

SHORE EDUCATIONAL COLLABORATIVE

CHELSEA, MASSACHUSETTS

FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2020

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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, each major fund, and the aggregate remaining fund information of Shore Educational Collaborative (the "Collaborative"), as of and for the year ended June 30, 2020, 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, each major fund, and the aggregate remaining fund information of Shore Educational Collaborative as of June 30, 2020, 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.

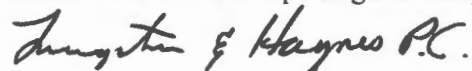
Other Matters

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 December 23, 2020, 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.



Wellesley, Massachusetts
December 23, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

(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 the next and 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, 2020 by \$153,957 (net position). Of this amount, (\$4,444,608) 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 decreased in the current fiscal year by \$1,780,371 because of lower than expected enrollment in the student services program and higher costs due to opening a new location for the adult program and the administrative offices.

At the close of the fiscal year ended June 30, 2020, the Collaborative's governmental funds reported combined ending fund balances of \$8,199,601. This decreased from the prior year by \$2,199,348 due to current-year activity. Approximately 46.7% of this amount (\$3,826,083) is available for spending at the Collaborative's discretion (unassigned fund balance). This unassigned fund balance was 13.2% of total governmental fund expenditures. This represents a \$2,057,965 decrease 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 \$6,283,151, or approximately 21.7% of total general fund expenditures.

The Collaborative's total outstanding long-term debt (which includes current portion) decreased by \$212,091 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 \$153,957 at June 30, 2020.

C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

The following is a summary of the Collaborative's net position as of June 30, 2020, compared to its net position as of June 30, 2019.

| Shore Educational Collaborative Statement of Net Position June 30, 2020 and 2019 | | |
|--|--------------------------------|-------------------------|
| | <u>Governmental Activities</u> | |
| | <u>2020</u> | <u>2019</u> |
| Current assets | \$ 7,693,881 | \$ 10,097,684 |
| Noncurrent assets (excluding capital assets) | 1,795,253 | 1,795,162 |
| Capital assets | <u>10,987,151</u> | <u>10,233,683</u> |
| Total assets | 20,476,285 | 22,126,529 |
| Total deferred outflows of resources | 691,347 | 218,671 |
| Total assets and deferred outflows of resources | 21,167,632 | 22,345,200 |
| Current liabilities | 1,579,089 | 1,777,605 |
| Long-term debt and other noncurrent liabilities | <u>18,674,772</u> | <u>17,758,032</u> |
| Total liabilities | 20,253,861 | 19,535,637 |
| Total deferred inflows of resources | 759,814 | 875,235 |
| Total liabilities and deferred inflows of resources | 21,013,675 | 20,410,872 |
| Net position: | | |
| Net investment in capital assets | 2,802,169 | 1,836,519 |
| Restricted | 1,796,396 | 1,796,305 |
| Unrestricted | <u>(4,444,608)</u> | <u>(1,698,496)</u> |
| Total net position | <u>\$ 153,957</u> | <u>\$ 1,934,328</u> |

The Collaborative's net position of \$2,802,169 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 that is still outstanding. 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 Collaborative's net position of \$1,796,396 represents resources that are subject to external restriction on how they may be used. A majority of this amount, \$1,795,253 (99.9%) is restricted for future capital projects.

The remaining balance of unrestricted net position resulted in a \$4,444,608 deficit mainly related to lower enrollment in the student services program and higher cost related to moving one of the adult day program locations and the administrative offices. This unrestricted net position 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 decreased in the current fiscal year by \$1,780,371 from the prior fiscal year. The reasons for this decrease are discussed in the following section for governmental activities.

The governmental activities current assets decreased by \$2,403,803, primarily due to a decrease in cash due to slower collections of accounts receivable and using cash to fund the improvements to the new leased location for one of the adult day program locations and the administrative offices. Capital assets increased \$753,468 due to the leasehold improvements done to the new leased space as well as furniture, fixtures, and equipment purchased for the new location. Deferred outflows of resources increased \$472,676 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 \$718,224 due to an increase in the swap on the bonds payable and the net other postemployment benefits liability which was netted with a decrease in accrued salaries and fringe benefits due to settling the union contract and paying out all retroactive amounts that were due. Deferred inflows of resources decreased \$115,421 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, 2020 and 2019, are as follows.

Shore Educational Collaborative
Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

| | <u>Governmental Activities</u> | |
|-------------------------------------|--------------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 17,436,702 | \$ 17,796,472 |
| Operating grants and contributions | 7,342,420 | 5,896,434 |
| Capital grants and contributions | - | - |
| General revenues: | | |
| Other income | 1,824 | 34,900 |
| Interest income | 8,012 | 6,581 |
| Overhead income | 2,082,970 | 1,953,381 |
| Rental income | <u>14,400</u> | <u>14,400</u> |
| Total revenues | 26,886,328 | 25,702,168 |
| Expenses: | | |
| Adult day program | 10,866,949 | 9,692,252 |
| Student services | 14,576,609 | 13,014,896 |
| Professional development | 537,073 | 503,864 |
| Client workshop | 44,985 | 55,244 |
| Fiscal agent services | 7,063 | 91,294 |
| Medicaid municipal billing services | 275,930 | 248,154 |
| General and administrative | <u>2,358,090</u> | <u>1,940,217</u> |
| Total expenses | <u>28,666,699</u> | <u>25,545,921</u> |
| Change in net position | (1,780,371) | 156,247 |

C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

Shore Educational Collaborative
Changes in Net Position (Continued)
For the Fiscal Years Ended June 30, 2020 and 2019

| | <u>Governmental Activities</u> | |
|---|--------------------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| Net position - beginning, as previously reported | \$ 1,934,328 | \$ 2,575,165 |
| Prior period adjustment - change in measurement date for net other postemployment benefits liability | - | (797,084) |
| Net position - ending | <u>\$ 153,957</u> | <u>\$ 1,934,328</u> |

During the current fiscal year, net position for governmental activities decreased \$1,780,371 from the prior fiscal year for an ending balance of \$153,957. 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 some of the effect on governmental activities. Total governmental activities revenues increased \$1,184,160 or 4.6% from the prior year. The major reason for this increase was due to an increase in operating grants and contributions of \$1,445,986 or 24.5% 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. This overall increase was reduced by the decrease in charges for services which decreased \$359,770 or 2.0% from the prior year due to lower enrollment in the student services program.

The Collaborative's total governmental activities expenses for the year ended June 30, 2020 increased by \$3,120,778 or 12.2% from the prior year. Five of the activities reported spending growth from the prior year, led by student services which accounted for \$1,561,713 or 48.6% of total spending growth. This was due to purchasing equipment related to program capacity enhancement and increased pension expenses from the Commonwealth of Massachusetts related to the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System. The activity with the second largest spending growth was adult day program which accounted for \$1,174,697 or 36.5% of total spending growth. This was due to additional costs due to moving one of the locations and hiring additional temporary and permanent employees because of the increased enrollment due to increased space in the new location.

Two of the activities reported decreases in spending from the prior year. The activity with the largest spending decrease was the fiscal agent services program which accounted for \$84,231 or 89.1% of the total spending decrease. This was due to a decrease in these services due to COVID-19. The activity with the second largest spending decrease was the client workshop which decreased \$10,259 or 10.9% of the total spending decrease due to decreases in client employment especially after March 2020 due to COVID-19.

Governmental activities decreased the Collaborative's net position by \$1,780,371 or 92.0% during fiscal 2020. The key elements of this decrease can be explained by lower than projected enrollments in the student services and adult day programs and additional costs due to opening a new location.

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, 2020, the Collaborative's governmental funds reported combined ending fund balances of \$8,199,601, a decrease of \$2,199,348 in comparison with the prior year. Approximately 46.7% of the reported combined ending fund balances (\$3,826,083) 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 (\$120,054), 2) restricted due to external limitations on its use, such as by the intention of grantors, donors, or trustees (\$1,796,396), or 3) committed for particular purposes such as day habilitation adult program expansion, future programs, building, sick bank, the adult day program, fringe benefits, and other purposes (\$2,457,068).

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 \$3,826,083, while the total general fund balance was \$6,403,205. 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 13.2% of both total general fund expenditures and total governmental funds expenditures, while total general fund balance represents 22.1% of both total general fund expenditures and total governmental funds expenditures.

During the current fiscal year, the fund balance of the Collaborative's general fund decreased by \$2,199,439. This decrease was due primarily to lower than projected enrollments in the student services program and additional costs due to opening a new location for the adult day program and the administrative offices. The fund balance of the Collaborative's capital projects fund increased by \$91 for the interest income earned on the restricted cash.

For the current fiscal year, total governmental funds revenues were \$26,886,328 which increased by \$1,184,160 due to increases in the pension revenue from the Commonwealth of Massachusetts related to the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System. Total governmental funds expenditures were \$28,985,676 which increased by \$3,691,791 due to an increase in capital outlay due to the construction costs related to moving some of the Collaborative's operations to new leased space 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, 2020.

E. GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

Final budget compared to actual results. Budgetary revenues were \$1,103,988 higher than the actual revenues. The most significant differences between budgeted revenues and actual revenues were as follows:

| <u>Revenue source</u> | <u>Budgeted Revenues</u> | <u>Actual Revenues</u> | <u>Difference</u> |
|--------------------------|------------------------------|----------------------------|-------------------|
| Other income | \$ 4,129,400 | \$ 5,215,616 | \$ 1,086,216 |
| Medicaid income | \$ 7,101,452 | \$ 6,320,912 | \$ (780,540) |
| Educational program fees | \$ 14,435,881 | \$ 13,156,910 | \$ (1,278,971) |

Other income increased due to a 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 due to COVID-19 and not increasing enrollment at the new Chelsea location as quickly as had been expected.

Budgetary expenditures were \$1,081,489 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> |
|---|----------------------------------|--------------------------------|-------------------|
| Employee benefits | \$ 3,148,788 | \$ 7,315,301 | \$ (4,166,513) |
| Professional fees and contract services | \$ 1,005,000 | \$ 718,664 | \$ 286,336 |
| Rent | \$ 1,517,500 | \$ 1,108,298 | \$ 409,202 |
| Utilities | \$ 430,500 | \$ 246,180 | \$ 184,320 |
| Debt service | \$ 275,000 | \$ 485,511 | \$ (210,511) |
| Capital outlay | \$ 3,127,500 | \$ 1,200,134 | \$ 1,927,366 |

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 until November 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. Utilities was below budget due to not moving into the new location until November. 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 under budget due to not starting the construction at the 100 Revere Beach Parkway location.

Overall, the actual change in fund balances was \$2,285,477 lower than the budgetary change in fund balances due to the reasons explained above from lower revenues than had been budgeted and having higher expenditures than had been budgeted.

F. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The Collaborative's investment in capital assets for its governmental activities as of June 30, 2020, amounts to \$10,987,151 (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 \$753,468 or 7.4%.

Major capital asset events during the current fiscal year included construction at the new location as well as 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>2020</u> | <u>2019</u> |
| Leasehold improvements | \$ 1,200,219 | \$ 24,413 |
| Land improvements | 468,892 | 490,701 |
| Furniture and equipment | 473,089 | 128,926 |
| Logo development costs | - | - |
| Building | 3,897,684 | 4,047,835 |
| Land | 1,157,580 | 1,157,580 |
| Construction in progress | 20,085 | 500,996 |
| Building improvements | <u>3,769,602</u> | <u>3,883,232</u> |
| Total | <u>\$ 10,987,151</u> | <u>\$ 10,233,683</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, 2020, the Collaborative had total long-term debt outstanding of \$9,980,235. 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>2020</u> | <u>2019</u> |
| Bonds payable | \$ 9,980,235 | \$ 10,192,326 |
| Total Outstanding Long-Term Debt | <u>\$ 9,980,235</u> | <u>\$ 10,192,326</u> |

During the current fiscal year, the Collaborative's total long-term debt decreased by \$212,091 or 2.1%. 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).

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, 2020, the proportionate share of the net pension liability associated with the Collaborative was \$15,918,451 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, 2020, the proportionate share of the net pension liability associated with the Collaborative was \$19,151,292 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 32 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, 2020, the Collaborative contributed \$100,000 to the Trust set up to set funds aside to help fund the other postemployment benefits liability. At June 30, 2020, an independent actuarial analysis determined that the Collaborative's future liability for these other postemployment benefits or net other postemployment benefits obligation was \$8,453,037. 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 59-65, 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 2020-2021 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 Program and retroactive wages for two previous years when the contract with the professionals was ratified.
- Nominal increases to the Commonwealth of Massachusetts' Department of Developmental Services and MassHealth/Medicaid funding, while costs to deliver these services are rapidly increasing.

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

During the current fiscal year, the fund balance in the general fund decreased by \$2,199,439 to \$6,403,205. Included in this total amount are \$120,054 in prepaid expenses reported as nonspendable and \$2,457,068 in funds committed by the Board. These items are reappropriated in the 2020-2021 budget. All of these factors were considered in preparing the Collaborative's budget for the 2021 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
201 Crescent Avenue
Chelsea, Massachusetts 02150

SHORE EDUCATIONAL COLLABORATIVE
STATEMENT OF NET POSITION
JUNE 30, 2020

| | <u>Primary Government</u> | |
|--|------------------------------------|---------------------------|
| | <u>Governmental Activities</u> | <u>Component Unit</u> |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,145,320 | \$ 52,511 |
| Accounts receivable | 3,394,112 | - |
| Other receivables | 4,395 | - |
| Due from component unit | 30,000 | - |
| Prepaid expenses | 120,054 | - |
| TOTAL CURRENT ASSETS | 7,693,881 | 52,511 |
| Noncurrent assets: | | |
| Restricted cash | 1,795,253 | - |
| Capital assets, not being depreciated | 1,177,665 | - |
| Capital assets, net of accumulated depreciation | 9,809,486 | - |
| TOTAL NONCURRENT ASSETS | 12,782,404 | - |
| TOTAL ASSETS | 20,476,285 | 52,511 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Net other postemployment benefits liability related | 160,291 | - |
| Accumulated decrease in fair value of hedging derivative | 531,056 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 691,347 | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 21,167,632 | 52,511 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 337,135 | - |
| Accrued salaries and fringe benefits | 696,800 | - |
| Accrued expenses | 255,598 | - |
| Due to primary government | - | 30,000 |
| Current portion of long-term debt | 289,556 | - |
| TOTAL CURRENT LIABILITIES | 1,579,089 | 30,000 |
| Noncurrent liabilities: | | |
| Derivative instrument liability | 531,056 | - |
| Long-term debt | 9,690,679 | - |
| Net other postemployment benefits liability | 8,453,037 | - |
| TOTAL NONCURRENT LIABILITIES | 18,674,772 | - |
| TOTAL LIABILITIES | 20,253,861 | 30,000 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Net other postemployment benefits liability related | 759,814 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 759,814 | - |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 21,013,675 | 30,000 |
| NET POSITION | | |
| Net investment in capital assets | 2,802,169 | - |
| Restricted for: | | |
| Giving Tree Fund | 1,143 | - |
| Capital projects | 1,795,253 | - |
| Unrestricted (deficit) | (4,444,608) | 22,511 |
| TOTAL NET POSITION | \$ 153,957 | \$ 22,511 |

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

SHORE EDUCATIONAL COLLABORATIVE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

| Functions/Programs | Expenses | Program Revenues | | | Net Revenue (Expense) and Change in Net Position | |
|---|----------------------|-------------------------|--|--|---|------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government Governmental Activities | Component Unit |
| Primary Government: | | | | | | |
| Governmental activities: | | | | | | |
| Adult day program | \$ 10,866,949 | \$ 6,329,335 | \$ 3,932,710 | \$ - | \$ (604,904) | \$ - |
| Student services | 14,576,609 | 10,769,676 | 3,101,397 | - | (705,536) | - |
| Professional development | 537,073 | 196,353 | 4,446 | - | (336,274) | - |
| Client workshop | 44,985 | 192 | - | - | (44,793) | - |
| Fiscal agent services | 7,063 | - | 5,862 | - | (1,201) | - |
| Medicaid municipal billing services | 275,930 | 96,146 | 40,165 | - | (139,619) | - |
| General and administrative | 2,358,090 | 45,000 | 257,840 | - | (2,055,250) | - |
| TOTAL PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES | \$ 28,666,699 | \$ 17,436,702 | \$ 7,342,420 | \$ - | (3,887,577) | - |
| Component unit: | | | | | | |
| Shore Educational Collaborative Foundation, Inc. | \$ 128 | \$ - | \$ 2,360 | \$ - | - | 2,232 |
| TOTAL COMPONENT UNIT | \$ 128 | \$ - | \$ 2,360 | \$ - | - | 2,232 |
| General revenues: | | | | | | |
| Other income | | | | | 1,824 | - |
| Interest income | | | | | 8,012 | - |
| Overhead income | | | | | 2,082,970 | - |
| Rental income | | | | | 14,400 | - |
| TOTAL GENERAL REVENUES | | | | | 2,107,206 | - |
| Change in net position | | | | | (1,780,371) | 2,232 |
| Net position - beginning of year | | | | | 1,934,328 | 20,279 |
| NET POSITION - END OF YEAR | | | | | \$ 153,957 | \$ 22,511 |

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

SHORE EDUCATIONAL COLLABORATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

| | General Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 4,144,177 | \$ - | \$ 1,143 | \$ 4,145,320 |
| Accounts receivable | 3,394,112 | - | - | 3,394,112 |
| Other receivables | 4,395 | - | - | 4,395 |
| Due from Foundation | 30,000 | - | - | 30,000 |
| Prepaid expenses | 120,054 | - | - | 120,054 |
| Restricted cash | - | 1,795,253 | - | 1,795,253 |
| TOTAL ASSETS | \$ 7,692,738 | \$ 1,795,253 | \$ 1,143 | \$ 9,489,134 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 337,135 | \$ - | \$ - | \$ 337,135 |
| Accrued salaries and fringe benefits | 696,800 | - | - | 696,800 |
| Accrued expenses | 255,598 | - | - | 255,598 |
| TOTAL LIABILITIES | 1,289,533 | - | - | 1,289,533 |
| Fund balances: | | | | |
| Nonspendable: | | | | |
| Prepaid expenses | 120,054 | - | - | 120,054 |
| Restricted: | | | | |
| Giving Tree Fund | - | - | 1,143 | 1,143 |
| Capital projects | - | 1,795,253 | - | 1,795,253 |
| Committed: | | | | |
| 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 |
| Adult day program | 110,883 | - | - | 110,883 |
| Fringe benefits | 45,295 | - | - | 45,295 |
| Other purposes | 32,863 | - | - | 32,863 |
| Unassigned | 3,826,083 | - | - | 3,826,083 |
| TOTAL FUND BALANCES | 6,403,205 | 1,795,253 | 1,143 | 8,199,601 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 7,692,738 | \$ 1,795,253 | \$ 1,143 | \$ 9,489,134 |

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, 2020

| | General Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------------|-----------------------------------|--------------------------------|
| REVENUES | | | | |
| Educational program fees | \$ 13,156,910 | \$ - | \$ - | \$ 13,156,910 |
| Medicaid income | 6,320,912 | - | - | 6,320,912 |
| Medicaid municipal billing services | 96,146 | - | - | 96,146 |
| Administrative overhead income | 2,082,970 | - | - | 2,082,970 |
| Other income | 5,215,616 | - | 5,762 | 5,221,378 |
| Interest income | 7,921 | 91 | - | 8,012 |
| TOTAL REVENUES | 26,880,475 | 91 | 5,762 | 26,886,328 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries | 14,010,156 | - | 1,500 | 14,011,656 |
| Employee benefits | 7,315,301 | - | - | 7,315,301 |
| Payroll taxes | 733,712 | - | - | 733,712 |
| Advertising | 156 | - | - | 156 |
| Professional fees and contract services | 718,664 | - | 3,125 | 721,789 |
| Supplies | 292,187 | - | 833 | 293,020 |
| Telephone | 146,613 | - | - | 146,613 |
| Postage | 5,877 | - | 65 | 5,942 |
| Rent | 1,108,298 | - | - | 1,108,298 |
| Staff training | 64,940 | - | - | 64,940 |
| Rental of equipment | 18,738 | - | - | 18,738 |
| Transportation | 43,563 | - | - | 43,563 |
| Printing and publications | 13,861 | - | - | 13,861 |
| Food | 116,756 | - | - | 116,756 |
| Repairs and maintenance | 217,539 | - | - | 217,539 |
| Utilities | 246,180 | - | - | 246,180 |
| Insurance | 91,438 | - | - | 91,438 |
| Client recreation | 17,593 | - | - | 17,593 |
| Miscellaneous | 49,966 | - | - | 49,966 |
| Administrative overhead charges | 2,082,731 | - | 239 | 2,082,970 |
| Total current expenditures | 27,294,269 | - | 5,762 | 27,300,031 |
| Debt service: | | | | |
| Principal | 212,091 | - | - | 212,091 |
| Interest | 273,420 | - | - | 273,420 |
| Total debt service | 485,511 | - | - | 485,511 |
| Capital outlay | 1,200,134 | - | - | 1,200,134 |
| TOTAL EXPENDITURES | 28,979,914 | - | 5,762 | 28,985,676 |
| EXCESS OF EXPENDITURES OVER REVENUES | (2,099,439) | 91 | - | (2,099,348) |
| OTHER FINANCING SOURCES (USES) | | | | |
| OPEB obligation funding | (100,000) | - | - | (100,000) |
| TOTAL OTHER FINANCING SOURCES (USES) | (100,000) | - | - | (100,000) |
| NET CHANGE IN FUND BALANCES | (2,199,439) | 91 | - | (2,199,348) |
| Fund balances - beginning | 8,602,644 | 1,795,162 | 1,143 | 10,398,949 |
| FUND BALANCES - ENDING | \$ 6,403,205 | \$ 1,795,253 | \$ 1,143 | \$ 8,199,601 |

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

SHORE EDUCATIONAL COLLABORATIVE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total fund balances - governmental funds (page 16) \$ 8,199,601

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. 10,987,151

Some assets and liabilities are not financial resources used in governmental
activities and, therefore, are not reported in governmental funds. (531,056)

The statement of net position includes certain deferred inflows of resources
and deferred outflows of resources that will be amortized over future periods.
In governmental funds, these amounts are not reported. (68,467)

Long-term liabilities, such as bonds payable and net other postemployment
benefits liability, are not due and payable in the current period and,
therefore, are not reported in the governmental funds. (18,433,272)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 153,957

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

SHORE EDUCATIONAL COLLABORATIVE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Net change in fund balances - total governmental funds (page 17) \$(2,199,348)

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. 753,468

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. 212,091

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. (546,582)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$(1,780,371)

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

SHORE EDUCATIONAL COLLABORATIVE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020

| | Other Postemployment Benefits <u>Trust Fund</u> |
|--|--|
| ASSETS | |
| Investments: | |
| Mutual funds | \$ <u>364,607</u> |
| TOTAL ASSETS | 364,607 |
| NET POSITION | |
| Restricted for other postemployment benefits | <u>364,607</u> |
| TOTAL NET POSITION | \$ <u>364,607</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, 2020

| | Other Postemployment Benefits Trust Fund |
|--|---|
| ADDITIONS: | |
| Contributions: | |
| Employer contributions to the trust | \$ 100,000 |
| TOTAL CONTRIBUTIONS | 100,000 |
| Net investment income: | |
| Investment income | 15,296 |
| Less: investment expense | (715) |
| NET INVESTMENT INCOME | 14,581 |
| TOTAL ADDITIONS | 114,581 |
| DEDUCTIONS: | |
| Other postemployment benefits payments | - |
| TOTAL DEDUCTIONS | - |
| CHANGE IN NET POSITION | 114,581 |
| NET POSITION AT BEGINNING OF YEAR | 250,026 |
| NET POSITION AT END OF YEAR | \$ 364,607 |

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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 appointed by 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 2020 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, 2020

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, 2020

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, 2020

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 general operating fund of the Collaborative. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Projects fund - is the fund that accounts for funds received from the issuance of long-term debt to be expended on various capital projects approved by the Board of Directors.

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 agency 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, 2020

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, 2020

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, 2020, the following GASB pronouncements were implemented:

The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84 and A Supersession of GASB Statement No. 32*, which establishes requirements for determining a potential component unit. The adoption of GASB No. 97 does not have any impact on the Collaborative's financial statements.

The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective date for twelve months for these pronouncements in their entirety - GASB No's 89, 90, and 91. It postpones the effective date for twelve months for certain provisions of these pronouncements - GASB No's 92 and 93. It also postpones the effective date for eighteen months for GASB No. 87.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Principles (Continued)

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 2022. 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 2022. 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 2021. 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 2023. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 92, *Omnibus 2020*, 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.

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, 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.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is required to be implemented in fiscal year 2023. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is required to be implemented in fiscal year 2023. 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

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

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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020, no allowance for doubtful accounts was considered necessary as management considers all accounts receivable to be fully collectible.

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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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.

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 | 2-15 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 balances 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Government-Wide Financial Statements (Continued)

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.

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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Fund Financial Statements (Continued)

- 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, 2020.
- 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.

SHORE EDUCATIONAL COLLABORATIVE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020, the expenditures totaled \$728,766. 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 2.50%, and a health care cost trend rate of 4.5%. The Collaborative has a separate trust to invest funds in order to fund this liability. This trust is included in the fiduciary fund financial statements. See Note O.

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 \$10,987,151 are as follows:

| | |
|--|--------------------|
| Leasehold improvements | \$ 1,677,732 |
| Less: Accumulated amortization-leasehold improvements | (477,513) |
| Land improvements | 545,223 |
| Less: Accumulated depreciation-land improvements | (76,331) |
| Furniture and equipment | 2,060,591 |
| Less: Accumulated depreciation-furniture and equipment | (1,587,502) |
| Logo development costs | 20,000 |
| Less: Accumulated amortization-logo development costs | (20,000) |
| Building | 5,855,910 |
| Less: Accumulated depreciation-building | (1,958,226) |
| Land | 1,157,580 |
| Construction in progress | 20,085 |
| Building improvements | 5,472,780 |
| Less: Accumulated depreciation-building improvements | <u>(1,703,178)</u> |

Net adjustment to increase total fund balances - governmental funds to
arrive at net position of governmental activities

\$ 10,987,151

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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):

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". This net adjustment to reduce total fund balances - governmental funds to arrive at net position of governmental activities of \$531,056 represents the interest rate swap derivative instrument that is recorded as a liability.

Another element of that reconciliation explains that "the statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In government funds, these amounts are not reported". The details of this \$68,467 difference are as follows:

| | |
|--|------------------|
| Deferred outflows-net other postemployment benefits liability | \$ (160,291) |
| Deferred inflows-net other postemployment benefits liability | 759,814 |
| Deferred outflows-accumulated decrease in fair value of hedging derivative | <u>(531,056)</u> |
| Net adjustment to reduce total fund balances - governmental funds to arrive at net position of governmental activities | <u>\$ 68,467</u> |

The final element of that reconciliation explains that "long-term liabilities, such as bonds payable and net other postemployment benefits liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds". The details of this \$18,433,272 difference are as follows:

| | |
|--|----------------------|
| Bonds payable due within one year | \$ 289,556 |
| Bonds payable due in more than one year | 9,690,679 |
| Total other postemployment benefits liability | <u>8,453,037</u> |
| Net adjustment to reduce total fund balances - governmental funds to arrive at net position of governmental activities | <u>\$ 18,433,272</u> |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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:

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 \$753,468 difference are as follows:

| | |
|---|-------------------|
| Capital outlay | \$ 1,200,134 |
| Depreciation expense | <u>(446,666)</u> |
| Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position of governmental activities | <u>\$ 753,468</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". This net adjustment to increase net change in fund balances – total governmental funds to arrive at change in net position of governmental activities of \$212,091 represents principal repayments of the bonds payable.

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 \$546,582 difference are as follows:

| | |
|---|-------------------|
| Net change in net other postemployment benefits liability | \$ 633,416 |
| Net change in deferred outflow/(inflow) of resources related to net other postemployment benefits liability | <u>(86,834)</u> |
| Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net position of governmental activities | <u>\$ 546,582</u> |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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.
- 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.
- 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, 2020, there were no budget amendments that were required.

Excess of Appropriations over Expenditures

For the year ended June 30, 2020, expenditures in the general fund exceeded appropriations by \$1,081,489 due to higher than expected pension costs from MTRS and MSERS during the fiscal year ended June 30, 2020. These over expenditures led to the overall decrease in fund balances.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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.

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, 2020, the Collaborative's bank balances were \$5,992,375 and \$5,491,196 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2020, the Foundation's bank balance was \$52,511 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, 2020 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 | \$ 979,454 | 28.9% |
| Commonwealth of Massachusetts: | | |
| Department of Elementary and Secondary Education | 717 | 0.0 |
| Commonwealth Care | 30,628 | 0.9 |
| Massachusetts Commission for the Blind | 3,523 | 0.1 |
| Department of Health & Human Services | 1,890,063 | 55.7 |
| Department of Developmental Services | <u>267,013</u> | <u>7.9</u> |
| Total Commonwealth of Massachusetts | 2,191,944 | 64.6 |
| Other | <u>222,714</u> | <u>6.5</u> |
| Total accounts receivable, net | <u>\$3,394,112</u> | <u>100.0%</u> |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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.

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, 2020:

| | |
|-------------------------|-------------------|
| Accrued rent | \$ 149,101 |
| Accrued legal and audit | 42,800 |
| Accrued interest | <u>63,697</u> |
| Total accrued expenses | <u>\$ 255,598</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, 2020 the bank's prime rate was 2.75%. 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, 2020, the Collaborative did not draw on this line. The bank will review the line annually with the next review occurring on February 28, 2021.

A summary of changes of the demand line of credit consists of the following at June 30, 2020:

| | Balance July 1, 2019 | Additions | Repayments | Balance June 30, 2020 |
|-----------------------|----------------------------|-------------|-------------|-----------------------------|
| Demand line of credit | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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 funds 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, 2020, the balance in these investments consisted of mutual funds with a fair value of \$364,607. 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, 2020 was \$15,296. There were no realized gains or losses during the year ended June 30, 2020. There were \$715 of investment fees charged for the year ended June 30, 2020.

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, 2020

NOTE J - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

| | Balance July 1, 2019 | Additions | Deletions | Transfers/ Reclassifi- cations | Balance June 30, 2020 |
|--|----------------------------|-------------------|-------------|--------------------------------------|-----------------------------|
| Governmental activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 1,157,580 | \$ - | \$ - | \$ - | \$ 1,157,580 |
| Construction in progress | 500,996 | - | - | (480,911) | 20,085 |
| TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED | 1,658,576 | - | - | (480,911) | 1,177,665 |
| Capital assets, being depreciated: | | | | | |
| Leasehold improvements | 444,867 | 908,564 | - | 324,301 | 1,677,732 |
| Land improvements | 545,223 | - | - | - | 545,223 |
| Furniture and equipment | 1,638,771 | 265,210 | - | 156,610 | 2,060,591 |
| Logo development costs | 20,000 | - | - | - | 20,000 |
| Building | 5,855,910 | - | - | - | 5,855,910 |
| Building improvements | 5,446,420 | 26,360 | - | - | 5,472,780 |
| TOTAL CAPITAL ASSETS, BEING DEPRECIATED | 13,951,191 | 1,200,134 | - | 480,911 | 15,632,236 |
| Less accumulated depreciation for: | | | | | |
| Leasehold improvements | (420,454) | (57,059) | - | - | (477,513) |
| Land improvements | (54,522) | (21,809) | - | - | (76,331) |
| Furniture and equipment | (1,509,845) | (77,657) | - | - | (1,587,502) |
| Logo development costs | (20,000) | - | - | - | (20,000) |
| Building | (1,808,075) | (150,151) | - | - | (1,958,226) |
| Building improvements | (1,563,188) | (139,990) | - | - | (1,703,178) |
| TOTAL ACCUMULATED DEPRECIATION | (5,376,084) | (446,666) | - | - | (5,822,750) |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET | 8,575,107 | 753,468 | - | 480,911 | 9,809,486 |
| GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET | <u>\$ 10,233,683</u> | <u>\$ 753,468</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 10,987,151</u> |

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

| | |
|--|-------------------|
| Governmental activities: | |
| Adult day program | \$ 105,802 |
| Student services | 212,126 |
| Professional development | 6,239 |
| General and administrative | 122,499 |
| Total depreciation expense - governmental activities | <u>\$ 446,666</u> |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE K - OPERATING LEASES

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 was for seven years through May 31, 2020 and then was extended on July 9, 2019 for an additional 10 years commencing on June 1, 2020 until May 31, 2030. For the first seven months of the original 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 continued to increase \$5,303 a year until May 31, 2020. Starting June 1, 2020, the annual lease amount is \$301,182 and will increase \$8,484 per year until May 31, 2030.

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 Collaborative has the option to extend the lease for an additional term of five years.

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 will increase \$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 commenced on December 1, 2019 when the building was occupied by the Collaborative and the lease will continue through November 30, 2034. There are two successive options to extend the lease term for two additional five-year periods. The annual payment for December 1, 2019 through November 30, 2020 will be \$668,346. Starting December 1, 2020, the annual lease amount will increase 2% a year until November 30, 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.

Total rent expense for all operating leases for the year ended June 30, 2020 was \$1,108,298.

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, 2020 was \$21,540.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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,

| | |
|------------------------------|----------------------|
| 2021 | \$ 1,313,850 |
| 2022 | 1,139,242 |
| 2023 | 1,013,940 |
| 2024 | 1,036,613 |
| 2025 | 1,059,419 |
| 2026-2030 | 5,616,867 |
| 2031-2035 | <u>3,762,549</u> |
| Total minimum lease payments | <u>\$ 14,942,480</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, 2020

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% for those participating in Retirementplus, otherwise the withholdings are reduced to 6% plus 2% on earnings over \$30,000 a year 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, 2020. During the fiscal year ended June 30, 2020, 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, 2020

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, 2020, 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, 2020, the proportionate share of the net pension liability associated with the Collaborative was \$15,918,451. 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, 2019, 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, 2020, 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, 2019.

For the fiscal year ended June 30, 2020, the Collaborative recognized pension expense of \$1,930,389 and revenue of \$1,930,389 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, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

1. (a) 7.25% 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 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, 2020

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, updated to reflect post-retirement mortality through January 1, 2017.

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, 2019 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% | 4.9% |
| Core Fixed Income | 15.0 | 1.3 |
| Private Equity | 13.0 | 8.2 |
| Portfolio Completion Strategies | 11.0 | 3.9 |
| Real Estate | 10.0 | 3.6 |
| Value Added Fixed Income | 8.0 | 4.7 |
| Timber/Natural Resources | <u>4.0</u> | 4.1 |
| Total | <u>100.0%</u> | |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

Discount rate

The discount rate used to measure the total pension liability was 7.25%. 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 0.10% 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, 2019. 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 6.25% | Current Discount Rate 7.25% | 1% Increase to 8.25% |
|---------------|----------------------------|-----------------------------------|----------------------------|
| June 30, 2019 | <u>\$ 19,717,800</u> | <u>\$ 15,918,451</u> | <u>\$ 12,666,100</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, 2020, the Collaborative reported a payable to the MTRS of \$94,087 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, 2020

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, 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, 2020

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, 2012 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:

| | |
|------|------------|
| 2020 | \$ 496,545 |
| 2019 | 473,504 |
| 2018 | 447,179 |
| 2017 | 398,493 |

The Collaborative had no additional contractually required contribution to the MSERS for the fiscal year ended June 30, 2020. The Commonwealth of Massachusetts was responsible for any remaining contractually required contributions to MSERS during the fiscal year ended June 30, 2020.

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

At June 30, 2020, 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, 2020, the proportionate share of the net pension liability associated with the Collaborative was \$19,151,292. 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, 2019, 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, 2020, the Collaborative's proportionate share of the net pension liability represented 0.13% of the total net pension liability for MSERS which had not changed from its portion measured as of June 30, 2019.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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, 2020, the Collaborative recognized pension expense of \$3,181,315 and revenue of \$3,181,315 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, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

1. (a) 7.25% 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, updated to reflect actual experience from 2012 through 2016 for post-retirement mortality.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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, 2019 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% | 4.9% |
| Core Fixed Income | 15.0 | 1.3 |
| Private Equity | 13.0 | 8.2 |
| Portfolio Completion Strategies | 11.0 | 3.9 |
| Real Estate | 10.0 | 3.6 |
| Value Added Fixed Income | 8.0 | 4.7 |
| Timber/Natural Resources | <u>4.0</u> | 4.1 |
| Total | <u>100.0%</u> | |

Discount rate

The discount rate used to measure the total pension liability was 7.25%. 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 0.10% change in the discount rate used from the previous fiscal year.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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, 2019. 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 6.25% | Current Discount Rate 7.25% | 1% Increase to 8.25% |
|---------------|----------------------------|-----------------------------------|----------------------------|
| June 30, 2019 | <u>\$ 25,391,600</u> | <u>\$ 19,151,292</u> | <u>\$13,734,700</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, 2020, the Collaborative reported payables to the MSERS of \$18,998 for legally required employer contributions and \$29,350 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, 2020, 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, 2020

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, 2020:

| | Balance July 1, 2019 | <u>Additions</u> | <u>Reductions</u> | Balance June 30, 2020 | Due Within One Year |
|--|----------------------------|--------------------|-------------------|-----------------------------|---------------------------|
| Bonds payable | | | | | |
| Refinanced building and land acquisition | \$ 8,787,980 | \$ - | \$ 165,319 | \$ 8,622,661 | \$ 225,564 |
| Renovation | <u>1,404,346</u> | <u>-</u> | <u>46,772</u> | <u>1,357,574</u> | <u>63,992</u> |
| Total bonds payable | 10,192,326 | - | 212,091 | 9,980,235 | 289,556 |
| Net other postemployment benefits liability | 7,819,621 | 815,600 | 182,184 | 8,453,037 | - |
| Derivative instrument- interest rate swap | <u>29,793</u> | <u>501,263</u> | <u>-</u> | <u>531,056</u> | <u>-</u> |
| Total | <u>\$18,041,740</u> | <u>\$1,316,863</u> | <u>\$ 394,275</u> | <u>\$18,964,328</u> | <u>\$ 289,556</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.

COVID-19 Relief Agreement

In April 2020, the Collaborative signed two COVID-19 Relief Agreements with TD Bank to provide for a three-month deferral on payments of principal and interest starting in April 2020 for both the refinanced building and land acquisition bond and the renovation bond. During the deferral period, the interest would continue to accrue on the principal balance on the bonds. Interest accrued during this time period would then be billed to the Collaborative in three consecutive monthly installments commencing on July 1, 2020. In addition, the current maturity date of the bonds would be extended for three additional months. The Collaborative was still responsible for making all interest payments under the swap agreement during this time period. The deferred interest during the time period from April to June 2020 of \$49,649 is included in accrued expenses on the statement of net position and the governmental funds balance sheet. It was subsequently paid in monthly payments of \$16,550 from July to September 2020.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE N - LONG-TERM LIABILITIES (Continued)

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 after the three-month COVID-19 Relief Agreement is February 9, 2047. 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 outstanding principal balance. 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. Principal payments were not made for April through June 2020 due to the COVID-19 Relief Agreement.

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 funds balance sheet.

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 February 9, 2047, 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 previous expired interest rate swaps. The swap was entered into at the same time the bond was issued (November 2016). As the other interest rate swaps matured, 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Refinanced Building and Land Acquisition (Continued)

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

Terms (Continued)

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, 2020, the swap agreement has a notional amount of \$8,566,900 and the net amount paid on the interest rate swap during the fiscal year ended June 30, 2020 was \$20,809.

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.

Fair Value

The swap had a negative fair value of \$531,056 as of June 30, 2020, representing a change in fair value of \$501,263 from June 30, 2019. 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Refinanced Building and Land Acquisition (Continued)

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

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, 2020, 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 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, 2020.

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.

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 after the COVID-19 Relief Agreement is February 9, 2037. 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE N - LONG-TERM LIABILITIES (Continued)

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. See Note R for a violation of these covenants at June 30, 2020. 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, 2020, 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> |
|-----------------------------|---------------------|---------------------|-------------------|---------------------|
| 2021 | \$ 289,556 | \$ 168,272 | \$ 95,506 | \$ 553,334 |
| 2022 | 297,541 | 162,920 | 92,946 | 553,407 |
| 2023 | 305,749 | 157,419 | 90,317 | 553,485 |
| 2024 | 314,186 | 151,764 | 87,617 | 553,567 |
| 2025 | 322,835 | 145,954 | 84,843 | 553,632 |
| 2026-2030 | 1,752,901 | 923,357 | 115,298 | 2,791,556 |
| 2031-2035 | 2,008,436 | 788,334 | - | 2,796,770 |
| 2036-2040 | 1,953,633 | 506,098 | - | 2,459,731 |
| 2041-2045 | 2,033,916 | 240,924 | - | 2,274,840 |
| 2046-2050 | <u>701,482</u> | <u>16,113</u> | <u>-</u> | <u>717,595</u> |
| | <u>\$ 9,980,235</u> | <u>\$ 3,261,155</u> | <u>\$ 566,527</u> | <u>\$13,807,917</u> |

The total interest incurred by the Collaborative during the current fiscal year related to the bonds payable was \$273,420. Interest expense was charged to functions/programs of the Collaborative as follows:

| | |
|----------------------------|-------------------|
| Governmental activities: | |
| Adult day program | \$ 52,080 |
| Student services | 184,884 |
| Professional development | 10,416 |
| General and administrative | <u>26,040</u> |
| | <u>\$ 273,420</u> |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

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.

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, 2020, the Collaborative contributed \$182,184 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 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, 2020, the Collaborative pre-funded future OPEB liabilities totaling \$100,000 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, 2020, the balance of the fund totaled \$364,607.

Plan members contribute nothing while active.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Investment Policy

The Collaborative has not established a formal investment policy. As of June 30, 2020, 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, 2020 was 5.01%.

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. Accordingly, the net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2019, which was updated to June 30, 2020.

Plan Membership

The following is the Plan's membership at June 30, 2020:

| | |
|--|------------|
| Active members | 211 |
| Inactive employees or beneficiaries currently receiving benefits | <u>32</u> |
| Total | <u>243</u> |

Components of Net OPEB Liability

The components of the net OPEB liability of the Collaborative at June 30, 2020 were as follows:

| | |
|--|---------------------|
| Total OPEB liability | \$ 8,817,644 |
| Less: OPEB Plan's fiduciary net position | <u>(364,607)</u> |
| Net OPEB liability | <u>\$ 8,453,037</u> |

| | |
|---|-------|
| The OPEB Plan's fiduciary net position as a percentage of the total OPEB liability | 4.13% |
|---|-------|

Significant Actuarial Methods and Assumptions

The total OPEB liability in the July 1, 2019 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods, including the measurement date that was updated to June 30, 2020:

| | |
|----------------|---|
| Valuation date | Actuarially Determined Contribution was calculated as of July 1, 2019 |
|----------------|---|

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Significant Actuarial Methods and Assumptions (Continued)

| | |
|----------------------------|--|
| Actuarial cost method: | Individual Entry Age Normal |
| Asset valuation method: | Market value of assets as of the measurement date of June 30, 2020 |
| Investment rate of return: | 6.08%, net of OPEB Plan investment expense, including inflation |
| Discount rate: | 3.50%, net of OPEB plan investment expense, including inflation |
| Inflation rate: | 2.50% as of June 30, 2020 and for future periods |
| Salary increases: | 3.00% annually as of June 30, 2020 and for future periods |
| Municipal bond rate: | 2.66% as of June 30, 2020 |
| Mortality rates: | |
| Pre-Retirement Mortality: | <p><u>Non-teachers:</u> RP-2014 Mortality table for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females</p> <p><u>Teachers:</u> RP-2014 Mortality table for White Collar Employees projected generationally with scale MP-2016 for males and females</p> |
| 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, set forward 1 year for 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> |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Rate of Return

For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 5.01%. 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 3.95% is added to the expected inflation of 2.50% less investment expense of 0.37% to produce the long-term expected nominal rate of return of 6.08%. 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, 2020 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% | 4.80% |
| Domestic Equity - Small/Mid Cap | 0.0 | 5.29 |
| International Equity - Developed Market | 15.9 | 5.45 |
| International Equity - Emerging Market | 0.0 | 6.42 |
| Domestic Fixed Income | 39.0 | 2.05 |
| International Fixed Income | 0.0 | 3.00 |
| Alternatives | 0.0 | 6.50 |
| Real Estate | 8.0 | 6.25 |
| Cash and cash equivalents | <u>0.0</u> | 0.00 |
| Total | <u>100.0%</u> | |

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50% as of June 30, 2020. 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 is applied to the projected benefits payments which the Fiduciary Net Position is expected to be sufficient to cover and the Municipal Bond Rate is applied thereafter. The Municipal Bond Rate is based on the S&P Municipal Bond 20 - Year High Grade Index (SAPIHG), which was 2.66% as of June 30, 2020. The S&P Municipal Bond 20 - Year High Grade Index is the index rate for 20 year, tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2019 | \$ 8,069,647 | \$ 250,026 | \$ 7,819,621 |
| Changes for the year: | | | |
| Service cost | 569,313 | - | 569,313 |
| Interest | 300,938 | - | 300,938 |
| Differences between actual and expected experience | (40,070) | - | (40,070) |
| Net investment income | - | 14,581 | (14,581) |
| Employer contributions | - | 100,000 | (100,000) |
| Benefit payments | <u>(82,184)</u> | <u>-</u> | <u>(82,184)</u> |
| Net change | <u>747,997</u> | <u>114,581</u> | <u>633,416</u> |
| Balances at June 30, 2020 | <u>\$ 8,817,644</u> | <u>\$ 364,607</u> | <u>\$ 8,453,037</u> |

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

The following presents the net OPEB liability and service cost of the Collaborative, calculated using the discount rate of 3.50%, as well as what the Collaborative's net OPEB liability and service cost 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>\$ 10,180,401</u> | <u>\$ 8,453,037</u> | <u>\$ 7,104,074</u> |
| Service cost | <u>\$ 741,061</u> | <u>\$ 569,313</u> | <u>\$ 442,879</u> |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

The following presents the net OPEB liability and service cost of the Collaborative, calculated using the current healthcare cost trend rate of 4.50%, as well as what the net OPEB liability and service cost 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:

| | 1% Decrease to 3.50% | Current Trend Rate 4.50% | 1% Increase to 5.50% |
|--------------------|----------------------------|--------------------------------|----------------------------|
| Net OPEB liability | <u>\$ 6,986,952</u> | <u>\$ 8,453,037</u> | <u>\$10,399,252</u> |
| Service cost | <u>\$ 441,228</u> | <u>\$ 569,313</u> | <u>\$ 749,929</u> |

Changes in Assumptions

There were no changes in assumptions from June 30, 2019 to June 30, 2020.

Changes in Plan Provisions

There were no changes in Plan provisions from June 30, 2019 to June 30, 2020.

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

For the year ended June 30, 2020, the Collaborative recognized OPEB expense of \$728,766, which was determined as follows:

| | |
|---|-------------------|
| Service cost | \$ 569,313 |
| Interest | 300,938 |
| Deferred outflows from Plan experience | 2,403 |
| Deferred inflows from changes of assumptions | (126,409) |
| Deferred outflows from earnings on Plan investments | 718 |
| Deferred inflows from earnings on Plan | <u>(18,197)</u> |
| OPEB expense | <u>\$ 728,766</u> |

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

At June 30, 2020, 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 | \$ 157,398 | \$ (127,756) |
| Changes of assumptions | - | (632,042) |
| Net difference between projected and actual earnings on OPEB plan investments | <u>2,893</u> | <u>(16)</u> |
| Total | <u>\$ 160,291</u> | <u>\$ (759,814)</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,

| | |
|------------------------------|---------------------|
| 2021 | \$ (123,288) |
| 2022 | (123,288) |
| 2023 | (123,289) |
| 2024 | (123,280) |
| 2025 | (100,652) |
| Thereafter | <u>(5,726)</u> |
| Net decrease in OPEB expense | <u>\$ (599,523)</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, 2020

NOTE P - CONCENTRATIONS

At June 30, 2020, approximately 42% of the Collaborative's employees work under collective bargaining agreements. 50% of these employees are represented by unions whose existing agreements will expire on August 31, 2022. 50% 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 - BOND COVENANT VIOLATION

As stated in Note N, the bonds are subject to certain covenants. One of the covenants is that the Collaborative must maintain an annual debt service coverage ratio of 1.15 to 1.0. At June 30, 2020, the Collaborative did not meet this covenant. As a result, the Collaborative was in default of the bonds agreement. When the Collaborative is in default of the bonds agreement, TD Bank shall have all the rights and remedies of a secured party under the Uniform Commercial Code of Massachusetts including, without limitation, the right to take possession of the collateral by entering upon any premises on which the collateral may be situated and remove the same therefrom. In addition, the principal amount of the bonds together with accrued interest may be declared due and payable. TD Bank expressly waived this event of default for the measurement period as calculated June 30, 2020 in a letter dated December 22, 2020 and the Collaborative agreed to the waiver on December 23, 2020.

NOTE S - COVID-19

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Collaborative, COVID-19 has had an impact on various parts of its FY2020 operations and financial results including, but not limited to, additional costs for emergency preparedness, disease control and containment, shortages of staff, loss of revenue due to reductions in certain revenue streams, and fluctuations in the value of its investment portfolios. Management believes the Collaborative is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of June 30, 2020.

NOTE T - SUBSEQUENT EVENTS

See Note R for a bond covenant violation waiver received after year end.

Management has evaluated the impact of all other subsequent events on the Collaborative through December 23, 2020, 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, 2020

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, 2020:

| <u>Employee</u> | <u>Duties</u> | <u>Total Compensation</u> |
|--------------------|------------------------------|-------------------------------|
| Jacquelyn Clark | Executive Director | \$179,668 |
| Robert Alconada | Assistant Executive Director | \$148,897 |
| Eugene Lacava | Chief Information Officer | \$122,897 |
| Kathleen Dalrymple | Teacher | \$118,241 |
| Lori Maida | HR Administrator | \$116,822 |

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, 2020 were \$10,866,949.

The Amounts Expended on Administration and Overhead

The amounts expended on administration and overhead for the fiscal year ended June 30, 2020 were \$2,358,090.

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

At June 30, 2020, 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, 2020

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 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, 2020, the Collaborative's capital plan included continued purchases of technology for the student services and adult day programs as well as renovations and new furniture and equipment to its new leased Chelsea location. As of June 30, 2020, the Collaborative has begun a project to renovate its other Chelsea location that it owns. 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, 2020 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 other capital projects that are planned for fiscal year 2021 include the following:

- Device repair and replacement of approximately \$25,000
- Purchase of new accounting software for between \$50,000 to \$100,000
- Purchase of cloud services for approximately \$30,000
- Continued network upgrades of approximately \$20,000
- 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
- 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

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, 2020

The Collaborative's Capital Plan (Continued)

- 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 – FY20

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

The Board of Directors voted to approve and retain \$3,826,083 as the amount designated as Cumulative Surplus from general funds remaining in the Collaborative's accounts as of June 30, 2020. This amount does not exceed the limit of 25% of general fund expenditures for the year as shown in the following:

| | | <u>Pages in Financial Statements</u> |
|-----|---|--|
| (A) | Voted Cumulative Surplus as of 6/30/19 | \$ 8,602,644 17 |
| (B) | 1 Amount of (A) used to support the FY20 Budget | \$(2,577,122) |
| | 2 Amount of (A) returned to member districts | <u>-</u> |
| | | (2,577,122) |
| (C) | Unexpended FY20 General Funds | <u>(2,199,439)</u> 17 |
| (D) | Cumulative Surplus as of 6/30/20 | <u>\$ 3,826,083</u> |
| (E) | FY20 Total General Fund Expenditures | \$ 28,979,914 17 |
| (F) | FY20 Cumulative Surplus Percentage | 13.2% 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, 2020

| | Budgeted Amounts | | | Variance with Final Budget-Positive (Negative) |
|---|------------------|---------------|---------------|---|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Educational program fees | \$ 14,435,881 | \$ 14,435,881 | \$ 13,156,910 | \$ (1,278,971) |
| Medicaid income | 7,101,452 | 7,101,452 | 6,320,912 | (780,540) |
| Medicaid municipal billing services | 225,000 | 225,000 | 96,146 | (128,854) |
| Administrative overhead income | 2,086,230 | 2,086,230 | 2,082,970 | (3,260) |
| Other income | 4,129,400 | 4,129,400 | 5,215,616 | 1,086,216 |
| Interest income | 6,500 | 6,500 | 7,921 | 1,421 |
| TOTAL REVENUES | 27,984,463 | 27,984,463 | 26,880,475 | (1,103,988) |
| Expenditures: | | | | |
| Current: | | | | |
| Salaries | 14,095,742 | 14,095,742 | 14,010,156 | 85,586 |
| Employee benefits | 3,148,788 | 3,148,788 | 7,315,301 | (4,166,513) |
| Payroll taxes | 749,906 | 749,906 | 733,712 | 16,194 |
| Advertising | 8,000 | 8,000 | 156 | 7,844 |
| Professional fees and contract services | 1,005,000 | 1,005,000 | 718,664 | 286,336 |
| Supplies | 403,750 | 403,750 | 292,187 | 111,563 |
| Telephone | 123,500 | 123,500 | 146,613 | (23,113) |
| Postage | 19,500 | 19,500 | 5,877 | 13,623 |
| Rent | 1,517,500 | 1,517,500 | 1,108,298 | 409,202 |
| Staff training | 57,000 | 57,000 | 64,940 | (7,940) |
| Rental of equipment | 17,200 | 17,200 | 18,738 | (1,538) |
| Transportation | 86,200 | 86,200 | 43,563 | 42,637 |
| Printing and publications | 25,000 | 25,000 | 13,861 | 11,139 |
| Food | 170,700 | 170,700 | 116,756 | 53,944 |
| Repairs and maintenance | 312,000 | 312,000 | 217,539 | 94,461 |
| Utilities | 430,500 | 430,500 | 246,180 | 184,320 |
| Insurance | 137,159 | 137,159 | 91,438 | 45,721 |
| Client recreation | 39,500 | 39,500 | 17,593 | 21,907 |
| Miscellaneous | 66,250 | 66,250 | 49,966 | 16,284 |
| Administrative overhead charges | 2,082,730 | 2,082,730 | 2,082,731 | (1) |
| Total current expenditures | 24,495,925 | 24,495,925 | 27,294,269 | (2,798,344) |
| Debt service: | | | | |
| Principal | - | - | 212,091 | (212,091) |
| Interest | 275,000 | 275,000 | 273,420 | 1,580 |
| Total debt service | 275,000 | 275,000 | 485,511 | (210,511) |
| Capital outlay | 3,127,500 | 3,127,500 | 1,200,134 | 1,927,366 |
| TOTAL EXPENDITURES | 27,898,425 | 27,898,425 | 28,979,914 | (1,081,489) |
| EXCESS OF EXPENDITURES OVER REVENUES | 86,038 | 86,038 | (2,099,439) | (2,185,477) |
| OTHER FINANCING SOURCES (USES) | | | | |
| OPEB obligation funding | - | - | (100,000) | (100,000) |
| TOTAL OTHER FINANCING SOURCES (USES) | - | - | (100,000) | (100,000) |
| NET CHANGE IN FUND BALANCES | 86,038 | 86,038 | (2,199,439) | (2,285,477) |
| Fund balances - beginning | 8,602,644 | 8,602,644 | 8,602,644 | - |
| FUND BALANCES - ENDING | \$ 8,688,682 | \$ 8,688,682 | \$ 6,403,205 | \$ (2,285,477) |

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, 2020

| | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 |
|--|----------------------|----------------------|----------------------|----------------------|
| Total OPEB Liability | | | | |
| Service cost | \$ 569,313 | \$ 571,369 | \$ 599,923 | \$ 569,144 |
| Interest on total OPEB liability, service cost, and benefit payments | 300,938 | 296,457 | 197,161 | 232,985 |
| Changes in benefit terms | - | - | - | - |
| Changes of assumptions | - | (884,860) | - | - |
| Differences between expected and actual experience | (40,070) | 220,358 | - | (163,469) |
| Benefit payments | (82,184) | (64,449) | (72,561) | (63,535) |
| Net change in total OPEB liability | 747,997 | 138,875 | 724,523 | 575,125 |
| Total OPEB liability - beginning | 8,069,647 | 7,930,772 | 7,206,249 | 6,631,124 |
| Total OPEB liability - ending (a) | \$ 8,817,644 | \$ 8,069,647 | \$ 7,930,772 | \$ 7,206,249 |
| Plan fiduciary net position | | | | |
| Employer contributions | \$ 100,000 | \$ 250,000 | \$ - | \$ - |
| Employer contributions for OPEB payments | 82,184 | 64,449 | 72,561 | 63,535 |
| Net investment income | 14,581 | 26 | - | - |
| Benefit payments | (82,184) | (64,449) | (72,561) | (63,535) |
| Administrative expense | - | - | - | - |
| Net change in plan fiduciary net position | 114,581 | 250,026 | - | - |
| Plan fiduciary net position - beginning | 250,026 | - | - | - |
| Plan fiduciary net position - ending (b) | \$ 364,607 | \$ 250,026 | - | - |
| Net OPEB liability - ending (a) - (b) | \$ 8,453,037 | \$ 7,819,621 | \$ 7,930,772 | \$ 7,206,249 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 4.13% | 3.10% | 0.00% | 0.00% |
| Covered-employee payroll | \$ 14,668,956 | \$ 12,895,120 | \$ 12,169,336 | \$ 11,814,889 |
| Net OPEB liability as a percentage of covered-employee payroll | 57.63% | 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, 2020

| | <u>June 30, 2020</u> | <u>June 30, 2019</u> | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Actuarially determined contribution | \$ 1,013,374 | \$ 982,155 | \$ 967,611 | \$ 907,487 |
| Contributions in relation to the actuarially determined contribution | <u>182,184</u> | <u>314,449</u> | <u>72,561</u> | <u>63,535</u> |
| Contribution deficiency (excess) | <u>\$ 831,190</u> | <u>\$ 667,706</u> | <u>\$ 895,050</u> | <u>\$ 843,952</u> |
| Covered-employee payroll | \$ 14,668,956 | \$ 12,895,120 | \$ 12,169,336 | \$ 11,814,889 |
| Contributions as a percentage of covered employee payroll | 1.24% | 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, 2020

| | <u>June 30, 2020</u> | <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 | 5.01% | 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, 2020

| | Reporting Fiscal Year (Measurement Date) | | | | | |
|--|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | June 30, 2020 (June 30, 2019) | 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 | 0.063133% | 0.062837% | 0.061102% | 0.055651% | 0.057397% | 0.052358% |
| Collaborative's proportionate share of the net pension liability | \$ 15,918,451 | \$ 14,899,536 | \$ 13,983,324 | \$ 12,442,400 | \$ 11,760,499 | \$ 8,323,077 |
| Collaborative's covered-employee payroll | \$ 4,595,132 | \$ 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 | 346.42% | 329.51% | 324.39% | 332.60% | 315.29% | 252.82% |
| Plan fiduciary net position as a percentage of total pension liability | 53.95% | 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, 2020

| | Reporting Fiscal Year (Measurement Date) | | | | | |
|---|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | June 30, 2020 (June 30, 2019) | 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 | \$ 4,595,132 | \$ 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% | 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, 2020

| | Reporting Fiscal Year (Measurement Date) | | | | | |
|--|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | June 30, 2020 (June 30, 2019) | 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 | 0.13087% | 0.12661% | 0.12422% | 0.12767% | 0.13236% | 0.12582% |
| Collaborative's proportionate share of the net pension liability | \$ 19,151,292 | \$ 16,749,967 | \$ 15,931,468 | \$ 17,604,901 | \$ 15,066,520 | \$ 9,341,091 |
| Collaborative's covered-employee payroll | \$ 7,797,392 | \$ 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 | 245.61% | 230.14% | 224.60% | 247.56% | 209.14% | 140.14% |
| Plan fiduciary net position as a percentage of total pension liability | 66.28% | 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, 2020

| | Reporting Fiscal Year (Measurement Date) | | | | | |
|---|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | June 30, 2020 (June 30, 2019) | 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 | \$ 473,504 | \$ 447,179 | \$ 398,493 | \$ 400,266 | \$ 402,050 | \$ 377,419 |
| Contributions in relation to the contractually required contribution | <u>473,504</u> | <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 | \$ 7,797,392 | \$ 7,278,066 | \$ 7,093,116 | \$ 7,111,381 | \$ 7,203,966 | \$ 6,665,551 |
| Contribution as a percentage of covered-employee payroll | 6.07% | 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, 2020

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 or Chief Financial Officer 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 or Chief Financial Officer 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 or Chief Financial Officer 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, 2020, budgeted appropriations exceeded budgeted expenditures by \$86,038. For the year ended June 30, 2020, actual expenditures exceeded actual revenues by \$2,199,439. Thus, the budget net change in fund balances exceeded the actual net change in fund balances by \$2,285,477.

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, 2020, is presented below:

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
(Unaudited)
JUNE 30, 2020

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 | \$(2,199,439) |
| Debt service difference | 210,511 |
| Capital outlay difference | (1,927,366) |
| OPEB obligation funding difference | 100,000 |
| Recognition of revenue for on-behalf payments | (5,111,704) |
| Recognition of expenditures for on-behalf payments | 5,111,704 |
| Revenue excess | 6,215,692 |
| Current expenditures excess | <u>(2,313,360)</u> |
| Net change in fund balances - general fund - budgetary basis | <u>\$ 86,038</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, 2020

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, 2020

NOTE C - OPEB PLAN (Continued)

C. Actuarial Assumptions

| | |
|----------------------------|---|
| Valuation date: | Actuarially Determined Contribution was calculated as of July 1, 2019 |
| Actuarial cost method: | Individual Entry Age Normal |
| Asset valuation method: | Market value of assets as of the measurement date of June 30, 2020 |
| Investment rate of return: | 6.08%, net of OPEB Plan investment expense, including inflation |
| Discount rate: | 3.50%, net of OPEB plan investment expense, including inflation |
| Inflation rate: | 2.50% as of June 30, 2020 and for future periods |
| Salary increases: | 3.00% annually as of June 30, 2020 and for future periods |
| Municipal bond rate: | 2.66% as of June 30, 2020 |
| 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, set forward 1 year for 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, set forward 1 year for 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, 2020

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:

- Investment rate of return is 6.08% previously 5.86%
- Inflation rate is 2.50% previously 2.75%

**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, each major fund, and the aggregate remaining fund information of Shore Educational Collaborative (the "Collaborative") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements, and have issued our report thereon dated December 23, 2020.

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) as a basis for designing 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.

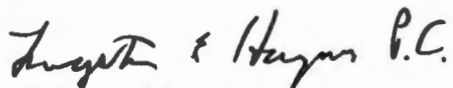
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



Wellesley, Massachusetts

December 23, 2020