

SHORE EDUCATIONAL COLLABORATIVE

CHELSEA, MASSACHUSETTS

FINANCIAL STATEMENTS,  
REQUIRED SUPPLEMENTARY INFORMATION AND  
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2017

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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, and the major fund of Shore Educational Collaborative (the "Collaborative"), as of and for the year ended June 30, 2017, 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.



## Opinion

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, and the major fund of Shore Educational Collaborative as of June 30, 2017, 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, schedules of funding progress and employer contributions for the 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 61 through 71 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 5, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Collaborative's internal control over financial reporting and compliance.



Wellesley, Massachusetts  
December 5, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

(Unaudited)

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

Since Management's Discuss and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the Collaborative's financial statements found on pages 14 to 60.

### 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, 2017 by \$5,125,244 (net position). Of this amount, \$1,843,253 represents unrestricted net position, which may be used to meet the Collaborative's ongoing obligations to its clients and creditors.

The Collaborative's total net position increased in the current fiscal year by \$347,207 because of higher than expected enrollment in the student services program and strong financial management and monitoring of expenditures.

At the close of the fiscal year ended June 30, 2017, the Collaborative's governmental funds reported combined ending fund balances of \$5,434,340, an increase of \$1,803,925 in comparison with the prior year. Approximately 52.9% of this amount (\$2,876,447) is available for spending at the Collaborative's discretion (unassigned fund balance). This unassigned fund balance was 11.5% of total general fund expenditures. This represents an \$50,887 increase in the unassigned fund balance from the prior fiscal year.

At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$3,514,786, or approximately 14.5% of total general fund expenditures.

During the fiscal year ended June 30, 2017, the Collaborative refinanced its long-term debt to lower its overall borrowing costs. In addition, the Collaborative borrowed additional funds to fund future renovations at the Collaborative. This activity resulted in new bonds being issued of \$10,850,000. Of this amount, \$9,010,936 was used to pay off the existing bonds of the Collaborative. Overall, the Collaborative's total outstanding long-term debt (which includes current portion) increased by \$1,615,212 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 and the proceeds from new borrowings received during the current fiscal year to be used for renovations of the Collaborative's primary location.



## 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 income 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. Presently, the Collaborative only has governmental 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.

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 Collaborative maintains one governmental fund - the general fund. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund.

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

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 Collaborative does not have any fiduciary funds.

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 20-60 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 and other postemployment benefits to its employees. Required supplementary information can be found on pages 61-71 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 \$5,125,244 at June 30, 2017.

C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

The following is a summary of the Collaborative's net position as of June 30, 2017, compared to its net position as of June 30, 2016.

Shore Educational Collaborative Statement of Net Position June 30, 2017 and 2016		
	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 10,614,254	\$ 8,406,633
Capital assets	<u>10,403,680</u>	<u>10,245,186</u>
Total assets	21,017,934	18,651,819
 Total deferred outflows of resources	 23,430	 222,964
 Total assets and deferred outflows of resources	 21,041,364	 18,874,783
 Long-term liabilities outstanding	 10,468,179	 8,836,792
Other liabilities	<u>5,291,605</u>	<u>5,259,954</u>
Total liabilities	15,759,784	14,096,746
 Total deferred inflows of resources	 156,336	 -
 Total liabilities and deferred inflows of resources	 15,916,120	 14,096,746
 Net position:		
Net investment in capital assets	1,485,876	1,259,814
Restricted	1,796,115	113,335
Unrestricted	<u>1,843,253</u>	<u>3,404,888</u>
 Total net position	 <u>\$ 5,125,244</u>	 <u>\$ 4,778,037</u>

The largest portion of the Collaborative's net position, \$1,843,253 (36.0%), is unrestricted and may be used to meet the Collaborative's ongoing obligations to its clients and creditors.

The second largest portion of the Collaborative's net position, \$1,796,115 (35.0%), represents resources that are subject to external restriction on how they may be used. A majority of this amount, \$1,794,972 (99.9%) is restricted for future capital projects.

The remaining portion of the Collaborative's net position, \$1,485,876 (29.0%), reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, furniture, equipment, leasehold improvements, logo development costs, and construction in progress), less any related outstanding debt that was used to acquire those assets. The Collaborative uses these capital assets to provide a variety of services to its clients. Accordingly, these assets are not available for future spending. Although the Collaborative's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the Collaborative is able to report positive balances in all reported categories of net position. The same situation held true for the prior fiscal year.



C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

The Collaborative's overall net position increased in the current fiscal year by \$347,207 from the prior fiscal year. The reasons for this overall increase are discussed in the following section for governmental activities.

The governmental activities current and other assets increased by \$2,207,621, primarily due to an increase in restricted cash due to proceeds received from a new renovation bond payable that were not spent by the end of the year as well as higher accounts receivable due to higher enrollment. Deferred outflows of resources decreased \$199,534 due to payments made on the long-term liabilities outstanding that reduced the notional amount used to calculate the fair value of this interest rate swap. The governmental activities total liabilities increased \$1,663,038 due to a new renovation bond payable and the liability for other postemployment benefits continuing to increase. Deferred inflows of resources increased \$156,336 due to a new interest rate swap that the Collaborative entered into in order to fix the rate on its refinanced mortgage bond payable.

Governmental Activities. The key elements of the changes in the Collaborative's net position for the fiscal years ended June 30, 2017 and 2016, are as follows.

Shore Educational Collaborative  
Changes in Net Position  
For the Fiscal Years Ended June 30, 2017 and 2016

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 16,544,461	\$ 16,205,372
Operating grants and contributions	5,831,954	4,655,735
Capital grants and contributions	-	-
General revenues:		
Other income	31,234	29,878
Interest income	5,970	5,233
Overhead income	1,711,053	1,628,128
Rental income	12,000	14,400
Total revenues	<u>24,136,672</u>	<u>22,538,746</u>
Expenses:		
Adult day program	8,014,348	8,196,635
Student services	9,453,288	8,615,032
Professional development	351,538	312,416
Client workshop	70,448	73,490
Fiscal agent services	182,911	135,621
Medicaid municipal billing services	199,845	201,505
General and administrative	<u>5,517,087</u>	<u>4,335,037</u>
Total expenses	<u>23,789,465</u>	<u>21,869,736</u>
Increase in net position	347,207	669,010
Net position - beginning	<u>4,778,037</u>	<u>4,109,027</u>
Net position - ending	<u>\$ 5,125,244</u>	<u>\$ 4,778,037</u>



C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

During the current fiscal year, net position for governmental activities increased \$347,207 from the prior fiscal year for an ending balance of \$5,125,244. While the current economic conditions had an impact on the Collaborative, management was able to take various actions (e.g., increasing tuition rates, delaying certain nonrecurring expenses, and reducing expenses related to non-essential ongoing programs) that neutralized its effect on governmental activities. Total governmental activities revenues increased \$1,597,926 or 7.1% from the prior year. The major reason for this increase was due to operating grants and contributions increasing \$1,176,219 or 25.3% as a result of increased utilization of attendance days in the adult day program and 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. The increase was also due to charges for services increasing \$339,089 or 2.1% from the prior year due to increased tuition rates in the student services program and higher enrollment in both the student services and adult day program.

The Collaborative's total governmental activities expenses for the year ended June 30, 2017 increased by \$1,919,729 or 8.8% from the prior year. Four of the activities reported spending growth from the prior year, led by general and administrative which accounted for \$1,182,050 or 56.1% of total spending growth. This was due to additional pension costs from the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System as well as additional professional fees due to refinancing the bonds payable. The activity with the second largest spending growth was the student services program which accounted for \$838,256 or 39.8% of total spending growth. This was due to hiring additional temporary and permanent employees because of the increased enrollment.

Three of the activities reported decreases in spending from the prior year, led by the adult day program which accounted for \$182,287 or 97.5% of the spending decrease. This was due to longer than expected vacancies for numerous positions and a realigning of spending priorities based on no funding increases and minimum enrollment growth. The activity with the second largest spending decrease was client workshop which accounted for \$3,042 or 1.6% of the total spending decrease. This was due to a slight decrease in client vocational job opportunities.

Governmental activities increased the Collaborative's net position by \$347,207 or 7.3% during fiscal 2017. The key elements of this increase can be explained by higher than projected enrollments in the student services program and strong financial management and monitoring of expenditures.

D. FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

Governmental funds. The focus of the Collaborative's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Collaborative's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Collaborative's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Collaborative itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Collaborative's Board of Directors.



D. FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)

At June 30, 2017, the Collaborative's governmental funds reported combined ending fund balances of \$5,434,340, an increase of \$1,803,925 in comparison with the prior year. Approximately 52.9% of this amount (\$2,876,447) 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 (\$123,439), 2) restricted due to external limitations on its use, such as by the intention of grantors, donors, or trustees (\$1,796,115), or 3) committed for particular purposes such as day habilitation adult program expansion, future programs, building, sick bank, professional development, the adult day program, fringe benefits, and other purposes (\$638,339).

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 \$2,876,447, while the total fund balance was \$5,434,340. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 11.9% of total general fund expenditures, while total fund balance represents 22.5% of that same amount.

During the current fiscal year, the fund balance of the Collaborative's general fund increased by \$1,803,925. This increase was due primarily to the bond proceeds received for renovations that were not spent by the end of the fiscal year. Revenues totaling \$24,136,672, increased by \$1,597,926 due to a modest increase in enrollment in the student services program and increased on-behalf payments from the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System. Expenditures totaling \$24,171,811 increased by \$2,504,138 due to reconstruction of the parking lot at the Collaborative's Chelsea location 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, 2017.

Final budget compared to actual results. Budgetary revenues were \$2,923,345 lower 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	\$ 856,400	\$ 4,011,749	\$ 3,155,349
Medicaid income	\$ 7,097,080	\$ 6,256,843	\$ (840,237)
Educational program fees	\$ 11,322,639	\$ 11,987,205	\$ 664,566

Other income increased due to higher than expected increase in the pension revenue (on-behalf payments from the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System). Educational program fees increased due to higher than expected enrollment in the student services and adult day programs. The increases in the above revenue sources were caused by higher than expected student services enrollment during the final quarter of the school year in multiple program areas and recognizing unexpected increased pension revenue. The decrease in the Medicaid income was due to many unexpected prolonged absences by adult day program clients.



E. GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

Budgetary expenditures were \$3,164,393 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	\$ 2,433,695	\$ 6,124,905	\$ (3,691,210)
Professional fees and contract services	\$ 810,800	\$ 1,027,614	\$ (216,814)
Supplies	\$ 393,650	\$ 215,583	\$ 178,067
Rent	\$ 920,000	\$ 590,928	\$ 329,072
Repairs and maintenance	\$ 281,000	\$ 136,188	\$ 144,812
Debt service	\$ 343,000	\$ 589,325	\$ (246,325)

Employee benefits were higher than budgeted due to continued unexpected increases in the other postemployment benefit plan for retiree health insurance liabilities, unexpected 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 higher than budgeted due to higher bond issuance costs than had been anticipated. Supplies were below budget due to the delay of certain purchases into the subsequent fiscal year. 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. Repairs and maintenance were below budget due to lower than anticipated repair requests during the fiscal year and the delaying of some projects. 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.

In addition, the Collaborative did not budget the refinancing of its bonds payable and the issuance of new bonds payable as part of the budget that was prepared. Thus, the other financing sources (uses) were \$1,839,064 over budget.

Overall, the actual change in fund balances was \$1,598,016 higher than the budgetary change in fund balances due to the reasons explained above from higher revenues than had been budgeted, having enough additional revenues to neutralize the additional expenditures, and bond issuance proceeds.

F. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The Collaborative's investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$10,403,680 (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 \$158,494 or 1.5%.

Major capital asset events during the current fiscal year included the reconstruction of the parking lot and technology purchases.



F. CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

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

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 65,515	\$ 97,229
Land improvements	534,319	-
Furniture and equipment	125,595	182,809
Logo development costs	1,222	2,556
Building	4,348,138	4,498,290
Land	1,157,580	1,157,580
Construction in progress	16,251	12,200
Building improvements	<u>4,155,060</u>	<u>4,294,522</u>
Total	<u>\$ 10,403,680</u>	<u>\$ 10,245,186</u>

Additional information on the Collaborative's capital assets can be found in Note J on page 38 of this report.

Long-term debt. At June 30, 2017, the Collaborative had total long-term debt outstanding of \$10,712,776. 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>2017</u>	<u>2016</u>
Bonds payable	\$ 10,712,776	\$ 9,097,564
Total Outstanding Long-Term Debt	<u>\$ 10,712,776</u>	<u>\$ 9,097,564</u>

During the current fiscal year, the Collaborative's total long-term debt increased by \$1,615,212 or 17.8%. The reason for the increase was due to the Collaborative refinancing its previous bonds payable in order to lower its fixed interest rates as well as borrowing additional amounts for future renovations of its building.

Additional information on long-term debt can be found in Note N to the financial statements of page 48 of this report.

G. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

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

G. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the MTRS, the Collaborative is not required to report a liability for its proportionate share of the net pension liability due to the fact that the Collaborative does not contribute directly to MTRS and the Commonwealth of Massachusetts is responsible for the entire net pension liability associated with the Collaborative. At June 30, 2017, the proportionate share of the net pension liability associated with the Collaborative was \$12,442,400 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, 2017, the proportionate share of the net pension liability associated with the Collaborative was \$17,604,901 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 27 retired employees and their spouses receiving these benefits, which are financed on a pay-as-you-go basis. Starting in the 2008-2009 fiscal year, the Collaborative had to account for other postemployment benefits in accordance with GASB Standard 45. At June 30, 2017, an independent actuarial analysis determined that the Collaborative's future liability for these benefits or net OPEB obligation was \$3,656,825. This amount was accounted for as a liability on the Collaborative's statement of net position and balance sheet.

Additional information on the Collaborative's pension arrangements and postemployment benefits can be found in Notes L and O on pages 39-47 and 56-59, 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 2017-2018 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 classroom technologies.
- No scheduled increases to the Commonwealth of Massachusetts' Department of Developmental Services and MassHealth/Medicaid funding, while costs to deliver these services are rapidly increasing.

During the current fiscal year, the fund balance in the general fund increased by \$1,803,925 to \$5,434,340. Included in this total amount are \$123,439 in prepaid expenses reported as nonspendable, \$1,796,115 in funds restricted for the Giving Tree and capital projects, and \$638,339 in funds committed by the Board. These items are reappropriated in the budget for 2017-2018.

All of these factors were considered in preparing the Collaborative's budget for the 2018 fiscal year. Amendments are expected to be completed during the year that will be presented to the Board of Directors for approval.

I. REQUESTS FOR INFORMATION

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

Shore Educational Collaborative  
100 Revere Beach Parkway  
Chelsea, Massachusetts 02150



SHORE EDUCATIONAL COLLABORATIVE  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,793,680	\$ 44,990
Accounts receivable	2,708,065	-
Other receivables	7,762	-
Due from component unit	30,000	-
Prepaid expenses	123,439	-
Restricted cash	1,794,972	-
Derivative instrument-interest rate swap	156,336	-
Capital assets, not being depreciated	1,173,831	-
Capital assets, net of accumulated depreciation	<u>9,229,849</u>	<u>-</u>
TOTAL ASSETS	21,017,934	44,990
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows-hedge	<u>23,430</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>23,430</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>21,041,364</u>	<u>44,990</u>
<b>LIABILITIES</b>		
Accounts payable	370,207	-
Accrued salaries and fringe benefits	529,506	-
Liability for other postemployment benefits	3,656,825	-
Accrued expenses	457,040	-
Due to primary government	-	30,000
Due to member communities	10,000	-
Derivative instrument-interest rate swap	23,430	-
Noncurrent bonds payable:		
Due within one year	244,597	-
Due in more than one year	<u>10,468,179</u>	<u>-</u>
TOTAL LIABILITIES	15,759,784	30,000
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows-hedge	<u>156,336</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>156,336</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>15,916,120</u>	<u>30,000</u>
Commitments and contingencies (see notes)	-	-
<b>NET POSITION</b>		
Net investment in capital assets	1,485,876	-
Restricted for:		
Giving Tree Fund	1,143	-
Capital projects	1,794,972	-
Unrestricted	<u>1,843,253</u>	<u>14,990</u>
TOTAL NET POSITION	<u>\$ 5,125,244</u>	<u>\$ 14,990</u>

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

SHORE EDUCATIONAL COLLABORATIVE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

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
<b>Primary Government:</b>						
Governmental activities:						
Adult day program	\$ 8,014,348	\$ 6,278,213	\$ 1,872,649	\$ -	\$ 136,514	\$ -
Student services	9,453,288	9,774,416	67,783	-	388,911	-
Professional development	351,538	277,710	-	-	(73,828)	-
Client workshop	70,448	2,270	-	-	(68,178)	-
Fiscal agent services	182,911	3,000	177,381	-	(2,530)	-
Medicaid municipal billing services	199,845	163,852	-	-	(35,993)	-
General and administrative	5,517,087	45,000	3,714,141	-	(1,757,946)	-
<b>TOTAL PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</b>	<b>\$ 23,789,465</b>	<b>\$ 16,544,461</b>	<b>\$ 5,831,954</b>	<b>\$ -</b>	<b>(1,413,050)</b>	<b>-</b>
<b>Component unit:</b>						
Shore Educational Collaborative Foundation, Inc.	\$ 74	\$ -	\$ 2,550	\$ -	-	2,476
<b>TOTAL COMPONENT UNIT</b>	<b>\$ 74</b>	<b>\$ -</b>	<b>\$ 2,550</b>	<b>\$ -</b>	<b>-</b>	<b>2,476</b>
General revenues:						
Other income					31,234	-
Interest income					5,970	-
Overhead income					1,711,053	-
Rental income					12,000	-
<b>TOTAL GENERAL REVENUES</b>					<b>1,760,257</b>	<b>-</b>
Change in net position					347,207	2,476
Net position - beginning					4,778,037	12,514
<b>NET POSITION - ENDING</b>					<b>\$ 5,125,244</b>	<b>\$ 14,990</b>

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



SHORE EDUCATIONAL COLLABORATIVE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 5,793,680
Accounts receivable	2,708,065
Other receivables	7,762
Due from Foundation	30,000
Prepaid expenses	123,439
Restricted cash	<u>1,794,972</u>
TOTAL ASSETS	<u>\$ 10,457,918</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 370,207
Accrued salaries and fringe benefits	529,506
Liability for other postemployment benefits	3,656,825
Accrued expenses	457,040
Due to member communities	<u>10,000</u>
TOTAL LIABILITIES	5,023,578
Commitments and contingencies (see notes)	-
Fund balances:	
Nonspendable:	
Prepaid expenses	123,439
Restricted:	
Giving Tree Fund	1,143
Capital projects	1,794,972
Committed:	
Dayhab adult program expansion	15,736
Future programs	111,687
Building	110,604
Sick bank	30,000
Professional development	14,700
Adult day program	77,131
Fringe benefits	226,026
Other purposes	52,455
Unassigned	<u>2,876,447</u>
TOTAL FUND BALANCES	<u>5,434,340</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,457,918</u>

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, 2017

	<u>General</u>
REVENUES	
Educational program fees	\$ 11,987,205
Medicaid income	6,256,843
Medicaid municipal billing services	163,852
Administrative overhead income	1,711,053
Other income	4,011,749
Interest income	<u>5,970</u>
TOTAL REVENUES	24,136,672
EXPENDITURES	
Current:	
Salaries	11,814,281
Employee benefits	6,124,905
Payroll taxes	624,299
Advertising	4,022
Professional fees and contract services	1,027,614
Supplies	215,583
Telephone	77,670
Postage	8,790
Rent	590,928
Staff training	64,019
Rental of equipment	3,504
Transportation	53,021
Printing and publications	19,579
Food	101,454
Repairs and maintenance	136,188
Utilities	278,520
Insurance	81,649
Client recreation	15,770
Bad debt	4,765
Miscellaneous	40,907
Administrative overhead charges	<u>1,711,053</u>
Total current expenditures	22,998,521
Debt service:	
Principal	223,852
Interest	<u>365,473</u>
Total debt service	589,325
Capital outlay	<u>583,965</u>
TOTAL EXPENDITURES	<u>24,171,811</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(35,139)
OTHER FINANCING SOURCES (USES)	
Proceeds from sale of bonds issued at par	10,850,000
Payments to bond escrow agents	<u>(9,010,936)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,839,064</u>
NET CHANGE IN FUND BALANCES	1,803,925
Fund balances - beginning	<u>3,630,415</u>
FUND BALANCES - ENDING	<u>\$ 5,434,340</u>

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



SHORE EDUCATIONAL COLLABORATIVE  
RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION  
JUNE 30, 2017

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

Fund balances of governmental funds (page 16)	\$ 5,434,340
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,403,680
Some assets are not financial resources used in governmental activities and, therefore, are not reported in governmental funds.	179,766
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(10,892,542)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 5,125,244</u>

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

SHORE EDUCATIONAL COLLABORATIVE  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE  
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

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

Net change in fund balances - total governmental funds (page 17)	\$ 1,803,925
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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 outlays exceeds depreciation expense in the current period.	158,494
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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.	(1,249,739)
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Interest expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	<u>(365,473)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 347,207</u>
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The accompanying notes are an integral part of the financial statements.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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. 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.

During the year ended June 30, 2017, the new Collaborative Agreement was approved by all members.

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

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

According to the Collaborative Agreement, each member community is annually assessed a membership fee which is determined annually by the Board of Directors. The fiscal year 2017 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, 2017

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, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

*Government-Wide Financial Statements (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 and internal service funds, while business-type activities incorporate data from the Collaborative's enterprise funds. Presently, the Collaborative has no business-type activities. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the later 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 determination of major funds. The Collaborative may electively add funds, as major funds, which have specific community focus. The Collaborative reports one major governmental fund and does not report on any non-major funds.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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 following guidelines. The general fund is the general operating fund of the Collaborative and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund. Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects or expendable trusts) that are restricted to expenditures for specified purposes. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Permanent funds are used to account for resources legally held in trust. All resources of the fund, including any earnings on invested resources, may be used to support the organization.

The Collaborative reports the following major governmental fund: the general fund.

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.

*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.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

*Fund Financial Statements (Continued)*

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.

*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.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017, the following GASB pronouncements were implemented:

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, which establishes new requirements for defined contribution and defined benefit Other Postemployment Employee Benefit ("OPEB") Plans that administer through trusts. The Collaborative has an OPEB Plan but does not administer it through a trust. Thus, the adoption of GASB Statement No. 74 does not have any impact on the Collaborative's financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires certain disclosures of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. The adoption of GASB Statement No. 77 does not have any impact on the Collaborative's financial statements.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which amends GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. It establishes new requirements for recognition and measurement of pension expense, expenditures, liabilities, note disclosures, and required supplementary information for these types of pensions. The adoption of GASB Statement No. 78 does not have any impact on the Collaborative's financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which amends the blending requirements for the financial statement presentation of component units of all state and local governments. The adoption of GASB Statement No. 80 does not have any impact on the Collaborative's financial statements.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Principles (Continued)

*Recently Issued and Adopted Accounting Pronouncements (Continued)*

In March 2016, the GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of GASB Statement No. 82 does not have any impact on the Collaborative's financial statements.

*Recently Issued Accounting Pronouncements*

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

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2018. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2018. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which is required to be implemented in fiscal year 2019. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 84, *Fiduciary Activities*, which is required to be implemented in fiscal year 2020. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 85, *Omnibus 2017*, which is required to be implemented in fiscal year 2018. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which is required to be implemented in fiscal year 2018. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

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

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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.

Restricted Cash

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

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, 2017, 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

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.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

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

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

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	4-12 years
Logo development costs	15 years
Building improvements	39 years

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

Deferred Outflows/Inflows 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, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Collaborative only has one item that qualifies for reporting in this category. It is 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.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Collaborative only has one item that qualifies for reporting in this category. It is 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.

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.

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, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of those assets. Debt related to unspent proceeds or other restricted cash at year end 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 external parties, such as lenders, grantors, contributors, laws, regulations, and 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, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 Balance Classification

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. The Collaborative currently has no amounts that are legally or contractually required to be maintained intact.
- 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, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (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, 2017.
- 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.

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, 2017, the expenditures totaled \$842,496. The Collaborative obtained this amount based on an actuarial valuation of its obligations for postemployment health benefits. The actuarial assumptions included a 3.5% rate of return on investments (net of investment expenses), an inflation rate of 2.75%, and a health care cost trend rate of 5.0%. There are currently no funds being separately invested to fund this liability which is accrued on the government-wide statement of net position and the governmental funds balance sheet. See Note O.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Costs

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

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

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

The governmental funds balance sheet includes a reconciliation between total fund balances - governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds". The details of this \$10,403,680 are as follows:

Leasehold improvements	\$ 440,667
Less: Accumulated amortization-leasehold improvements	(375,152)
Land improvements	545,223
Less: Accumulated depreciation-land improvements	(10,904)
Furniture and equipment	1,508,044
Less: Accumulated depreciation-furniture and equipment	(1,382,449)
Logo development costs	20,000
Less: Accumulated amortization-logo development costs	(18,778)
Building	5,855,910
Less: Accumulated depreciation-building	(1,507,772)
Land	1,157,580
Construction in progress	16,251
Building improvements	5,439,039
Less: Accumulated depreciation-building improvements	<u>(1,283,979)</u>
Net adjustment to increase total fund balances - governmental funds to arrive at net position of governmental activities	<u>\$10,403,680</u>

Another element of that reconciliation explains that "some assets are not a financial resources used in governmental activities and, therefore, are not reported in governmental funds". The details of this \$179,766 are as follows:

Derivative instrument-interest rate swap	\$ 156,336
Fair value of the deferred outflows-hedge from interest rate swap	<u>23,430</u>
Net adjustment to increase total fund balances - governmental funds to arrive at net position of governmental activities	<u>\$ 179,766</u>

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

The final element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$10,892,542 difference are as follows:

Bonds payable due within one year	\$ 244,597
Bonds payable due in more than one year	10,468,179
Fair value of the deferred inflows-hedge from interest rate swap	156,336
Derivative instrument-interest rate swap	<u>23,430</u>
Net adjustment to reduce total fund balances - governmental funds to arrive at net position of governmental activities	<u>\$10,892,542</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net change in fund balances - total governmental funds and change in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period". The details of this \$158,494 difference are as follows:

Capital outlay	\$ 583,965
Depreciation expense	<u>(425,471)</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position of governmental activities	<u>\$ 158,494</u>



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

Another element of that reconciliation states that “the issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items”. The details of this \$1,249,739 difference are as follows:

Debt issued or incurred:	
Issuance of bonds payable	\$ 10,850,000
Payments to bond agent for refinancing bonds payable	(9,010,936)
Principal repayments of bonds payable	(223,852)
Interest expense of bonds payable	<u>(365,473)</u>
 Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net position of governmental activities	     <u>\$ 1,249,739</u>

NOTE C - BUDGETS AND BUDGETARY ACCOUNTING

Budgetary Information

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

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

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE C - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Budgetary Information (Continued)

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

During the fiscal year ended June 30, 2017, there were no budget amendments that were required.

Excess of Appropriations over Expenditures

For the year ended June 30, 2017, expenditures in the general fund exceeded appropriations by \$3,164,393 due to higher than expected pension costs from MTRS and MSERS during the fiscal year ended June 30, 2017. These over expenditures were funded by greater than anticipated revenues.

NOTE D - CASH AND CASH EQUIVALENTS AND DEPOSITS

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

Interest rate risk: Interest rate risk is the risk that interest rates will adversely affect the fair value of an investment. The Collaborative does not have a deposit policy for interest rate risk.

Credit risk: The Collaborative does not have a deposit policy for credit risk.

Concentration of credit risk: The Collaborative does not have a deposit policy for concentration of credit risk.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

Custodial credit risk deposits: In the case of deposits, the risk is that in the event of a bank failure the Collaborative's deposits may not be returned to it. The Collaborative does not have a deposit policy for custodial credit risk. As of June 30, 2017, the Collaborative's bank balance was \$8,011,275 and \$7,760,096 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2017, the Foundation's bank balance was \$44,990 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, 2017 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	\$ 1,171,704	43.3%
Commonwealth of Massachusetts:		
Department of Elementary & Secondary Education	19,522	0.7
Massachusetts Commission for the Blind	1,053	0.1
Department of Health & Human Services	1,152,486	42.6
Department of Developmental Services	<u>163,486</u>	<u>6.0</u>
Total Commonwealth of Massachusetts	1,336,547	49.4
Other	<u>199,814</u>	<u>7.3</u>
Total accounts receivable, net	<u>\$2,708,065</u>	<u>100%</u>

NOTE F - DUE FROM COMPONENT UNIT/FOUNDATION

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

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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, 2017:

Accrued rent	\$ 293,227
Accrued legal and audit	33,450
Accrued payroll taxes	114,521
Accrued interest	<u>15,842</u>
Total accrued expenses	<u>\$ 457,040</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, 2017 this rate was 3.75%. 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, 2017, the Collaborative did not draw on this line. The bank will review the line annually with the next review occurring on February 28, 2018.

A summary of changes of the demand line of credit consists of the following at June 30, 2017:

	Balance July 1, 2016	Additions	Repayments	Balance June 30, 2017
Demand line of credit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE I - COMMITMENTS AND CONTINGENCIES

During the current fiscal year, the Collaborative entered into a contract with a construction company in order to repave the parking lot at the Collaborative's Chelsea location. The contract was for a total of \$421,165. As of June 30, 2017, \$390,702 of the work had been completed, billed, and paid by the Collaborative. As of June 30, 2017, \$30,463 of the work had been completed and billed but not paid for by the Collaborative. 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, 2017

NOTE J - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers/ Reclassifi- cations	Balance June 30, 2017
<u>Governmental activities:</u>					
Capital assets, not being depreciated:					
Land	\$ 1,157,580	\$ -	\$ -	\$ -	\$ 1,157,580
Construction in progress	12,200	16,251	-	(12,200)	16,251
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	1,169,780	16,251	-	(12,200)	1,173,831
Capital assets, being depreciated:					
Leasehold improvements	432,367	8,300	-	-	440,667
Land improvements	-	533,023	-	12,200	545,223
Furniture and equipment	1,481,653	26,391	-	-	1,508,044
Logo development costs	20,000	-	-	-	20,000
Building	5,855,910	-	-	-	5,855,910
Building improvements	5,439,039	-	-	-	5,439,039
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	13,228,969	567,714	-	12,200	13,808,883
Less accumulated depreciation for:					
Leasehold improvements	(335,138)	(40,014)	-	-	(375,152)
Land improvements	-	(10,904)	-	-	(10,904)
Furniture and equipment	(1,298,844)	(83,605)	-	-	(1,382,449)
Logo development costs	(17,444)	(1,334)	-	-	(18,778)
Building	(1,357,620)	(150,152)	-	-	(1,507,772)
Building improvements	(1,144,517)	(139,462)	-	-	(1,283,979)
TOTAL ACCUMULATED DEPRECIATION	(4,153,563)	(425,471)	-	-	(4,579,034)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	9,075,406	142,243	-	12,200	9,229,849
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 10,245,186</u>	<u>\$ 158,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,403,680</u>

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

Governmental activities:	
Adult day program	\$ 100,117
Student services	204,352
Professional development	6,010
General and administrative	<u>114,992</u>
Total depreciation expense - governmental activities	<u>\$ 425,471</u>

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE K - OPERATING LEASES

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

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

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

Total rent expense for all operating leases for the year ended June 30, 2017 was \$590,928. Included in this amount, rent expense for all tenancy-at-will leases for the year ended June 30, 2017 was \$10,000.

The Collaborative also has various leases for automobiles used in the adult day program and various leases for office equipment used in all programs. Total expense for these leases for the year ended June 30, 2017 was \$11,870.

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

Year Ending June 30,

2018	\$ 547,005
2019	562,307
2020	555,515
2021	327,344
2022	<u>138,477</u>

Total minimum lease payments \$ 2,130,648

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).



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE L - PENSION PLANS (Continued)

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*. The Commonwealth of Massachusetts is a nonemployer contributing entity and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. 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).

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*

Per Chapter 32 of the MGL, contribution requirements of the active employees and participating entities are established and may be amended by the Legislature. The Commonwealth of Massachusetts is required to contribute 100% of the participating entities' contractually required contributions, which 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 5-11% of their salaries, depending on date of employment, and, for the employees hired after December 31, 1978, an additional 2% of their salaries in excess of \$30,000 may be contributed for those who do not contribute at the 11% rate. The Collaborative had no contractually required contribution to the MTRS for the fiscal year ended June 30, 2017. During the fiscal year ended June 30, 2017, 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, 2017

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, 2017, 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, 2017, the proportionate share of the net pension liability associated with the Collaborative was \$12,442,400. 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, 2016, 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, 2017, 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, 2016.

For the fiscal year ended June 30, 2017, the Collaborative recognized pension expense of \$1,269,206 and revenue of \$1,269,206 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, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
3. Mortality rates were as follows:
  - a. Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

*Actuarial assumptions (Continued)*

- b. Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
  - c. Disability - assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years.
4. Experience study was performed dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 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	40.0%	6.9%
Core Fixed Income	13.0	1.6
Private Equity	10.0	8.7
Real Estate	10.0	4.6
Value Added Fixed Income	10.0	4.8
Hedge Funds	9.0	4.0
Portfolio Completion Strategies	4.0	3.6
Timber/Natural Resources	<u>4.0</u>	5.4
Total	<u>100.0%</u>	

*Discount rate*

The discount rate used to measure the total pension liability was 7.5%. 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 no change in the discount rate used from the previous fiscal year.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (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, 2016. 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 6.5%	Current Discount Rate 7.5%	1% Increase to 8.5%
June 30, 2016	<u>\$ 15,284,000</u>	<u>\$ 12,442,400</u>	<u>\$ 10,029,000</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, 2017, the Collaborative reported a payable to the MTRS of \$78,650 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.

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 in GASB Statement No. 67. MSERS is part of the Commonwealth of Massachusetts' reporting entity and does not issue a stand-alone audited financial report. Management is vested in the Massachusetts State Retirement Board (the MSRB).



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE L - PENSION PLANS (Continued)

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

*Benefits provided*

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

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 between 5-9% of their salaries, depending on date of employment, and, for the employees hired after December 31, 1978, an additional 2% of their salaries in excess of \$30,000 may be contributed. The Collaborative contributes an amount equal to the normal cost of employees' benefits at a rate established by the Public Employees' Retirement Administration Commission (PERAC), currently 5.6% of each eligible employee's salary. Legally, the Collaborative is only responsible for contributing the 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:

2017	\$ 398,493
2016	400,266
2015	402,050
2014	377,419

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE L - PENSION PLANS (Continued)

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

*Contributions (Continued)*

The Collaborative had no additional contractually required contribution to the MSERS for the fiscal year ended June 30, 2017. The Commonwealth of Massachusetts was responsible for any remaining contractually required contributions to MSERS during the fiscal year ended June 30, 2017.

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

At June 30, 2017, 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, 2017, the proportionate share of the net pension liability associated with the Collaborative was \$17,604,901. 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, 2016, 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, 2017, 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, 2016.

For the fiscal year ended June 30, 2017, the Collaborative recognized pension expense of \$2,444,935 and revenue of \$2,444,935 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, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per 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.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE L - PENSION PLANS (Continued)

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

*Actuarial assumptions (Continued)*

3. Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan (ORP) to transfer to the MSERS and purchase service for the period while members of the ORP. As a result, the total pension liability of MSERS has increased by approximately \$400 million as of June 30, 2016.
4. Mortality rates were as follows:
  - a. Pre-retirement - reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
  - b. Post-retirement - reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
  - c. Disability - the mortality rate is assumed to be in accordance with RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender district)
5. Experience studies were performed dated February 27, 2014 and encompasses the period January 1, 2006 to December 31, 2011.

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, 2016 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	40.0%	6.9%
Core Fixed Income	13.0	1.6
Private Equity	10.0	8.7
Real Estate	10.0	4.6
Value Added Fixed Income	10.0	4.8
Hedge Funds	9.0	4.0
Portfolio Completion Strategies	4.0	3.6
Timber/Natural Resources	<u>4.0</u>	5.4
Total	<u>100.0%</u>	

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE L - PENSION PLANS (Continued)

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

*Discount rate*

The discount rate used to measure the total pension liability was 7.5%. 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 no change 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, 2016. 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:

	<u>1% Decrease to 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase to 8.5%</u>
June 30, 2016	<u>\$ 22,941,000</u>	<u>\$ 17,604,901</u>	<u>\$13,081,000</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, 2017, the Collaborative reported payables to the MSERS of \$54,672 for legally required employer contributions and \$74,389 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.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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, 2017, the Collaborative has a receivable from the Foundation for \$30,000, which was used as start-up funds for the Foundation.

NOTE N - LONG-TERM LIABILITIES

A summary of changes of bonds payable consists of the following at June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Building and land acquisition	\$ 8,229,116	\$ -	\$ 8,229,116	\$ -
New roof and HVAC system	868,448	-	868,448	-
Refinanced building and land acquisition	-	9,350,000	137,224	9,212,776
Renovation	-	1,500,000	-	1,500,000
Total	<u>\$ 9,097,564</u>	<u>\$ 10,850,000</u>	<u>\$ 9,234,788</u>	<u>\$10,712,776</u>

Bond Payable - Building and Land Acquisition

On June 11, 2007, the Collaborative entered into an agreement to participate in the Massachusetts Development Finance Agency Revenue Bonds Series 2007 to fund a building and land acquisition. The Collaborative's bond components totaled \$9,650,000. Interest on the bond was payable and commenced on July 11, 2007 and on the eleventh day of each month thereafter, at a rate of the sum of 1.623% plus 0.69 times one-month LIBOR. The initial rate was 5.3%. The maturity date was June 11, 2037. The Collaborative entered into two interest rate swap agreements with TD Bank to effect two different fixed interest rates on the bond of 5.77% for half of the outstanding principal balance and 2.48% for the other half. See below for more information on the interest rate swaps. Principal payments on the bond were payable in monthly installments and commenced on July 11, 2007 and on the eleventh day of every month thereafter.

Bond proceeds of \$94,948 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, 2017

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Building and Land Acquisition (Continued)

On November 4, 2016, the remaining balance on this bond at that time of \$8,159,772 was paid off through the issuance of a new bond. See below for Refinanced Building and Land Acquisition Bond for more details.

*Interest Rate Swaps - Building and Land Acquisition*

**Objective of the Interest Rate Swaps**

As a means to lower its borrowing costs and increase its savings, when compared against fixed rate bonds at the time of issuance in June 2007, the Collaborative entered into an International Swaps and Derivatives Association ("ISDA") interest rate swap contract in connection with its bond payable for the building and land acquisition with its principal lending institution, TD Bank, for a notional amount of \$9,650,000. The intention of the swap was to effectively change the Collaborative's variable interest rate on the bond to a synthetic fixed rate of 5.77%. The interest rate swap was considered a hedging derivative instrument and was classified as a cash flow hedge. On June 11, 2012, the notional amount under the interest rate swap agreement decreased to cover only half of the then outstanding principal of the bond payable.

As a result, on December 28, 2012, the Collaborative signed another ISDA interest rate swap contract for a notional amount of \$4,427,537 with TD Bank to cover the other half of the then outstanding principal of the bond payable. This agreement was effective as of January 11, 2013. The intention of this swap was to effectively change the Collaborative's variable interest rate on the uncovered principal of the bond payable to a synthetic fixed rate of 2.48%. This interest rate swap was also considered a hedging derivative instrument and was classified as a cash flow hedge.

**Terms**

Both swap agreements matured on June 11, 2017. The first swap's initial notional amount of \$9,650,000 matched the \$9,650,000 variable-rate bond on an amortizing schedule until June 11, 2012 when the notional amount only covered half of the then outstanding principal of the bond payable. The second swap's notional amount of \$4,427,537 matched the uncovered half of the then outstanding principal of the bond payable. The first swap was entered into at the same time the bond was issued and the second swap was entered into when the first swap no longer covered the then outstanding principal of the bond payable. Starting in 2007, the notional value of the swap and the principal amount of the associated debt declined.

In November 2016, when the bond was paid off through the issuance of another bond, the two swaps remained in place until they expired in June 2017. The two swaps covered the notional amounts as prescribed in the original swap agreements based on the amortization schedule of the original building and land acquisition bond payable but now covered a portion of the outstanding balance in the new refinanced building and land acquisition bond payable until they expired.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Building and Land Acquisition (Continued)

*Interest Rate Swaps - Building and Land Acquisition (Continued)*

**Terms (Continued)**

Under the first swap agreement, the Collaborative paid a fixed interest rate of 5.77% to TD Bank and TD Bank made payments as directed in the bond payable at the floating rate of 0.69% of the one-month LIBOR plus 1.623%. Under the second swap agreement, the Collaborative paid a fixed interest rate of 2.48% to TD Bank on the then uncovered principal of the bond payable and TD Bank made payments as directed in the bond payable at the floating rate of 0.69% of the one-month LIBOR plus 1.623%. At no time did the notional amount on the interest rate swap agreements exceed the outstanding principal of the bond payable. Payments under the swap agreements are 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, 2017, both swap agreements had expired and the net amount paid on the interest rate swaps during the fiscal year ended June 30, 2017 was \$158,562.

In accordance with the swap agreements and on a monthly basis, interest expense was calculated based on the option rate selected and the fixed rate. If the interest expense calculated was greater based on the option rate, TD Bank paid the difference to the Collaborative. However, if the interest expense calculated was greater based on the fixed rate, the Collaborative paid 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 would increase or decrease. The Collaborative was exposed to credit loss in the event of nonperformance by the lending institution; however, nonperformance was not anticipated.

**Fair Value**

The swaps had no fair value as of June 30, 2017 since they had expired, representing a change in fair value of \$169,306 from June 30, 2016.

Bond Payable - New Roof and HVAC System

On August 15, 2008, the Collaborative entered into an agreement to participate in the Massachusetts Development Finance Agency Revenue Bonds Series 2008 to fund a new roof and HVAC system. The Collaborative's bond components totaled \$1,200,000. Interest on the bond was payable and commenced on September 15, 2008 and on the fifteenth day of each month thereafter, at a rate of the sum of 1.623% plus 0.69 times one-month LIBOR. The initial rate was 3.325%. The maturity date was August 15, 2028. The Collaborative entered into an interest rate swap agreement with TD Bank to effect a fixed interest rate on the bond of 5.15%. See below for more information on interest rate swap. Principal payments on the bond were payable in monthly installments and commenced on September 15, 2008 and on the fifteenth day of every month thereafter.

On November 4, 2016, the remaining balance on this bond at that time of \$851,164 was paid off through the issuance of a new bond. See below for Refinanced Building and Land Acquisition Bond for more details.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - New Roof and HVAC System (Continued)

*Interest Rate Swap - New Roof and HVAC System*

**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 July 2008, the Collaborative entered into another ISDA interest rate swap contract in connection with its bond payable for the new roof and HVAC system with TD Bank for a notional amount of \$1,200,000. The intention of the swap was to effectively change the Collaborative's variable interest rate on the bond to a synthetic fixed rate of 5.15%. The interest rate swap was considered a hedging derivative instrument and was classified as a cash flow hedge.

**Terms**

The bond payable was set to mature on August 15, 2028, and the related swap agreement matures on August 15, 2018. The swap's initial notional amount of \$1,200,000 matched the \$1,200,000 variable-rate bond on an amortizing schedule. The swap was entered into at the same time the bond was issued (August 2008). Starting in fiscal year 2009, the notional value of the swap and the principal amount of the associated debt declined.

In November 2016, when the bond was paid off through the issuance of another bond, the swap remained in place and is still in place at June 30, 2017. The swap covers the notional amounts as prescribed in the original swap agreement based on the amortization schedule of the original new roof and HVAC bond payable but now covers a portion of the outstanding balance of the new refinanced building and land acquisition bond payable until it matures on August 15, 2018.

Under the swap agreement, the Collaborative pays a fixed interest rate of 5.15% to TD Bank and TD Bank makes payments as directed in the bond payable at the floating rate of 0.69% of the one-month LIBOR plus 1.623%. 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, 2017, the swap agreement has a notional amount of \$815,708 and the net amount paid on the interest rate swap during the fiscal year ended June 30, 2017 was \$25,962.

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



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - New Roof and HVAC System (Continued)

*Interest Rate Swap - New Roof and HVAC System (Continued)*

**Fair Value**

The swap had a negative fair value of \$23,430 as of June 30, 2017, representing a change in fair value of \$30,228 from June 30, 2016. The fair value of the swap was offset by a deferred outflow of resources of the same amount on the statement of net position. Fair values were based on mark-to-market valuations as of the fiscal year end that were established by market quotations from TD Bank representing estimates of the amounts that would be paid for replacement transactions. This estimates the net present value of the expected cash flows between the parties to the swap agreement, using relevant mid-market data inputs based on the assumption of no unusual market conditions or forced liquidation and does not include an assessment of nonperformance risk. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

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

**Interest Rate and Credit Risk**

The fair value of the interest rate swap is highly sensitive to interest rate changes and, as a result, the Collaborative is exposed to interest rate risk. As of June 30, 2017, 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 in the amount of the swap's fair value. TD Bank was rated AA- by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2017.

**Basis Risk**

As noted above, the swap exposes the Collaborative to basis risk should the rate on the bond increase to above the 0.69% of the one-month LIBOR plus 1.623%, thus increasing the synthetic rate of the bond. If a change occurs that results in the rate on the bond to be below the 0.69% of the one-month LIBOR plus 1.623%, then the synthetic rate on the bond will decrease.

**Termination Risk**

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



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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 building and land acquisition bond and its new roof and HVAC bond. The Collaborative's bond components totaled \$9,350,000. Interest on the bond is payable and commenced on November 4, 2016 and on the eleventh day of each month thereafter, at a rate of the sum of 1.395% plus 0.6975 times one-month LIBOR. The initial rate was 1.8%. The maturity date is November 11, 2046. The Collaborative entered into an interest rate swap agreement with TD Bank to effect a fixed interest rate on the bond of 2.647% for the remaining outstanding principal balance not covered by the other three interest rate swaps. See below for more information on the interest rate swap. Principal payments on the bond are payable in monthly installments and commenced on November 11, 2016 and on the eleventh day of every month thereafter.

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

*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 another ISDA interest rate swap contract in connection with its refinanced building and land acquisition bond payable with TD Bank for an initial notional amount of \$339,064. The intention of the swap was to effectively change the Collaborative's variable interest rate on the bond to a synthetic fixed rate of 2.647%. The interest rate swap is considered a hedging derivative instrument and is classified as a cash flow hedge.

**Terms**

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

Under the swap agreement, the Collaborative pays a fixed interest rate of 2.647% to TD Bank and TD Bank makes payments as directed in the bond payable at the floating rate of 0.6975% of the one-month LIBOR plus 1.395%. At no time will the notional amount on the interest rate swap agreement exceed the outstanding principal of the bond payable. Payments under the swap agreement will be reflected as adjustments to interest expense in the statement of activities and as adjustments to debt service in the statement of revenues, expenditures and changes in fund balance. At June 30, 2017, the swap agreement has a notional amount of \$8,397,068 and the net amount paid on the interest rate swap during the fiscal year ended June 30, 2017 was \$3,609.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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)**

In accordance with the swap agreements 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 positive fair value of \$156,336 as of June 30, 2017, representing a change in fair value of \$156,336 from June 30, 2016. The fair value of the swap was offset by a deferred inflow of resources of the same amount on the statement of net position. Fair values were based on mark-to-market valuations as of the fiscal year end that were established by market quotations from TD Bank representing estimates of the amounts that would be paid for replacement transactions. This estimates the net present value of the expected cash flows between the parties to the swap agreement, using relevant mid-market data inputs based on the assumption of no unusual market conditions or forced liquidation and does not include an assessment of nonperformance risk. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

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

**Interest Rate and Credit Risk**

The fair value of the interest rate swap is highly sensitive to interest rate changes and, as a result, the Collaborative is exposed to interest rate risk. As of June 30, 2017, the Collaborative is exposed to credit risk in the amount of \$156,336 because the interest rate swap had a positive fair value. However, should interest rates change and the fair value of the swap becomes negative, the Collaborative would not be exposed to credit risk. TD Bank was rated AA- by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2017.

**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.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Refinanced Building and Land Acquisition (Continued)

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

**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 is November 11, 2036. Principal payments on the bond are payable in monthly installments and will commence on December 11, 2017 and on the eleventh day of every month thereafter.

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

Bonds Payable

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



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE N - LONG-TERM LIABILITIES (Continued)

Bonds Payable (Continued)

*Swap Payments and Associated Debt*

For the year ended June 30, 2017, the Collaborative did not receive any payments on any of the swap agreements described above. Using rates as of June 30, 2017, 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>
2018	\$ 244,597	\$ 240,579	\$ 62,894	\$ 548,070
2019	276,676	234,424	45,267	556,367
2020	284,283	227,920	41,075	553,278
2021	292,098	221,235	40,017	553,350
2022	300,129	214,366	38,930	553,425
2023-2027	1,629,093	961,979	158,168	2,749,240
2028-2032	1,865,772	759,506	-	2,625,278
2033-2037	2,076,752	527,949	-	2,604,701
2038-2042	1,889,544	308,266	-	2,197,810
2043-2047	<u>1,853,832</u>	<u>90,666</u>	<u>-</u>	<u>1,944,498</u>
	<u>\$10,712,776</u>	<u>\$ 3,786,890</u>	<u>\$ 386,351</u>	<u>\$14,886,017</u>

The total interest incurred by the Collaborative during the current fiscal year related to the bonds payable was \$365,473. Interest expense was charged to functions/programs of the Collaborative as follows:

Governmental activities:	
Adult day program	\$ 72,905
Student services	248,067
Professional development	6,628
General and administrative	<u>37,873</u>
	<u>\$ 365,473</u>

NOTE O - OTHER POSTEMPLOYMENT BENEFITS

The Collaborative provides other postemployment benefits ("OPEB") for its employees through a single-employer, defined benefit OPEB plan which is administered by the Collaborative.

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 plan, which covers both active and retired members. The Plan provides coverage for 50% of the cost of the benefits and the employee is responsible for the other 50%. 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 service with the Collaborative and have been covered under one of the Collaborative's medical plans for one year. The Plan does not issue a separate, publicly available report. The Collaborative has the authority to establish and amend benefit provisions of the Plan.

During the fiscal year ended June 30, 2017, the Plan had nineteen retirees and eight spouses of retirees receiving benefits. The Plan has a total of 255 active participants and dependents, of which 228 are not yet eligible to receive benefits.

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 Collaborative funds this postemployment benefit on a pay-as-you go basis. The cost of administering the Plan is paid by the Collaborative. During the year ended June 30, 2017, the Collaborative contributed \$63,535 to the Plan comprised of benefit payments made on behalf of retirees (net of reinsurance) and net of retiree contributions.

Plan members contribute nothing while active, but 50% of health premiums after retirement.

Annual OPEB Cost and Net OPEB Obligation

The Collaborative's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the Collaborative, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*. ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For the fiscal year ended June 30, 2017, the Collaborative's annual OPEB cost was \$842,496.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the Collaborative's annual OPEB cost for 2017, the amount of the annual OPEB cost actually contributed to the Plan, and changes in the Collaborative's net OPEB obligation for the year ended June 30, 2017:

Annual required contribution (ARC)	\$ 708,910
Interest on net OPEB obligation	100,726
Amortization of Actuarial (Gains)/Losses	184,042
Adjustment to the ARC	<u>(151,182)</u>
Annual OPEB cost (expense)	842,496
Net OPEB contributions made during the fiscal year	<u>(63,535)</u>
Increase in net OPEB obligation	778,961
Net OPEB obligation - beginning of year	<u>2,877,864</u>
Net OPEB obligation - end of year	<u>\$ 3,656,825</u>

The Collaborative's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the current year and each of the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/17	\$ 842,496	\$ 65,535	7.78%	\$ 3,656,825
06/30/16	\$ 688,470	\$ 49,625	7.21%	\$ 2,877,864
06/30/15	\$ 554,433	\$ 25,300	4.56%	\$ 2,239,019

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial accrued liability (AAL)	\$ 6,294,471
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 6,294,471</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 11,814,889
UAAL as a percentage of covered payroll	53.28%

SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Although the valuation results are based on values which the Collaborative's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return (discount rate), a long-term compensation increase rate of 3.0%, and a long-term inflation rate of 2.75%. The annual healthcare cost trend rate is 5.0% for the 2017 fiscal year with an ultimate medical trend rate of 5.0% per year. The only post-retirement benefit increases were assumed increases in medical and dental costs over time. The actuarial value of the Plan assets was set at market value of the Plan assets as of the valuation date.

The Plan's unfunded actuarial accrued liability (UAAL) as of 2008 is being amortized as a level percentage of projected payroll on a closed period of thirty years from 2008, and changes in the UAAL from 2016 through 2017 are amortized over the remaining portion of the thirty-year period. Future changes in the UAAL will be amortized on an open period of ten years from inception. The remaining amortization period at June 30, 2017 was twenty-one years.

NOTE P - CONCENTRATIONS

At June 30, 2017, approximately 41.9% of the Collaborative's employees work under collective bargaining agreements. All of these employees are represented by unions whose existing agreements expired on June 30, 2017 or will expire August 31, 2017. Negotiations are currently underway to negotiate successor agreements. The Collaborative's other employees are not represented by a union.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

NOTE Q - DUE TO MEMBER COMMUNITIES

The Collaborative is maintaining certain monies for some of their member communities. These monies are not held in separate bank accounts but co-mingled with the operating funds of the Collaborative in the main checking account of the Collaborative. Recordkeeping is completed by the Collaborative of each community's balance owed to them and a statement of the balance of the account is sent to each community on a monthly basis.

No amounts were ever received from the communities to fund these accounts. Instead, they were initially funded by past surpluses of the Collaborative that were allocated to each community. However, this process was terminated many years ago. Other significant increases to these accounts occurred through billing done by the Collaborative for the communities for tuition exchange programs with other communities. However, this program has also been terminated. The other manner in which monies are currently still added to these accounts is when the Collaborative incurs rental fees for use of classrooms in the communities for the student services program. Instead of paying the communities directly, these rental fees are added to the community's account. This is expected to be discontinued during the fiscal year ended June 30, 2018.

There is one main way for the communities to access the monies held by the Collaborative. At the request of the superintendent of the community, the funds can be used to pay for students that are attending classes at the Collaborative. In this instance, the Collaborative will reduce the community's account by the amount of tuition that the community owed for particular students in the Collaborative's student services program. The Collaborative cannot use these funds without explicit permission from authorized individuals in the community and the funds can only be used in the manner described above.

At June 30, 2017, there was only one community that remained that was owed any amounts. This community was Saugus and the amount owed was \$10,000.

Subsequent to June 30, 2017, this amount was used to reduce the Collaborative's invoices to Saugus. After these transactions, there are no longer any amounts due to member communities.

NOTE R - 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 S - SUBSEQUENT EVENTS

See Note Q for subsequent events related to the amount due to a member community.

Management has evaluated the impact of all other subsequent events on the Collaborative through December 5, 2017, 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, 2017

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, 2017:

<u>Employee</u>	<u>Duties</u>	<u>Total Compensation</u>
Jacki Clark	Executive Director	\$167,047
Robert Alconada	Assistant Executive Director	\$144,474
Eugene Lacava	Chief Information Officer	\$111,466
Stacey McDaniel	Director of Adult Services	\$109,791
Cathy MacNeil	Educational Coordinator	\$106,174

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 Age 22 and Older

The amounts expended on services for individuals age 22 and older for the fiscal year ended June 30, 2017 were \$8,014,348.

The Amounts Expended on Administration and Overhead

The amounts expended on administration and overhead for the fiscal year ended June 30, 2017 were \$5,517,087.

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

The Collaborative does not hold monies in any separate bank accounts that may be spent at the discretion of another person or entity. The Collaborative does hold monies for its member communities but not in separate bank accounts. See Note Q for more information on these accounts.

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, 2017

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 program in Woburn and Peabody as well as some classroom space from its member communities through operating leases. See Note K for information on these operating leases.

The Collaborative's Capital Plan

During the fiscal year ended June 30, 2017, the Collaborative's capital plan included continued purchases of technology for the student services and adult day programs as well as the reconstruction of the parking lot at its Chelsea location. As of June 30, 2017, the Collaborative had begun one project to renovate its Chelsea location. The Collaborative is currently only in the planning stages and is currently working with an architectural firm to draw up potential plans for the renovations. The costs associated with this planning of \$16,251 as of June 30, 2017 are included in capital assets but not being depreciated in the statement of net position. The Collaborative expects to spend in fiscal year 2018 approximately \$1,500,000 to complete these renovations.

The other capital projects that are planned for fiscal years 2018 through 2020 include the following:

- Replacement of some appliances at the Chelsea location for approximately \$30,000
- 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
- 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

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, 2017

Cumulative Surplus Calculation - FY17

		Pages in Financial Statements
(A) Voted Cumulative Surplus as of 6/30/16	\$ 3,630,415	17
(B) 1 Amount of (A) used to support the FY17 Budget	\$ -	
2 Amount of (A) returned to member districts	<u>-</u>	
	-	
(C) Unexpended FY17 General Funds	<u>1,803,925</u>	17
(D) Cumulative Surplus as of 6/30/17	<u>\$ 5,434,340</u>	
(E) FY17 Total General Fund Expenditures	\$ 24,171,811	17
(F) FY17 Cumulative Surplus Percentage	22.48%	62

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, 2017

	Budgeted Amounts			Variance with Final Budget-Positive (Negative)
	Original	Final	Actual	
Revenues:				
Educational program fees	\$ 11,322,639	\$ 11,322,639	\$ 11,987,205	\$ 664,566
Medicaid income	7,097,080	7,097,080	6,256,843	(840,237)
Medicaid municipal billing services	200,000	200,000	163,852	(36,148)
Administrative overhead income	1,733,208	1,733,208	1,711,053	(22,155)
Other income	856,400	856,400	4,011,749	3,155,349
Interest income	4,000	4,000	5,970	1,970
TOTAL REVENUES	21,213,327	21,213,327	24,136,672	2,923,345
Expenditures:				
Current:				
Salaries	11,901,030	11,901,030	11,814,281	86,749
Employee benefits	2,433,695	2,433,695	6,124,905	(3,691,210)
Payroll taxes	658,473	658,473	624,299	34,174
Advertising	6,500	6,500	4,022	2,478
Professional fees and contract services	810,800	810,800	1,027,614	(216,814)
Supplies	393,650	393,650	215,583	178,067
Telephone	95,750	95,750	77,670	18,080
Postage	16,500	16,500	8,790	7,710
Rent	920,000	920,000	590,928	329,072
Staff training	76,450	76,450	64,019	12,431
Rental of equipment	5,250	5,250	3,504	1,746
Transportation	69,000	69,000	53,021	15,979
Printing and publications	25,000	25,000	19,579	5,421
Food	65,500	65,500	101,454	(35,954)
Repairs and maintenance	281,000	281,000	136,188	144,812
Utilities	373,000	373,000	278,520	94,480
Insurance	120,062	120,062	81,649	38,413
Client recreation	19,000	19,000	15,770	3,230
Bad debt	-	-	4,765	(4,765)
Miscellaneous	64,000	64,000	40,907	23,093
Administrative overhead charges	1,708,208	1,708,208	1,711,053	(2,845)
Total current expenditures	20,042,868	20,042,868	22,998,521	(2,955,653)
Debt service:				
Principal	-	-	223,852	(223,852)
Interest	343,000	343,000	365,473	(22,473)
Total debt service	343,000	343,000	589,325	(246,325)
Capital outlay	621,550	621,550	583,965	37,585
TOTAL EXPENDITURES	21,007,418	21,007,418	24,171,811	(3,164,393)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	205,909	205,909	(35,139)	(241,048)
Other Financing Sources (Uses):				
Proceeds from sale of bonds issued at par	-	-	10,850,000	10,850,000
Payments to bond escrow agents	-	-	(9,010,936)	(9,010,936)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	1,839,064	1,839,064
NET CHANGE IN FUND BALANCES	205,909	205,909	1,803,925	1,598,016
Fund balances - beginning	3,630,415	3,630,415	3,630,415	-
FUND BALANCES - ENDING	\$ 3,836,324	\$ 3,836,324	\$ 5,434,340	\$ 1,598,016

See accompanying notes to Required Supplementary Information.



SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH INSURANCE PLAN  
(Unaudited)  
JUNE 30, 2017

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL) Entry-Age	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
July 1, 2007	\$ -	\$1,129,438	0.00%	\$1,129,438	N/A	N/A
July 1, 2008	\$ -	\$1,321,989	0.00%	\$1,321,989	N/A	N/A
July 1, 2009	\$ -	\$1,525,982	0.00%	\$1,525,982	N/A	N/A
July 1, 2010	\$ -	\$1,760,182	0.00%	\$1,760,182	N/A	N/A
July 1, 2011	\$ -	\$2,062,924	0.00%	\$2,062,924	N/A	N/A
July 1, 2012	\$ -	\$2,411,745	0.00%	\$2,411,745	N/A	N/A
July 1, 2013	\$ -	\$2,659,009	0.00%	\$2,659,009	N/A	N/A
July 1, 2014	\$ -	\$3,797,811	0.00%	\$3,797,811	N/A	N/A
July 1, 2015	\$ -	\$4,911,170	0.00%	\$4,911,170	N/A	N/A
July 1, 2016	\$ -	\$6,294,471	0.00%	\$6,294,471	\$11,814,889	53.28%

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR THE  
RETIREE HEALTH INSURANCE PLAN  
(Unaudited)  
JUNE 30, 2017

Fiscal Year	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
June 30, 2008	\$ -	\$200,647	0.00%
June 30, 2009	\$ 1,473	\$219,086	0.67%
June 30, 2010	\$ 6,069	\$257,578	2.36%
June 30, 2011	\$ 8,810	\$332,606	2.65%
June 30, 2012	\$17,472	\$393,618	4.44%
June 30, 2013	\$20,760	\$309,248	6.71%
June 30, 2014	\$22,613	\$291,680	7.75%
June 30, 2015	\$25,300	\$534,588	4.73%
June 30, 2016	\$49,625	\$621,034	7.99%
June 30, 2017	\$63,535	\$708,911	8.96%

See accompanying notes to Required Supplementary Information.



SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF COLLABORATIVE'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM  
(Unaudited)  
LAST THREE FISCAL YEARS

Collaborative's proportion of the net pension liability	June 30, 2014	0.052358%
	June 30, 2015	0.057397%
	June 30, 2016	0.055651%
Collaborative's proportionate share of the net pension liability	June 30, 2014	\$8,323,077
	June 30, 2015	\$11,760,499
	June 30, 2016	\$12,442,400
Collaborative's covered-employee payroll	June 30, 2014	\$3,292,090
	June 30, 2015	\$3,730,046
	June 30, 2016	\$3,740,937
Collaborative's proportionate share of the net pension liability as a percentage of its covered-employee payroll	June 30, 2014	252.82%
	June 30, 2015	315.34%
	June 30, 2016	332.60%
Plan fiduciary net position as a percentage of total pension liability	June 30, 2014	61.64%
	June 30, 2015	55.38%
	June 30, 2016	52.73%

**Notes to Schedule:**

Also, see Note L to the financial statements.

Measurement Date

The amounts presented in this schedule were determined as of June 30, 2016.

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.

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF COLLABORATIVE'S CONTRIBUTIONS  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM  
(Unaudited)  
LAST THREE FISCAL YEARS

**Fiscal 2014**

Contractually required contribution	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>
Collaborative's covered-employee payroll	\$ 3,292,090
Contributions as a percentage of covered-employee payroll	0.00%

**Fiscal 2015**

Contractually required contribution	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>
Collaborative's covered-employee payroll	\$ 3,730,046
Contributions as a percentage of covered-employee payroll	0.00%

**Fiscal 2016**

Contractually required contribution	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>
Collaborative's covered-employee payroll	\$ 3,740,937
Contributions as a percentage of covered-employee payroll	0.00%

**Notes to Schedule:**

Also, see Note L to the financial statements.

**Measurement Date**

The amounts presented in this schedule were determined as of June 30, 2016.

**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.

See accompanying notes to Required Supplementary Information.



SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF COLLABORATIVE'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
MASSACHUSETTS STATE EMPLOYEES' RETIREMENT SYSTEM  
(Unaudited)  
LAST THREE FISCAL YEARS

Collaborative's proportion of the net pension liability	June 30, 2014	0.12582%
	June 30, 2015	0.13236%
	June 30, 2016	0.12767%
Collaborative's proportionate share of the net pension liability	June 30, 2014	\$9,341,091
	June 30, 2015	\$15,066,520
	June 30, 2016	\$17,604,901
Collaborative's covered-employee payroll	June 30, 2014	\$6,665,551
	June 30, 2015	\$7,203,966
	June 30, 2016	\$7,111,381
Collaborative's proportionate share of the net pension liability as a percentage of its covered-employee payroll	June 30, 2014	140.14%
	June 30, 2015	209.14%
	June 30, 2016	247.56%
Plan fiduciary net position as a percentage of total pension liability	June 30, 2014	76.32%
	June 30, 2015	67.87%
	June 30, 2016	63.48%

**Notes to Schedule:**

Also, see Note L to the financial statements.

Measurement Date

The amounts presented in this schedule were determined as of June 30, 2016.

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.

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE  
SCHEDULE OF COLLABORATIVE'S CONTRIBUTIONS  
MASSACHUSETTS STATE EMPLOYEES' RETIREMENT SYSTEM  
(Unaudited)  
LAST THREE FISCAL YEARS

**Fiscal 2014**

Contractually required contribution	\$ 377,419
Contributions in relation to the contractually required contribution	<u>377,419</u>
Contribution deficiency (excess)	<u>\$ -</u>
Collaborative's covered-employee payroll	\$ 6,665,551
Contributions as a percentage of covered-employee payroll	5.66%

**Fiscal 2015**

Contractually required contribution	\$ 402,050
Contributions in relation to the contractually required contribution	<u>402,050</u>
Contribution deficiency (excess)	<u>\$ -</u>
Collaborative's covered-employee payroll	\$ 7,203,966
Contributions as a percentage of covered-employee payroll	5.58%

**Fiscal 2016**

Contractually required contribution	\$ 400,266
Contributions in relation to the contractually required contribution	<u>400,266</u>
Contribution deficiency (excess)	<u>\$ -</u>
Collaborative's covered-employee payroll	\$ 7,111,381
Contributions as a percentage of covered-employee payroll	5.63%

**Notes to Schedule:**

Also, see Note L to the financial statements.

**Measurement Date**

The amounts presented in this schedule were determined as of June 30, 2016.

**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 Commission for MSERS.

See accompanying notes to Required Supplementary Information.



SHORE EDUCATIONAL COLLABORATIVE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)  
JUNE 30, 2017

NOTE A - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The budget is amended by the Board of Directors. All annual appropriations lapse at fiscal year end.

All divisions submit requests for budgets to the Assistant Executive Director so that a budget may be prepared. The budget is prepared by fund, function, and program type, and includes information on the prior and current year budgets. The proposed budget is submitted to the Board of Directors for approval each year. 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, 2017, budgeted appropriations exceeded budgeted expenditures by \$205,909. For the year ended June 30, 2017, actual revenues exceeded actual expenditures by \$1,803,925. Thus, the actual net change in fund balances exceeded the budgeted net change in fund balances by \$1,598,016.

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

Net change in fund balances - general fund	\$ 1,803,925
Debt service difference	246,325
Capital outlay difference	(37,585)
Proceeds from sale of bonds issued at par value	(10,850,000)
Payments to bond escrow agents	9,010,936
Revenue excess	(2,923,345)
Current expenditures excess	<u>2,955,653</u>
Net change in fund balances - budgetary basis	<u>\$ 205,909</u>

NOTE B - PENSION PLAN

A. Changes of Benefit Terms

The Massachusetts Teachers' Retirement System (MTRS) and the Massachusetts State Employees' Retirement System (MSERS) had no changes in benefit terms since the previous valuation.

B. Changes in Assumptions

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

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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, and the major fund of Shore Educational Collaborative (the "Collaborative") as of and for the year ended June 30, 2017, 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 5, 2017.

**Internal Control Over Financial Reporting**

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

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

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




## Compliance and Other Matters

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

We noted certain matters that we reported to management of the Collaborative in a separate letter dated December 5, 2017.

## 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 5, 2017