	7,800
Total debt service	290,000	290,000	558,289	(268,289)
Capital outlay	325,000	325,000	545,417	(220,417)
TOTAL EXPENDITURES	23,546,351	23,546,351	25,228,266	(1,681,915)
EXCESS OF REVENUES OVER EXPENDITURES	19,278	19,278	408,283	389,005
OTHER FINANCING SOURCES (USES)				
OPEB obligation funding	-	-	(250,000)	(250,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(250,000)	(250,000)
NET CHANGE IN FUND BALANCES	19,278	19,278	158,283	139,005
Fund balances - beginning	10,239,523	10,239,523	10,239,523	-
FUND BALANCES - ENDING	\$ 10,258,801	\$ 10,258,801	\$ 10,397,806	\$ 139,005

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF CHANGES IN THE COLLABORATIVE'S NET OPEB LIABILITY AND RELATED RATIOS  
RETIREE HEALTH INSURANCE PLAN  
(Unaudited)  
FOR THE YEAR ENDED JUNE 30, 2019

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 571,369	\$ 599,923	\$ 569,144
Interest on total OPEB liability, service cost, and benefit payments	296,457	197,161	232,985
Changes in benefit terms	-	-	-
Changes of assumptions	(884,860)	-	-
Differences between expected and actual experience	220,358	-	(163,469)
Benefit payments	<u>(64,449)</u>	<u>(72,561)</u>	<u>(63,535)</u>
<b>Net change in total OPEB liability</b>	138,875	724,523	575,125
<b>Total OPEB liability - beginning</b>	<u>7,930,772</u>	<u>7,206,249</u>	<u>6,631,124</u>
<b>Total OPEB liability - ending (a)</b>	<u><b>\$ 8,069,647</b></u>	<u><b>\$ 7,930,772</b></u>	<u><b>\$ 7,206,249</b></u>
<b>Plan fiduciary net position</b>			
Employer contributions	\$ 250,000	\$ -	\$ -
Employer contributions for OPEB payments	64,449	72,561	63,535
Net investment income	26	-	-
Benefit payments	(64,449)	(72,561)	(63,535)
Administrative expense	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in plan fiduciary net position</b>	250,026	-	-
<b>Plan fiduciary net position - beginning</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><b>\$ 250,026</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
<b>Net OPEB liability - ending (a) - (b)</b>	<u><b>\$ 7,819,621</b></u>	<u><b>\$ 7,930,772</b></u>	<u><b>\$ 7,206,249</b></u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	3.10%	0.00%	0.00%
<b>Covered-employee payroll</b>	\$ 12,895,120	\$ 12,169,336	\$ 11,814,889
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	60.64%	65.17%	60.99%

**Notes to Schedule:**

Also, see Note O to the financial statements.

**Schedule Presentation**

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

SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF THE COLLABORATIVE'S CONTRIBUTIONS  
RETIREE HEALTH INSURANCE PLAN  
(Unaudited)  
FOR THE YEAR ENDED JUNE 30, 2019

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Actuarially determined contribution	\$ 982,155	\$ 967,611	\$ 907,487
Contributions in relation to the actuarially determined contribution	<u>314,449</u>	<u>72,561</u>	<u>63,535</u>
Contribution deficiency (excess)	<u>\$ 667,706</u>	<u>\$ 895,050</u>	<u>\$ 843,952</u>
Covered-employee payroll	\$ 12,895,120	\$ 12,169,336	\$ 11,814,889
Contributions as a percentage of covered employee payroll	2.44%	0.60%	0.54%

**Notes to Schedule:**

Also, see Note O to the financial statements.

**Schedule Presentation**

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

SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF INVESTMENT RETURNS  
RETIREE HEALTH INSURANCE PLAN  
(Unaudited)  
FOR THE YEAR ENDED JUNE 30, 2019

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Annual money-weighted rate of return, net of investment expense	0.25%	N/A	N/A

**Notes to Schedule:**

Also, see Note O to the financial statements.

**Schedule Presentation**

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

SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF THE COLLABORATIVE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM  
(Unaudited)  
FOR THE YEAR ENDED JUNE 30, 2019

	Reporting Fiscal Year (Measurement Date)				
	June 30, 2019 (June 30, 2018)	June 30, 2018 (June 30, 2017)	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
Collaborative's proportion of the net pension liability	0.062837%	0.061102%	0.055651%	0.057397%	0.052358%
Collaborative's proportionate share of the net pension liability	\$ 14,899,536	\$ 13,983,324	\$ 12,442,400	\$ 11,760,499	\$ 8,323,077
Collaborative's covered-employee payroll	\$ 4,521,753	\$ 4,310,631	\$ 3,740,937	\$ 3,730,046	\$ 3,292,090
Collaborative's proportionate share of the net pension liability as a percentage of its covered-employee payroll	329.51%	324.39%	332.60%	315.29%	252.82%
Plan fiduciary net position as a percentage of total pension liability	54.84%	54.25%	52.73%	55.38%	61.64%

**Notes to Schedule:**

Also, see Note L to the financial statements.

**Schedule Presentation**

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

SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF THE COLLABORATIVE'S CONTRIBUTIONS  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM  
(Unaudited)  
FOR THE YEAR ENDED JUNE 30, 2019

	Reporting Fiscal Year (Measurement Date)				
	June 30, 2019 (June 30, 2018)	June 30, 2018 (June 30, 2017)	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Collaborative's covered-employee payroll	\$ 4,521,753	\$ 4,310,631	\$ 3,740,937	\$ 3,730,046	\$ 3,292,090
Contribution as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%

**Notes to Schedule:**

Also, see Note L to the financial statements.

Schedule Presentation

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

Contributions

No contribution is required for MTRS. The Commonwealth of Massachusetts as a nonemployer is legally responsible for the entire past service cost related to the Collaborative and therefore has a 100% special funding situation.

SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF THE COLLABORATIVE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MASSACHUSETTS STATE EMPLOYEES' RETIREMENT SYSTEM  
(Unaudited)  
FOR THE YEAR ENDED JUNE 30, 2019

	Reporting Fiscal Year (Measurement Date)				
	June 30, 2019 (June 30, 2018)	June 30, 2018 (June 30, 2017)	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
Collaborative's proportion of the net pension liability	0.12661%	0.12422%	0.12767%	0.13236%	0.12582%
Collaborative's proportionate share of the net pension liability	\$ 16,749,967	\$ 15,931,468	\$ 17,604,901	\$ 15,066,520	\$ 9,341,091
Collaborative's covered-employee payroll	\$ 7,278,066	\$ 7,093,116	\$ 7,111,381	\$ 7,203,966	\$ 6,665,551
Collaborative's proportionate share of the net pension liability as a percentage of its covered-employee payroll	230.14%	224.60%	247.56%	209.14%	140.14%
Plan fiduciary net position as a percentage of total pension liability	67.91%	67.21%	63.48%	67.87%	76.32%

**Notes to Schedule:**

Also, see Note L to the financial statements.

**Schedule Presentation**

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



SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF THE COLLABORATIVE'S CONTRIBUTIONS  
MASSACHUSETTS EMPLOYEES' RETIREMENT SYSTEM  
(Unaudited)  
FOR THE YEAR ENDED JUNE 30, 2019

	Reporting Fiscal Year (Measurement Date)				
	June 30, 2019 (June 30, 2018)	June 30, 2018 (June 30, 2017)	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
Contractually required contribution	\$ 447,179	\$ 398,493	\$ 400,266	\$ 402,050	\$ 377,419
Contributions in relation to the contractually required contribution	<u>447,179</u>	<u>398,493</u>	<u>400,266</u>	<u>402,050</u>	<u>377,419</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Collaborative's covered-employee payroll	\$ 7,278,066	\$ 7,093,116	\$ 7,111,381	\$ 7,203,966	\$ 6,665,551
Contribution as a percentage of covered-employee payroll	6.14%	5.62%	5.63%	5.58%	5.66%

**Notes to Schedule:**

Also, see Note L to the financial statements.

**Schedule Presentation**

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

**Contributions**

The Collaborative is required to pay an annual appropriation as established by the Public Employees' Retirement Administration Commission (PERAC) for MSERS. The Commonwealth of Massachusetts as a nonemployer is legally responsible for the entire past service cost related to the Collaborative and therefore has a 100% special funding situation.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)  
JUNE 30, 2019

NOTE A - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The Collaborative adopts a balanced budget that is approved by the Collaborative's Board of Directors. The Assistant Executive Director 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 items, 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 carryforwards 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 above. All divisions submit requests for budgets to the Assistant Executive Director so that a budget may be prepared. The budget is prepared by fund, function, and program type, and includes information on the prior and current year budgets.

The Assistant Executive Director has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the program level.

B. Excess of expenditures over appropriations

For the year ended June 30, 2019, budgeted appropriations exceeded budgeted expenditures by \$19,278. For the year ended June 30, 2019, actual revenues exceeded actual expenditures by \$158,283. Thus, the actual net change in fund balances exceeded the budgeted net change in fund balances by \$139,005.

C. Reconciliation of net change in fund balances - general fund to net change in fund balances - budgetary basis

For budgetary financial reporting purposes, a budgetary basis of accounting is followed, which differs from accounting principles generally accepted in the United State of America (GAAP) basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2019, is presented below:

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
(Unaudited)  
JUNE 30, 2019

NOTE A - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

C. Reconciliation of net change in fund balances - general fund to net change in fund balances - budgetary basis (Continued)

Net change in fund balances - general fund - GAAP basis	\$ 158,283
Debt service difference	268,289
Capital outlay difference	220,417
OPEB obligation funding difference	250,000
Recognition of revenue for on-behalf payments	(3,716,542)
Recognition of expenditures for on-behalf payments	3,716,542
Revenue excess	1,645,622
Current expenditures excess	<u>(2,523,333)</u>
Net change in fund balances - general fund - budgetary basis	<u>\$ 19,278</u>

NOTE B - PENSION PLANS

A. Schedules of the Collaborative's Proportionate Share 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 Massachusetts Teachers' Retirement System (MTRS) schedule discloses the Collaborative's proportion of the Commonwealth's net pension liability; the Commonwealth's 100% share of the collective net pension liability that is associated with the Collaborative; the Collaborative's covered-employee payroll; the Collaborative's proportionate share of the net pension liability as a percentage of its covered-employee payroll; and the Plan's fiduciary net position as a percentage of the total pension liability.
- The Massachusetts State Employees' Retirement System (MSERS) schedule discloses the Collaborative's proportion of the Commonwealth's net pension liability; the Commonwealth's 100% share of the collective net pension liability that is associated with the Collaborative; the Collaborative's covered-employee payroll; the Collaborative's proportionate share of the net pension liability as a percentage of its covered-employee payroll; and the Plan's fiduciary net position as a percentage of the total pension liability.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
(Unaudited)  
JUNE 30, 2019

NOTE B - PENSION PLANS (Continued)

B. Schedule of Collaborative's Contributions

A special funding situation was created by Massachusetts General Laws for all educational collaboratives in the Commonwealth. For the MSERS, 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. For MTRS, collaboratives are not required to make any contributions.

C. Changes of Benefit Terms

The MTRS and the MSERS had no changes in benefit terms since the previous valuation.

D. Changes in Assumptions

The MTRS and MSERS had no changes in assumptions since the previous valuation.

NOTE C - OPEB PLAN

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

A. Schedule of Changes in the Collaborative's Net OPEB Liability and Related Ratios

The Schedule of Changes in the Collaborative's Net OPEB Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net OPEB liability as a percentage of covered-employee payroll.

B. Schedule of the Collaborative's Contributions

The Schedule of the Collaborative's Contributions includes the Collaborative's actuarially determined contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered-employee payroll. The Collaborative is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered-employee payroll.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
(Unaudited)  
JUNE 30, 2019

NOTE C - OPEB PLAN (Continued)

C. Actuarial Assumptions

Valuation date:	Actuarially Determined Contribution was calculated as of July 1, 2018
Actuarial cost method:	Individual Entry Age Normal
Asset valuation method:	Market value of assets as of the measurement date of June 30, 2019
Investment rate of return:	5.86%, net of OPEB Plan investment expense, including inflation
Discount rate:	3.50% per annum, net of OPEB plan investment expense, including inflation
Inflation rate:	2.75% as of June 30, 2019 and for future periods
Salary increases:	3.00% annually as of June 30, 2019 and for future periods
Municipal bond rate:	2.79% as of June 30, 2019
Mortality rates:	
Pre-Retirement Mortality:	<u>Non-teachers:</u> RP-2014 Mortality table for Blue Collar Employees projected generationally with scale MP-2016 for males and females <u>Teachers:</u> RP-2014 Mortality table for White Collar Employees projected generationally with scale MP-2016 for males and females
Post-Retirement Mortality:	<u>Non-teachers:</u> RP-2014 Mortality table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females <u>Teachers:</u> RP-2014 Mortality table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females
Disabled Mortality:	<u>Non-teachers:</u> RP-2014 Mortality table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year <u>Teachers:</u> RP-2014 Mortality table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
(Unaudited)  
JUNE 30, 2019

NOTE C - OPEB PLAN (Continued)

D. Schedule of Investment Return

The Schedule of Investment Return includes the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

E. Changes of Benefit Terms

The Retiree Health Insurance Plan had no changes in benefit terms since the previous valuation.

F. Changes in Assumptions

The Retiree Health Insurance Plan had the following changes in assumptions since the previous valuation:

- Discount rate is 3.50% previously 3.25%
- Based on recommendations by PERAC, the mortality table has been updated from the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 to RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females.
- The expected long-term medical trend rate has been updated to 4.50%

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

To the Board of Directors  
Shore Educational Collaborative  
Chelsea, Massachusetts

We have audited, 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, the financial statements of the governmental activities, the aggregate discretely presented component unit, the major fund, and the aggregate remaining fund information of Shore Educational Collaborative (the "Collaborative") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements, and have issued our report thereon dated November 12, 2019.

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

*Livingston & Haynes, P.C.*

Wellesley, Massachusetts  
November 12, 2019