

SHORE EDUCATIONAL COLLABORATIVE

CHELSEA, MASSACHUSETTS

FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, and the major fund of Shore Educational Collaborative as of June 30, 2018, 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.

Change in Accounting Principle

As discussed in Note A to the financial statements, during the year ended June 30, 2018, the Collaborative implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Massachusetts Department of Elementary and Secondary Education (DESE) required information, budgetary comparison information, schedule of changes in the Collaborative's total OPEB liability and related ratios - 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 62 through 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018, on our consideration of the Collaborative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Collaborative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Collaborative's internal control over financial reporting and compliance.

Livingston & Heynes, P.C.

Wellesley, Massachusetts

November 13, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

(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 61.

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, 2018 by \$2,575,165 (net position). Of this amount, \$624,415 represents unrestricted net position (deficit), which may be used to meet the Collaborative's ongoing obligations to its clients and creditors.

The Collaborative's total net position increased in the current fiscal year by \$424,220 because of higher than expected enrollment in the student services program and strong financial management and monitoring of expenditures and decreased by \$2,974,299 due to the cumulative effect of the change in accounting principle due to the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 75 ("GASB No. 75").

At the close of the fiscal year ended June 30, 2018, the Collaborative's governmental funds reported combined ending fund balances of \$10,240,666. This increased from the prior year by \$1,149,501 due to current year activity and \$3,656,825 due to the cumulative effect of the change in accounting principle due to the implementation of GASB No. 75. Approximately 55.4% of this amount (\$5,677,480) is available for spending at the Collaborative's discretion (unassigned fund balance). This unassigned fund balance was 24.1% of total general fund expenditures. This represents a \$2,801,033 increase in the unassigned fund balance from the prior fiscal year.

At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$8,311,176, or approximately 35.3% of total general fund expenditures.

The Collaborative's total outstanding long-term debt (which includes current portion) decreased by \$244,361 during the current fiscal year. This was primarily due to regularly scheduled pay downs of principal on the bonds payable outstanding during the current fiscal year.

B. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The statement of activities presents information showing how the Collaborative's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected 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 20-61 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information, including the budgetary comparison statement, as well as information concerning the Collaborative's progress in funding its obligation to provide pension benefits to its employees, and information on the total other postemployment benefits liability. Required supplementary information can be found on pages 62-74 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 \$2,575,165 at June 30, 2018.

C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

The following is a summary of the Collaborative's net position as of June 30, 2018, compared to its net position as of June 30, 2017.

Shore Educational Collaborative Statement of Net Position June 30, 2018 and 2017		
	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 12,043,553	\$ 10,614,254
Capital assets	<u>10,076,718</u>	<u>10,403,680</u>
Total assets	22,120,271	21,017,934
 Total deferred outflows of resources	 75,193	 23,430
 Total assets and deferred outflows of resources	 22,195,464	 21,041,364
 Long-term liabilities outstanding	 10,192,323	 10,468,179
Other liabilities due in more than one year:		
Total other postemployment benefits liability	7,206,249	-
Other liabilities	<u>1,662,364</u>	<u>5,291,605</u>
Total liabilities	19,060,936	15,759,784
 Total deferred inflows of resources	 559,363	 156,336
 Total liabilities and deferred inflows of resources	 19,620,299	 15,916,120
 Net position:		
Net investment in capital assets	1,403,370	1,485,876
Restricted	1,796,210	1,796,115
Unrestricted	<u>(624,415)</u>	<u>1,843,253</u>
 Total net position	 <u>\$ 2,575,165</u>	 <u>\$ 5,125,244</u>

The largest portion of the Collaborative's net position, \$1,796,210 (69.7%), represents resources that are subject to external restriction on how they may be used. A majority of this amount, \$1,795,067 (99.9%) is restricted for future capital projects.

The second largest portion of the Collaborative's net position, \$1,403,370 (54.5%), reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, furniture, equipment, leasehold improvements, logo development costs, and construction in progress), less any related outstanding debt that was used to acquire those assets. The Collaborative uses these capital assets to provide a variety of services to its clients. Accordingly, these assets are not available for future spending. Although the Collaborative's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining portion of the Collaborative's net position, \$(624,415) (24.2%), is unrestricted and may be used to meet the Collaborative's ongoing obligations to its clients and creditors.

C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

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

The Collaborative's net position increased in the current fiscal year by \$424,220 from the prior fiscal year before the cumulative effect of recording the beginning balance in the total other postemployment benefits liability in accordance with GASB No. 75. The reasons for this overall increase are discussed in the following section for governmental activities. During the current fiscal year, the Collaborative recorded increases in total postemployment benefits liability of \$2,974,299 required by GASB No. 75 which decreased the overall net position.

The governmental activities current and other assets increased by \$1,429,299, primarily due to an increase in cash due to increased fees charged and collected for current and new program services introduced during this fiscal year, along with higher accounts receivable due to increased enrollment. Deferred outflows of resources increased \$51,763 due to payments made toward the total postemployment benefits liability that have not been used to reduce the liability. The governmental activities total liabilities increased \$3,301,152 due to implementing GASB No. 75 and recording the total postemployment benefits liability. Deferred inflows of resources increased \$403,027 due to recording a new deferred inflow of resources from the total postemployment benefits liability due to implementing GASB No. 75.

Governmental Activities. The key elements of the changes in the Collaborative's net position for the fiscal years ended June 30, 2018 and 2017, are as follows.

Shore Educational Collaborative Changes in Net Position For the Fiscal Years Ended June 30, 2018 and 2017		
	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 17,383,774	\$ 16,544,461
Operating grants and contributions	5,468,399	5,831,954
Capital grants and contributions	-	-
General revenues:		
Other income	27,951	31,234
Interest income	6,252	5,970
Overhead income	1,791,750	1,711,053
Rental income	14,400	12,000
Total revenues	<u>24,692,526</u>	<u>24,136,672</u>
Expenses:		
Adult day program	8,140,504	8,014,348
Student services	10,112,794	9,453,288
Professional development	444,433	351,538
Client workshop	56,232	70,448
Fiscal agent services	69,952	182,911
Medicaid municipal billing services	212,356	199,845
General and administrative	<u>5,232,035</u>	<u>5,517,087</u>
Total expenses	<u>24,268,306</u>	<u>23,789,465</u>
Increase in net position	424,220	347,207

C. GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS (Continued)

Shore Educational Collaborative
Changes in Net Position (Continued)
For the Fiscal Years Ended June 30, 2018 and 2017

Net position - beginning, as previously reported	\$ 5,125,244	\$ 4,778,037
Cumulative effect of a change in accounting principle - implementation of GASB No. 75	<u>(2,974,299)</u>	<u>-</u>
Net position - ending	<u>\$ 2,575,165</u>	<u>\$ 5,125,244</u>

During the current fiscal year, net position for governmental activities increased \$424,220 from the prior fiscal year before the cumulative effect of a change in accounting principle - implementation of GASB No. 75. Net position decreased \$2,974,299 due to the implementation of GASB No. 75 for an ending balance of \$2,575,165. 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 \$555,854 or 2.3% from the prior year. The major reason for this increase was due to charges for services increasing \$839,313 or 5.1% 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. This increase was reduced by the decrease in operating grants and contributions of \$363,555 or 6.2% as a result of a decrease 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 Collaborative's total governmental activities expenses for the year ended June 30, 2018 increased by \$478,841 or 2.0% from the prior year. Four of the activities reported spending growth from the prior year, led by student services which accounted for \$659,506 or 74.0% of total spending growth. This was due to hiring additional temporary and permanent employees because of the increased enrollment and service requirements and also scheduled salary increases during the current fiscal year. The activity with the second largest spending growth was the adult day program which accounted for \$126,156 or 14.2% 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 general and administrative which accounted for \$285,052 or 69.1% of the spending decrease. This was due to a decrease 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 activity with the second largest spending decrease was the fiscal agent services which accounted for \$112,959 or 27.4% of the total spending decrease. This was due to there being fewer grants that were obtained in which the Collaborative performed fiscal agent services.

Governmental activities increased the Collaborative's net position by \$424,220 or 8.3% during fiscal 2018 before the cumulative effect of a change in accounting principle - implementation of GASB No. 75. The key elements of this increase can be explained by higher than projected enrollments in the student services and adult day programs and strong financial management and monitoring of expenditures.

D. FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

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

At June 30, 2018, the Collaborative's governmental funds reported combined ending fund balances of \$10,240,666, an increase of \$1,149,501 in comparison with the prior year before the cumulative effect of a change in accounting principle - implementation of GASB No. 75. The implementation of GASB No. 75 increased the reported ending fund balances by \$3,656,825. Approximately 55.4% of the reported combined ending fund balances (\$5,677,480) 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 (\$133,280), 2) restricted due to external limitations on its use, such as by the intention of grantors, donors, or trustees (\$1,796,210), or 3) committed for particular purposes such as day habilitation adult program expansion, future programs, building, sick bank, professional development, the adult day program, fringe benefits, and other purposes (\$2,633,696).

The general fund is the chief operating fund of the Collaborative. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,677,480, while the total fund balance was \$10,240,666. 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 24.1% of total general fund expenditures, while total fund balance represents 43.5% of that same amount.

During the current fiscal year, the fund balance of the Collaborative's general fund increased by \$1,149,501 before the cumulative effect of a change in accounting principle - implementation of GASB No. 75. This increase was due primarily to higher than projected enrollments in the student services program and adult day program and strong financial management and monitoring of expenditures. Revenues totaling \$24,692,526, increased by \$555,854 due to increases in enrollment and charged rates in the student services program. Expenditures totaling \$23,543,025 decreased by \$628,786 due to a decrease in capital outlay due to not many large projects being completed and recognizing decreased 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, 2018.

Final budget compared to actual results. Budgetary revenues were \$2,980,857 lower than the actual revenues. The most significant differences between budgeted revenues and actual revenues were as follows:

E. GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

<u>Revenue source</u>	<u>Revenues</u>	<u>Budgeted Revenues</u>	<u>Actual Difference</u>
Other income	\$ 3,739,027	\$ 414,400	\$ 3,324,627
Medicaid income	\$ 6,212,233	\$ 7,155,718	\$ (943,485)
Educational program fees	\$ 12,773,152	\$ 12,093,496	\$ 679,656

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 program. 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.

Budgetary expenditures were \$1,552,665 lower than actual expenditures. The most significant differences between budgeted expenditures and actual expenditures were as follows:

<u>Expenditures</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Difference</u>
Salaries	\$ 12,779,799	\$ 12,385,012	\$ 394,787
Employee benefits	\$ 2,694,509	\$ 5,307,133	\$ (2,612,624)
Supplies	\$ 346,250	\$ 226,839	\$ 119,411
Rent	\$ 912,500	\$ 586,676	\$ 325,824
Debt service	\$ 277,500	\$ 549,923	\$ (272,423)

Salaries were lower than budgeted due to not filling vacancies that were expected to have been filled. Employee benefits were higher than budgeted due to continuing rising premium increases for health insurance and workers' compensation and higher than expected on-behalf payments from the Massachusetts Teachers' Retirement System and the Massachusetts State Employees' Retirement System. 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. 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.

Overall, the actual change in fund balances was \$1,134,133 higher than the budgetary change in fund balances due to the reasons explained above from higher revenues than had been budgeted and having enough additional revenues to neutralize the additional expenditures.

F. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The Collaborative's investment in capital assets for its governmental activities as of June 30, 2018, amounts to \$10,076,718 (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 decrease in the Collaborative's investment in capital assets for the current fiscal year was \$326,962 or 3.1%.

Major capital asset events during the current fiscal year included technology purchases and a cafeteria conversion.

F. CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

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

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 36,964	\$ 65,515
Land improvements	512,510	534,319
Furniture and equipment	132,542	125,595
Logo development costs	-	1,222
Building	4,197,987	4,348,138
Land	1,157,580	1,157,580
Construction in progress	16,251	16,251
Building improvements	<u>4,022,884</u>	<u>4,155,060</u>
Total	<u>\$ 10,076,718</u>	<u>\$ 10,403,680</u>

Additional information on the Collaborative's capital assets can be found in Note J on page 39 of this report.

Long-term debt. At June 30, 2018, the Collaborative had total long-term debt outstanding of \$10,468,415. 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>2018</u>	<u>2017</u>
Bonds payable	<u>\$ 10,468,415</u>	<u>\$ 10,712,776</u>
Total Outstanding Long-Term Debt	<u>\$ 10,468,415</u>	<u>\$ 10,712,776</u>

During the current fiscal year, the Collaborative's total long-term debt decreased by \$244,361 or 2.3%. The reason for the decrease was the principal payments that were made on the bonds payable.

Additional information on long-term debt can be found in Note N to the financial statements of pages 50-56 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, 2018, the proportionate share of the net pension liability associated with the Collaborative was \$13,983,324 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, 2018, the proportionate share of the net pension liability associated with the Collaborative was \$15,931,468 which represented 0.12% 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 29 retired employees and their spouses receiving these benefits, which are financed on a pay-as-you-go basis. Starting in the 2017-2018 fiscal year, the Collaborative had to account for other postemployment benefits in accordance with GASB No. 75. Under GASB No. 75, the Collaborative is required to report the effects of other postemployment benefits obligations transactions and the assets available to satisfy the obligations. This change significantly increased and accelerated the recording of these costs and significantly impacted the Collaborative's financial statements. The implementation of GASB No. 75 led to a cumulative effect of a change in accounting principle that decreased net position in the statement of net position by \$2,974,299 and increased combined ending fund balances in the governmental funds balance sheet by \$3,656,825. At June 30, 2018, an independent actuarial analysis determined that the Collaborative's future liability for these benefits or total other postemployment benefits obligation was \$7,206,249. This amount was accounted for as a liability on the Collaborative's statement of net position.

Additional information on the Collaborative's pension arrangements and postemployment benefits can be found in Notes L and O on pages 40-49 and 57-60, 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 2018-2019 fiscal year budget.

- Continuing increases in employee benefits, including health insurance and workers' compensation premiums.
- Exponential increases in other postemployment employee benefit liability costs.
- Increased capital outlay related to funding and maintaining classroom technologies.
- Implementation of salary increases in the Student Services and Adult Day Programs.
- 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.

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

During the current fiscal year, the fund balance in the general fund increased by \$1,149,501 before the cumulative effect of a change in accounting principle - implementation of GASB No. 75 and increased by \$3,656,825 due to the implementation of GASB No. 75 to \$10,240,666. Included in this total amount are \$133,280 in prepaid expenses reported as nonspendable, \$1,796,210 in funds restricted for the Giving Tree and capital projects, and \$2,633,696 in funds committed by the Board. These items are reappropriated in the budget for 2018-2019. All of these factors were considered in preparing the Collaborative's budget for the 2019 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, 2018

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	<u>Component Unit</u>
ASSETS		
Cash and cash equivalents	\$ 6,611,648	\$ 47,066
Accounts receivable	3,044,407	-
Other receivables	9,904	-
Due from component unit	30,000	-
Prepaid expenses	133,280	-
Restricted cash	1,795,067	-
Derivative instrument-interest rate swap	419,247	-
Capital assets, not being depreciated	1,173,831	-
Capital assets, net of accumulated depreciation	<u>8,902,887</u>	<u>-</u>
TOTAL ASSETS	22,120,271	47,066
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows-total other postemployment benefits liability	72,561	-
Deferred outflows-hedge	<u>2,632</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>75,193</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>22,195,464</u>	<u>47,066</u>
LIABILITIES		
Accounts payable	410,403	-
Accrued salaries and fringe benefits	681,844	-
Accrued expenses	291,393	-
Due to primary government	-	30,000
Derivative instrument-interest rate swap	2,632	-
Long-term liabilities:		
Due within one year	276,092	-
Due in more than one year	10,192,323	-
Other liabilities due in more than one year:		
Total other postemployment benefits liability	<u>7,206,249</u>	<u>-</u>
TOTAL LIABILITIES	19,060,936	30,000
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows-total other postemployment benefits liability	140,116	-
Deferred inflows-hedge	<u>419,247</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>559,363</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>19,620,299</u>	<u>30,000</u>
NET POSITION		
Net investment in capital assets	1,403,370	-
Restricted for:		
Giving Tree Fund	1,143	-
Capital projects	1,795,067	-
Unrestricted (deficit)	<u>(624,415)</u>	<u>17,066</u>
TOTAL NET POSITION	<u>\$ 2,575,165</u>	<u>\$ 17,066</u>

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

SHORE EDUCATIONAL COLLABORATIVE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Program Revenues				Net Revenue (Expense) and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit
Primary Government:						
Governmental activities:						
Adult day program	\$ 8,140,504	\$ 6,233,704	\$ 1,776,323	\$ -	\$ (130,477)	\$ -
Student services	10,112,794	10,579,558	113,985	-	580,749	-
Professional development	444,433	354,680	-	-	(89,753)	-
Client workshop	56,232	720	-	-	(55,512)	-
Fiscal agent services	69,952	-	57,191	-	(12,761)	-
Medicaid municipal billing services	212,356	170,112	-	-	(42,244)	-
General and administrative	5,232,035	45,000	3,520,900	-	(1,666,135)	-
TOTAL PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES	\$ 24,268,306	\$ 17,383,774	\$ 5,468,399	\$ -	(1,416,133)	-
Component unit:						
Shore Educational Collaborative Foundation, Inc.	\$ 74	\$ -	\$ 2,150	\$ -	-	2,076
TOTAL COMPONENT UNIT	\$ 74	\$ -	\$ 2,150	\$ -	-	2,076
General revenues:						
Other income					27,951	-
Interest income					6,252	-
Overhead income					1,791,750	-
Rental income					14,400	-
TOTAL GENERAL REVENUES					1,840,353	-
Change in net position					424,220	2,076
Net position - beginning, as previously reported					5,125,244	14,990
Cumulative effect of a change in accounting principle - implementation of GASB 75					(2,974,299)	-
Net position - beginning, as restated					2,150,945	14,990
NET POSITION - ENDING					\$ 2,575,165	\$ 17,066

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

SHORE EDUCATIONAL COLLABORATIVE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 6,611,648
Accounts receivable	3,044,407
Other receivables	9,904
Due from Foundation	30,000
Prepaid expenses	133,280
Restricted cash	<u>1,795,067</u>
TOTAL ASSETS	<u>\$ 11,624,306</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 410,403
Accrued salaries and fringe benefits	681,844
Accrued expenses	<u>291,393</u>
TOTAL LIABILITIES	1,383,640
 Fund balances:	
Nonspendable:	
Prepaid expenses	133,280
Restricted:	
Giving Tree Fund	1,143
Capital projects	1,795,067
Committed:	
Dayhab adult program expansion	15,736
Future programs	111,687
Building	2,110,604
Sick bank	30,000
Professional development	13,600
Adult day program	81,109
Fringe benefits	257,895
Other purposes	13,065
Unassigned	<u>5,677,480</u>
TOTAL FUND BALANCES	<u>10,240,666</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,624,306</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, 2018

	<u>General</u>
REVENUES	
Educational program fees	\$ 12,773,152
Medicaid income	6,212,233
Medicaid municipal billing services	170,112
Administrative overhead income	1,791,750
Other income	3,739,027
Interest income	<u>6,252</u>
TOTAL REVENUES	24,692,526
EXPENDITURES	
Current:	
Salaries	12,385,012
Employee benefits	5,307,133
Payroll taxes	680,525
Advertising	264
Professional fees and contract services	910,252
Supplies	226,839
Telephone	78,079
Postage	7,718
Rent	586,676
Staff training	62,198
Rental of equipment	3,504
Transportation	46,913
Printing and publications	22,897
Food	158,176
Repairs and maintenance	175,841
Utilities	267,106
Insurance	85,536
Client recreation	20,658
Bad debt	51,462
Miscellaneous	42,927
Administrative overhead charges	<u>1,791,750</u>
Total current expenditures	22,911,466
Debt service:	
Principal	244,361
Interest	<u>305,562</u>
Total debt service	549,923
Capital outlay	<u>81,636</u>
TOTAL EXPENDITURES	<u>23,543,025</u>
NET CHANGE IN FUND BALANCES	1,149,501
Fund balances - beginning, as previously reported	5,434,340
Cumulative effect of a change in accounting principle - implementation of GASB 75	<u>3,656,825</u>
Fund balances - beginning, as restated	<u>9,091,165</u>
FUND BALANCES - ENDING	<u>\$ 10,240,666</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, 2018

Total fund balances - governmental funds (page 16)	\$ 10,240,666
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Amounts reported for governmental activities in the statement of net position (page 14) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,076,718
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Some assets and liabilities are not financial resources used in governmental activities and, therefore, are not reported in governmental funds.	416,615
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Certain long-term liabilities, such as bonds payable and other postemployment benefits liability, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(18,158,834)</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,575,165</u>
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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, 2018

Net change in fund balances - total governmental funds (page 17) \$ 1,149,501

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period. (326,962)

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. 549,923

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. (642,680)

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. (305,562)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 424,220

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

According to the Collaborative Agreement, each member community is annually assessed a membership fee which is determined annually by the Board of Directors. The fiscal year 2018 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, 2018

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.

Cumulative Effect of Change in Accounting Principle

The Collaborative has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* ("GASB No. 75"). GASB No. 75 provides guidance on employer reporting for employer governmental entities whose employees are provided with other postemployment benefits ("OPEB"). Under GASB No. 75, the Collaborative is required to report the effects of OPEB-related transactions and events on its financial statements and to provide information about the Collaborative's OPEB obligations and the assets available to satisfy the obligations. Previously, the Collaborative recognized its net OPEB obligation over time in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under GASB No. 75, the Collaborative is required to recognize its total OPEB liability immediately on the statement of net position. The beginning net position on the government-wide financial statements as a result of the cumulative effect of this change in accounting principle decreased in the amount of \$2,974,299 from the amount previously reported in the financial statements for the year ended June 30, 2017. Under GASB No. 75, the Collaborative should not recognize the total OPEB liability on its governmental funds balance sheet since it is considered a long-term liability. Thus, the beginning fund balances on the governmental funds balance sheet as a result of the cumulative effect of this change in accounting principle increased in the amount of \$3,656,825 from the amount previously reported in the financial statements for the year ended June 30, 2017.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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.

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 latter are excluded from the government-wide financial statements. The major individual governmental fund is reported as the general fund in the fund financial statements.

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

Fund Financial Statements

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Funds are organized as major funds or non-major funds within the governmental and fiduciary statements, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

The emphasis in fund financial statements is on the major funds in the governmental activities categories. GASB pronouncements set forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Collaborative may electively add funds, as major funds, which have specific community focus. The Collaborative reports one major governmental fund and does not report on any non-major funds.

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.

Fiduciary funds are used to report assets held in a trustee or agent capacity for others and therefore are not available to support Collaborative programs. The reporting focus is on net position and changes in net position presented in fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (retirees) and cannot be used to address activities or obligations of the Collaborative, these funds are not incorporated into the government-wide financial statements. The Collaborative has no fiduciary funds.

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

Basis of Accounting

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

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

Measurement Focus

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

Government-Wide Financial Statements

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

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Fund Financial Statements

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

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

Use of Estimates

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

Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

During the fiscal year ended June 30, 2018, the following GASB pronouncements were implemented:

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have legal obligation to provide financial support for OPEB provided to employees of other entities. The Collaborative adopted GASB No. 75 during the fiscal year ended June 30, 2018. See the Basis of Presentation - Cumulative Effect of Change in Accounting Principle for the effect of adoption of this accounting principle on the financial statements.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Principles (Continued)

Recently Issued and Adopted Accounting Pronouncements (Continued)

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The adoption of GASB No. 81 does not have any impact on the Collaborative's financial statements.

The GASB issued Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements. The adoption of GASB No. 85 does not have any impact on the Collaborative's financial statements.

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which provides guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The adoption of GASB No. 86 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. 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. 87, *Leases*, which is required to be implemented in fiscal year 2021. Management is currently evaluating the impact of the adoption of this statement on the Collaborative's financial statements.

The GASB issued Statement No. 88, *Certain Disclosure Related to Debt, including Direct Borrowing and Direct Placements*, 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Recently Issued Accounting Principles (Continued)

Recently Issued Accounting Pronouncements (Continued)

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

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

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, 2018, 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows of Resources

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Collaborative has two items that qualify for reporting in this category. The Collaborative reports deferred inflows of resources related to the accumulated increase in fair value of the interest rate swap contract reported in the government-wide statement of net position. It represents the fair value of future payments that will need to be made under the interest rate swap contract that the Collaborative has entered into. The Collaborative also reports deferred inflows of resources for changes in expected and actual investment returns, assumptions, and benefits provided in its other postemployment benefits plan.

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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications

Government-Wide Financial Statements

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

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

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

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

Net Position Flow Assumption

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

Fund Financial Statements

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Fund Financial Statements (Continued)

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.
- 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, 2018.
- 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

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, 2018, the expenditures totaled \$778,776. The Collaborative obtained this amount based on an actuarial valuation of its obligations for postemployment health benefits. The actuarial assumptions included a 3.25% 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. See Note O.

Allocation of Costs

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 \$10,076,718 are as follows:

Leasehold improvements	\$ 440,667
Less: Accumulated amortization-leasehold improvements	(403,703)
Land improvements	545,223
Less: Accumulated depreciation-land improvements	(32,713)
Furniture and equipment	1,582,299
Less: Accumulated depreciation-furniture and equipment	(1,449,757)
Logo development costs	20,000
Less: Accumulated amortization-logo development costs	(20,000)
Building	5,855,910
Less: Accumulated depreciation-building	(1,657,923)
Land	1,157,580
Construction in progress	16,251
Building improvements	5,446,420
Less: Accumulated depreciation-building improvements	<u>(1,423,536)</u>
Net adjustment to increase total fund balances - governmental funds to arrive at net position of governmental activities	<u>\$ 10,076,718</u>

Another element of that reconciliation explains that "some assets and liabilities are not financial resources used in governmental activities and, therefore, are not reported in governmental funds". The details of this \$416,615 are as follows:

Derivative instrument-interest rate swap - asset	\$ 419,247
Derivative instrument-interest rate swap - liability	<u>(2,632)</u>
Net adjustment to increase total fund balances - governmental funds to arrive at net position of governmental activities	<u>\$ 416,615</u>

The final element of that reconciliation explains that "certain long-term liabilities, such as bonds payable and other postemployment benefits liability, are not due and payable in the current period and, therefore, are not reported in the funds". The details of this \$18,158,834 difference are as follows:

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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):

Bonds payable due within one year	\$ 276,092
Bonds payable due in more than one year	10,192,323
Total other postemployment benefits liability	7,206,249
Deferred outflows-total other postemployment benefits liability	(72,561)
Deferred inflows-total other postemployment benefits liability	140,116
Deferred inflows-hedge from interest rate swap	419,247
Deferred outflows-hedge from interest rate swap	<u>(2,632)</u>
Net adjustment to reduce total fund balances - governmental funds to arrive at net position of governmental activities	<u>\$ 18,158,834</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 depreciation expense exceeds capital outlays in the current period". The details of this \$326,962 difference are as follows:

Capital outlay	\$ 81,636
Depreciation expense	<u>(408,598)</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net position of governmental activities	<u>\$ (326,962)</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items". The details of this \$549,923 difference are as follows:

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

Principal repayments of bonds payable	\$ 244,361
Interest expense of bonds payable	<u>305,562</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position of governmental activities	 <u>\$ 549,923</u>

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds". The details of this \$642,680 difference are as follows:

Change in total other postemployment benefits liability	\$ 715,241
Change in related deferred amounts related to total other postemployment benefits liability	 <u>(72,561)</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net position of governmental activities	 <u>\$ 642,680</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, 2018

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, 2018, there were no budget amendments that were required.

Excess of Appropriations over Expenditures

For the year ended June 30, 2018, expenditures in the general fund exceeded appropriations by \$1,846,724 due to higher than expected pension costs from MTRS and MSERS during the fiscal year ended June 30, 2018. 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, 2018

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, 2018, the Collaborative's bank balance was \$8,545,041 and \$8,293,862 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2018, the Foundation's bank balance was \$47,066 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, 2018 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	\$1,405,547	46.2%
Commonwealth of Massachusetts:		
Department of Elementary and Secondary Education	31,339	1.0
Commonwealth Care	10,583	0.4
Massachusetts Commission for the Blind	871	0.0
Department of Health & Human Services	1,139,762	37.4
Department of Developmental Services	<u>197,626</u>	<u>6.5</u>
Total Commonwealth of Massachusetts	1,380,181	45.3
Other	<u>258,679</u>	<u>8.5</u>
Total accounts receivable, net	<u>\$3,044,407</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, 2018

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, 2018:

Accrued rent	\$ 238,682
Accrued legal and audit	35,000
Accrued payroll taxes	1,440
Accrued interest	<u>16,271</u>
Total accrued expenses	<u>\$ 291,393</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, 2018 the bank's prime rate was 4.5%. 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, 2018, the Collaborative did not draw on this line. The bank will review the line annually with the next review occurring on February 28, 2019.

A summary of changes of the demand line of credit consists of the following at June 30, 2018:

	Balance July 1, 2017	Additions	Repayments	Balance June 30, 2018
Demand line of credit	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE I - COMMITMENTS AND CONTINGENCIES

During the previous 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, 2018, all of the work had been completed, billed, and paid for by the Collaborative.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE J - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Deletions	Transfers/ Reclassifi- cations	Balance June 30, 2018
<u>Governmental activities:</u>					
Capital assets, not being depreciated:					
Land	\$ 1,157,580	\$ -	\$ -	\$ -	\$ 1,157,580
Construction in progress	<u>16,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,251</u>
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	1,173,831	-	-	-	1,173,831
Capital assets, being depreciated:					
Leasehold improvements	440,667	-	-	-	440,667
Land improvements	545,223	-	-	-	545,223
Furniture and equipment	1,508,044	74,255	-	-	1,582,299
Logo development costs	20,000	-	-	-	20,000
Building	5,855,910	-	-	-	5,855,910
Building improvements	<u>5,439,039</u>	<u>7,381</u>	<u>-</u>	<u>-</u>	<u>5,446,420</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	13,808,883	81,636	-	-	13,890,519
Less accumulated depreciation for:					
Leasehold improvements	(375,152)	(28,551)	-	-	(403,703)
Land improvements	(10,904)	(21,809)	-	-	(32,713)
Furniture and equipment	(1,382,449)	(67,308)	-	-	(1,449,757)
Logo development costs	(18,778)	(1,222)	-	-	(20,000)
Building	(1,507,772)	(150,151)	-	-	(1,657,923)
Building improvements	<u>(1,283,979)</u>	<u>(139,557)</u>	<u>-</u>	<u>-</u>	<u>(1,423,536)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(4,579,034)</u>	<u>(408,598)</u>	<u>-</u>	<u>-</u>	<u>(4,987,632)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>9,229,849</u>	<u>(326,962)</u>	<u>-</u>	<u>-</u>	<u>8,902,887</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 10,403,680</u>	<u>\$ (326,962)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,076,718</u>

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

Governmental activities:	
Adult day program	\$ 90,854
Student services	211,832
Professional development	6,230
General and administrative	<u>99,682</u>
Total depreciation expense - governmental activities	<u>\$ 408,598</u>

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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, 2018 was \$586,676. Included in this amount, rent expense for all tenancy-at-will leases for the year ended June 30, 2018 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, 2018 was \$12,360.

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

Year Ending June 30,

2019	\$ 571,488
2020	564,696
2021	336,525
2022	147,656
2023	<u>-</u>
Total minimum lease payments	<u>\$ 1,620,365</u>

NOTE L - PENSION PLANS

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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*. MTRS is managed by the Commonwealth of Massachusetts on behalf of municipal teachers and municipal teacher retirees. The Commonwealth of Massachusetts is a nonemployer contributing entity and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS issues a publicly available annual report that includes financial statements and required supplementary information, which may be obtained by writing to Public Employee Retirement Administrative Commission (PERAC), 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Management of the MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB).

Benefits provided

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

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

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

Contributions

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

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

Contributions (Continued)

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

The Commonwealth of Massachusetts is a nonemployer contributor in MTRS and is required by statute to make all actuarially determined employer contributions on behalf of the member employers participating in MTRS. Therefore, the Collaborative is considered to be in a 100% special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The contributions made by the Commonwealth of Massachusetts are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Thus, the Collaborative is not required to make any contribution. Employees are required to contribute as detailed above. The Collaborative had no contractually required contribution to the MTRS for the fiscal year ended June 30, 2018. During the fiscal year ended June 30, 2018, the Commonwealth of Massachusetts was responsible for 100% of the Collaborative's contractually required contributions to MTRS.

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

At June 30, 2018, 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, 2018, the proportionate share of the net pension liability associated with the Collaborative was \$13,983,324. 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, 2017, 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, 2018, 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, 2017.

For the fiscal year ended June 30, 2018, the Collaborative recognized pension expense of \$1,459,480 and revenue of \$1,459,480 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

Actuarial assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. 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 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct)
 - b. Post-retirement - reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct)
 - c. Disability - assumed to be in accordance with the RP-2014 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, 2017 are summarized in the following table:

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

Actuarial assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	40.0%	5.0%
Portfolio Completion Strategies	13.0	3.6
Core Fixed Income	12.0	1.1
Private Equity	11.0	6.6
Value Added Fixed Income	10.0	3.8
Real Estate	10.0	3.6
Timber/Natural Resources	4.0	3.2
Hedge Funds	<u>0.0</u>	3.6
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.

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, 2017. 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, 2017	<u>\$ 17,367,700</u>	<u>\$ 13,983,324</u>	<u>\$ 11,116,400</u>

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE L - PENSION PLANS (Continued)

Massachusetts Teachers' Retirement System (MTRS) (Continued)

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, 2018, the Collaborative reported a payable to the MTRS of \$81,534 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. The MSERS issues a publicly available annual report that includes financial statements and required supplementary information, which may be obtained by writing to Public Employee Retirement Administrative Commission (PERAC), 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Management is vested in the Massachusetts State Retirement Board (the MSRB).

Benefits provided

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE L - PENSION PLANS (Continued)

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

Contributions

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

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

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

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

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

2018	\$ 447,179
2017	398,493
2016	400,266
2015	402,050

The Collaborative had no additional contractually required contribution to the MSERS for the fiscal year ended June 30, 2018. The Commonwealth of Massachusetts was responsible for any remaining contractually required contributions to MSERS during the fiscal year ended June 30, 2018.

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

At June 30, 2018, 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE L - PENSION PLANS (Continued)

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

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

At June 30, 2018, the proportionate share of the net pension liability associated with the Collaborative was \$15,931,468. 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, 2017, 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, 2018, the Collaborative's proportionate share of the net pension liability represented 0.12% of the total net pension liability for MSERS which had decreased 0.1% from its portion measured as of June 30, 2017.

For the fiscal year ended June 30, 2018, the Collaborative recognized pension expense of \$2,061,420 and revenue of \$2,061,420 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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. 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 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - a. Pre-retirement - reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 and set forward 1 year for females
 - b. Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 and set forward 1 year for females
 - c. Disability - the mortality rate 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)

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE L - PENSION PLANS (Continued)

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

Actuarial assumptions (Continued)

4. 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, 2017 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%	5.0%
Portfolio Completion Strategies	13.0	3.6
Core Fixed Income	12.0	1.1
Private Equity	11.0	6.6
Value Added Fixed Income	10.0	3.8
Real Estate	10.0	3.6
Timber/Natural Resources	4.0	3.2
Hedge Funds	<u>0.0</u>	3.6
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, 2018

NOTE L - PENSION PLANS (Continued)

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

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

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate as of June 30, 2017. 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, 2017	<u>\$ 21,698,000</u>	<u>\$ 15,931,468</u>	<u>\$11,286,400</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, 2018, the Collaborative reported payables to the MSERS of \$52,855 for legally required employer contributions and \$83,223 for legally required employee contributions which had been withheld from employee wages but not yet remitted to MSERS. These amounts are included in accounts payable and accrued salaries and fringe benefits on the statement of net position and governmental funds balance sheet.

NOTE M - DISCRETELY PRESENTED COMPONENT UNIT

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

At June 30, 2018, the Collaborative has a receivable from the Foundation for \$30,000, which was used as start-up funds for the Foundation.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE N - LONG-TERM LIABILITIES

A summary of changes of bonds payable consists of the following at June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
Refinanced building and land acquisition	\$ 9,212,776	\$ -	\$ 209,556	\$ 9,003,220
Renovation	1,500,000	-	34,805	1,465,195
Total	<u>\$10,712,776</u>	<u>\$ -</u>	<u>\$ 244,361</u>	<u>\$ 10,468,415</u>

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 was paid off through the issuance of a new bond. See below for Refinanced Building and Land Acquisition Bond for more details. The Collaborative still continues to hold the interest rate swap associated with the original bond payable even though the bond payable has been refinanced.

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 an 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - New Roof and HVAC System (Continued)

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

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, 2018. 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, 2018, the swap agreement has a notional amount of \$760,184 and the net amount paid on the interest rate swap during the fiscal year ended June 30, 2018 was \$19,947.

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 negative fair value of \$2,632 as of June 30, 2018, representing a change in fair value of \$20,798 from June 30, 2017. 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 (Continued)

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, 2018, 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, 2018.

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, 2018

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 interest rate swap described above and two other interest rate swaps that expired in fiscal year 2017. 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 other interest rate swap described above and two other interest rate swaps that expired in 2017. The swap was entered into at the same time the bond was issued (November 2016). As the other interest rate swap described above matures and when the two other interest rate swaps matured in 2017, the notional amount that those interest swaps covered will be and was added to the notional amount outstanding under this swap. Thus, starting in fiscal year 2017, the notional amount of the swap increased as the other swaps expired so that the entire amount of the outstanding principal at any time will be covered. Consequently, the principal amount of the associated debt will continue to decline.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Refinanced Building and Land Acquisition (Continued)

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

Terms (Continued)

Under the swap agreement, the Collaborative pays a fixed interest rate of 2.647% to TD Bank and TD Bank makes payments as directed in the bond payable at the floating rate of 0.6975% of the one-month LIBOR plus 1.395%. At no time will the notional amount on the interest rate swap agreement exceed the outstanding principal of the bond payable. Payments under the swap agreement will be reflected as adjustments to interest expense in the statement of activities and as adjustments to debt service in the statement of revenues, expenditures and changes in fund balance. At June 30, 2018, the swap agreement has a notional amount of \$8,243,036 and the net amount paid on the interest rate swap during the fiscal year ended June 30, 2018 was \$17,447.

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 \$419,247 as of June 30, 2018, representing a change in fair value of \$262,911 from June 30, 2017. 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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE N - LONG-TERM LIABILITIES (Continued)

Bond Payable - Refinanced Building and Land Acquisition (Continued)

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

Interest Rate and Credit Risk

The fair value of the interest rate swap is highly sensitive to interest rate changes and, as a result, the Collaborative is exposed to interest rate risk. As of June 30, 2018, the Collaborative is exposed to credit risk in the amount of \$419,247 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, 2018.

Basis Risk

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

Termination Risk

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

Bond Payable - Renovation

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

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE N - LONG-TERM LIABILITIES (Continued)

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.

Swap Payments and Associated Debt

Using rates as of June 30, 2018, 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>
2019	\$ 276,092	\$ 285,407	\$ (5,132)	\$ 556,367
2020	283,708	277,660	(8,090)	553,278
2021	291,533	269,701	(7,882)	553,352
2022	299,572	261,521	(7,668)	553,425
2023	307,835	253,116	(7,448)	553,503
2024-2028	1,671,366	1,131,146	(23,706)	2,778,806
2029-2033	1,915,014	883,342	-	2,798,356
2034-2038	2,037,869	602,544	-	2,640,413
2039-2043	1,940,812	336,094	-	2,276,906
2044-2048	<u>1,444,614</u>	<u>68,575</u>	<u>-</u>	<u>1,513,189</u>
	<u>\$10,468,415</u>	<u>\$ 4,369,106</u>	<u>\$ (59,926)</u>	<u>\$14,777,595</u>

The total interest incurred by the Collaborative during the current fiscal year related to the bonds payable was \$305,562. Interest expense was charged to functions/programs of the Collaborative as follows:

Governmental activities:	
Adult day program	\$ 58,202
Student services	206,618
Professional development	11,640
General and administrative	<u>29,102</u>
	<u>\$ 305,562</u>

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE O - OTHER POSTEMPLOYMENT BENEFITS

The Collaborative provides other postemployment benefits ("OPEB") for its employees through a single-employer, defined benefit OPEB plan which is administered by the Collaborative. The Collaborative follows the provisions of GASB No. 75. The Plan does not issue a separate, publicly available report.

Plan Description

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

The Plan is a single-employer defined benefit OPEB plan administered by the Collaborative. The Collaborative has the authority to establish and amend the Plan's benefit terms and financing requirements. The Plan is funded on a pay-as-you-go basis and there are no plan financial statements. No assets are accumulated in a trust that meets the criteria in GASB No. 75, paragraph 4.

Benefits Provided

The Plan provides medical and dental insurance coverage for retirees and their spouses. The benefit terms provide for payment of 50% of the cost of the medical insurance premiums and the employee is responsible for the other 50%. For dental insurance premiums, the employee is responsible for 100% of the premiums. Life insurance is not offered under the Plan.

Employees Covered by Benefit Terms

During the fiscal year ended June 30, 2018, the Plan had twenty-one retirees and eight spouses of retirees receiving benefits. The Plan has a total of 261 active participants and spouses, of which 232 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. For the period ending on July 1, 2017, Measurement Date, 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 and implicit costs. During the year ended June 30, 2018, the Collaborative actually contributed \$72,561 to the Plan which will be taken into the calculation of the OPEB liability for the next measurement period. As a result, the \$72,561 is included as a deferred outflow on the statement of net position.

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

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Investment Policy

The Collaborative has not established a formal investment policy.

Total OPEB Liability

The Collaborative's total OPEB liability of \$7,206,249 was measured as of July 1, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Actuarial Cost Method:	Individual Entry Age Normal
Discount Rate:	3.25% per annum (previously 3.5%)
Healthcare trend rates:	

<u>Year</u>	<u>Medical</u>	<u>Dental</u>
FY 2013	6.0%	5.5%
FY 2014	5.0%	5.0%
FY 2015	5.0%	5.0%
FY 2016	5.0%	5.0%
FY 2017	5.0%	5.0%
FY 2018	5.0%	5.0%
FY 2019	5.0%	5.0%
FY 2020 +	5.0%	5.0%

General Inflation Assumption:	2.75% per annum
Annual Compensation Increases:	3.00% per annum
Pre-Retirement Mortality:	Represented by the RP-2000 Employees Mortality table projected generationally with scale BB and a base year 2009 for males and females.
Post-Retirement Mortality:	Represented by the RP-2000 Healthy Annuitant Mortality table projected generationally with scale BB and a base year 2009 for males and females.
Disabled Mortality:	Represented by the RP-2000 Healthy Annuitant table projected generationally with scale BB and a base year 2012 for males and females.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Total OPEB Liability (Continued)

Actuarial Assumptions and Other Inputs (Continued)

A discount rate of 3.25% was applied in the measurement of the total OPEB liability. The discount rate is based on the index rate for S&P 20-year, high grade municipal bonds. The discount rate changed from the prior measurement date. The discount rate was 3.5% for the June 30, 2016 measurement date.

The mortality assumptions reflect PERAC's recent experience analysis published in 2014 (based on the years 2006-2011), updated to reflect data through January 1, 2015 for post-retirement mortality, and professional judgement. As such, mortality assumptions reflect observed current mortality as well as expected mortality improvements.

Changes in the Total OPEB Liability

Changes in the total OPEB liability were as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2016 GASB 45	\$ 6,294,471
Change in assumptions for GASB 75	<u>336,653</u>
Balances at July 1, 2016 GASB 75	6,631,124
Changes for the Year:	
Service cost	569,144
Interest on total OPEB obligation	232,985
Changes in benefit terms (recognized immediately)	-
Changes in assumptions (amortized over 7 years)	-
Differences between actual and expected experience	(163,469)
Benefit payments	<u>(63,535)</u>
Net changes	<u>575,125</u>
Balances at July 1, 2017	<u>\$ 7,206,249</u>

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

The following presents the total OPEB liability of the Collaborative, as well as what the Collaborative's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.25%) or 1-percentage point higher (4.25%) than the current discount rate:

	<u>1% Decrease to 2.25%</u>	<u>Current Discount Rate 3.25%</u>	<u>1% Increase to 4.25%</u>
Total OPEB liability	<u>\$ 8,697,997</u>	<u>\$ 7,206,249</u>	<u>\$ 6,048,333</u>

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE O - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

The following presents the total OPEB liability of the Collaborative, as well as what the Collaborative's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.00%) or 1-percentage point higher (5.00%) than the current healthcare cost trend rates:

	1% Decrease to 4.00%	Current Trend Rate 5.00%	1% Increase to 6.00%
Total OPEB liability	\$ 4,627,030	\$ 7,206,249	\$ 10,686,069

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

For the year ended June 30, 2018, the Collaborative recognized OPEB expense of \$778,776. At June 30, 2018, the Collaborative reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 140,116
Changes of assumptions or other inputs	-	-
Total	\$ -	\$ 140,116

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

Year Ending June 30,

2019	\$ (23,353)
2020	(23,353)
2021	(23,353)
2022	(23,353)
2023	(23,353)
Thereafter	(23,351)
Net decrease in OPEB expense	\$ (140,116)

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE P - CONCENTRATIONS

At June 30, 2018, approximately 43.9% of the Collaborative's employees work under collective bargaining agreements. 59% of these employees are represented by unions whose existing agreements expired August 31, 2017. Negotiations are currently underway to negotiate a successor agreement. 41% of these employees are represented by unions whose existing agreements will expire on June 30, 2021. The Collaborative's other employees are not represented by a union.

NOTE Q - RISK FINANCING

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

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

NOTE R - SUBSEQUENT EVENTS

On July 30, 2018, the Collaborative signed an additional noncancelable operating lease for future space for its adult day program and administrative offices which is expected to commence in March 2019 and expire in February 2034. The Collaborative also was issued by TD Bank a letter of credit in the amount of \$167,087 to act as a security deposit for this lease. The Collaborative amended its demand line of credit so that if the letter of credit would need to be used, the amount would be removed from the demand line of credit.

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

Year Ending June 30,

2019	\$ 794,270
2020	1,237,497
2021	1,022,799
2022	847,723
2023	714,175
Thereafter	<u>8,559,922</u>
Total minimum lease payments	<u>\$ 13,176,386</u>

Management has evaluated the impact of all other subsequent events on the Collaborative through November 13, 2018, 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, 2018

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, 2018:

<u>Employee</u>	<u>Duties</u>	<u>Total Compensation</u>
Jacki Clark	Executive Director	\$172,858
Robert Alconada	Assistant Executive Director	\$149,395
Stacey McDaniel	Director of Adult Services	\$114,430
Eugene Lacava	Chief Information Officer	\$111,381
Catherine MacNeil	Educational Coordinator	\$107,025

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, 2018 were \$8,140,504.

The Amounts Expended on Administration and Overhead

The amounts expended on administration and overhead for the fiscal year ended June 30, 2018 were \$5,232,035.

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

At June 30, 2018, the Collaborative does not hold any accounts that may be spent at the discretion of another person or entity.

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE
MASSACHUSETTS DEPARTMENT OF ELEMENTARY AND
SECONDARY EDUCATION (DESE) REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
(Unaudited)
JUNE 30, 2018

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, 2018, the Collaborative's capital plan included continued purchases of technology for the student services and adult day programs and conversion of the library to a cafeteria. As of June 30, 2018, the Collaborative had begun a project to renovate its Chelsea location. The Collaborative is currently only in the study stages and is currently working with an architectural firm to draw up potential plans for the renovations. The costs associated with this planning of \$16,251 as of June 30, 2018 are included in capital assets but not being depreciated in the statement of net position. The Collaborative expects to spend in the next few years approximately \$1,500,000 to complete these renovations. The Collaborative is also looking at leasing a new building to move one of its adult day program locations to as well as administrative offices. The Collaborative signed a lease for this building after year end and will begin working on plans to renovate it to the Collaborative's needs. The costs for this renovation are to be covered by the landlord of the building.

The other capital projects that are planned for fiscal years 2019 through 2020 include the following:

- Purchase of new classroom furniture and equipment at the Chelsea location for approximately \$50,000 and new office furniture and equipment for approximately \$50,000
- Improvements to the outside of the Chelsea property for approximately \$35,000 and painting of the interior of the Chelsea location in the Student Services area for approximately \$50,000
- Replacement of five 80-gallon water heaters at the Chelsea location for approximately \$15,000
- Upgrade the interior lighting of the Peabody location for approximately \$40,000
- Paint the interiors of the Peabody and Woburn locations for approximately \$60,000
- Renovate bathrooms in the Peabody location for approximately \$40,000
- Reseal and restripe the parking lot at the Woburn location for approximately \$12,500
- Replace carpet in the administrative offices at the Woburn location with tile for approximately \$30,000

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, 2018

Cumulative Surplus Calculation - FY18

		Pages in Financial Statements
(A) Voted Cumulative Surplus as of 6/30/17 - restated	\$ 9,091,165	17
(B) 1 Amount of (A) used to support the FY18 Budget	\$(4,563,186)	
2 Amount of (A) returned to member districts	<u>-</u>	
	(4,563,186)	
(C) Unexpended FY18 General Funds	<u>1,149,501</u>	17
(D) Cumulative Surplus as of 6/30/18	<u>\$ 5,677,480</u>	
(E) FY18 Total General Fund Expenditures	\$ 23,543,025	17
(F) FY18 Cumulative Surplus Percentage	24.1%	64

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, 2018

	Budgeted Amounts			Variance with Final Budget-Positive (Negative)
	Original	Final	Actual	
Revenues:				
Educational program fees	\$ 12,093,496	\$ 12,093,496	\$ 12,773,152	\$ 679,656
Medicaid income	7,155,718	7,155,718	6,212,233	(943,485)
Medicaid municipal billing services	225,000	225,000	170,112	(54,888)
Administrative overhead income	1,818,055	1,818,055	1,791,750	(26,305)
Other income	414,400	414,400	3,739,027	3,324,627
Interest income	5,000	5,000	6,252	1,252
TOTAL REVENUES	21,711,669	21,711,669	24,692,526	2,980,857
Expenditures:				
Current:				
Salaries	12,779,799	12,779,799	12,385,012	394,787
Employee benefits	2,694,509	2,694,509	5,307,133	(2,612,624)
Payroll taxes	698,476	698,476	680,525	17,951
Advertising	8,000	8,000	264	7,736
Professional fees and contract services	883,000	883,000	910,252	(27,252)
Supplies	346,250	346,250	226,839	119,411
Telephone	95,750	95,750	78,079	17,671
Postage	16,500	16,500	7,718	8,782
Rent	912,500	912,500	586,676	325,824
Staff training	58,500	58,500	62,198	(3,698)
Rental of equipment	5,250	5,250	3,504	1,746
Transportation	89,000	89,000	46,913	42,087
Printing and publications	25,000	25,000	22,897	2,103
Food	75,500	75,500	158,176	(82,676)
Repairs and maintenance	272,000	272,000	175,841	96,159
Utilities	366,500	366,500	267,106	99,394
Insurance	127,212	127,212	85,536	41,676
Client recreation	20,500	20,500	20,658	(158)
Bad debt	-	-	51,462	(51,462)
Miscellaneous	71,500	71,500	42,927	28,573
Administrative overhead charges	1,813,055	1,813,055	1,791,750	21,305
Total current expenditures	21,358,801	21,358,801	22,911,466	(1,552,665)
Debt service:				
Principal	-	-	244,361	(244,361)
Interest	277,500	277,500	305,562	(28,062)
Total debt service	277,500	277,500	549,923	(272,423)
Capital outlay	60,000	60,000	81,636	(21,636)
TOTAL EXPENDITURES	21,696,301	21,696,301	23,543,025	(1,846,724)
NET CHANGE IN FUND BALANCES	15,368	15,368	1,149,501	1,134,133
Fund balances - beginning, as previously reported	5,434,340	5,434,340	5,434,340	-
Cumulative effect of change in accounting principle - implementation of GASB 75	3,656,825	3,656,825	3,656,825	-
Fund balances - beginning, as restated	9,091,165	9,091,165	9,091,165	-
FUND BALANCES - ENDING	\$ 9,106,533	\$ 9,106,533	\$ 10,240,666	\$ 1,134,133

See accompanying notes to Required Supplementary Information.

SHORE EDUCATIONAL COLLABORATIVE
SCHEDULE OF CHANGES IN THE COLLABORATIVE'S TOTAL
OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH INSURANCE PLAN
(Unaudited)
JUNE 30, 2018

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 569,144
Interest on total OPEB obligation	232,985
Changes in benefit terms	-
Changes in assumptions	-
Differences between actual and expected experience	(163,469)
Benefit payments	<u>(63,535)</u>
Net change in total OPEB liability	575,125
Total OPEB liability - beginning (GASB 45)	\$ 6,294,471
Change in assumptions for GASB 75	<u>336,653</u>
Total OPEB liability - beginning (GASB 75)	<u>6,631,124</u>
Total OPEB liability – ending	<u>\$ 7,206,249</u>
Covered payroll	\$ 11,814,889
Total OPEB liability as a % of covered payroll	60.99%

Notes to Schedule:

Also, see Note O to the financial statements.

Measurement Date

The amounts presented in this schedule were determined as of July 1, 2017.

Schedule Presentation

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

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 FOUR 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%
	June 30, 2017	0.061102%
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
	June 30, 2017	\$13,983,324
Collaborative's covered-employee payroll	June 30, 2014	\$3,292,090
	June 30, 2015	\$3,730,046
	June 30, 2016	\$3,740,937
	June 30, 2017	\$4,310,631
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%
	June 30, 2017	324.39%
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%
	June 30, 2017	54.25%

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, 2017, 2016, 2015, and 2014.

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 FOUR 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%

Fiscal 2017

Contractually required contribution	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>
Collaborative's covered-employee payroll	\$ 4,310,631
Contributions as a percentage of covered-employee payroll	0.00%

Notes to Schedule:

Also, see Note L to the financial statements.

See accompanying notes to Required Supplementary Information.

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

Notes to Schedule (Continued):

Measurement Date

The amounts presented in this schedule were determined as of June 30, 2017, 2016, 2015, and 2014.

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 FOUR 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%
	June 30, 2017	0.12422%
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
	June 30, 2017	\$15,931,468
Collaborative's covered-employee payroll	June 30, 2014	\$6,665,551
	June 30, 2015	\$7,203,966
	June 30, 2016	\$7,111,381
	June 30, 2017	\$7,093,116
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%
	June 30, 2017	224.60%
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%
	June 30, 2017	67.21%

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, 2017, 2016, 2015, and 2014.

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 FOUR 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%

Fiscal 2017

Contractually required contribution	\$ 398,493
Contributions in relation to the contractually required contribution	<u>398,493</u>
Contribution deficiency (excess)	<u>\$ -</u>
Collaborative's covered-employee payroll	\$ 7,093,116
Contributions as a percentage of covered-employee payroll	5.62%

Notes to Schedule:

Also, see Note L to the financial statements.

See accompanying notes to Required Supplementary Information.

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

Notes to Schedule (Continued):

Measurement Date

The amounts presented in this schedule were determined as of June 30, 2017, 2016, 2015, and 2014.

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, 2018

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, 2018, budgeted appropriations exceeded budgeted expenditures by \$15,368. For the year ended June 30, 2018, actual revenues exceeded actual expenditures by \$1,149,501. 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	\$ 1,149,501
Debt service difference	272,423
Capital outlay difference	21,636
Revenue excess	(2,980,857)
Current expenditures excess	<u>1,552,665</u>
Net change in fund balances - budgetary basis	<u>\$ 15,368</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.

SHORE EDUCATIONAL COLLABORATIVE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
(Unaudited)
JUNE 30, 2018

NOTE C - OPEB PLAN

A. Changes of Benefit Terms

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

B. Changes in Assumptions

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

C. Plan Assets

No assets are accumulated in a trust that meets all of the following criteria of GASB No. 75, paragraph 4, to pay benefits:

- Contributions from the employer and any nonemployer contributing entities, and earnings thereon, must be irrevocable.
- Plan assets must be dedicated to providing OPEB to Plan members in accordance with the benefit terms.
- Plan assets must be legally protected from the creditors of the employer, nonemployer contributing entities, the Plan administrator, and Plan members.



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, 2018, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements, and have issued our report thereon dated November 13, 2018.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of finding and response as Item 2018-001.

Collaborative's Response to Finding

The Collaborative's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The Collaborative's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
November 13, 2018

SHORE EDUCATIONAL COLLABORATIVE
SCHEDULE OF FINDING AND RESPONSE

FOR THE YEAR ENDED JUNE 30, 2018

Finding 2018-001 - Board of Directors' Meetings

Criteria: According to Massachusetts Session Law, Chapter 43 of the Acts of 2012: An Act Relative to Improving Accountability and Oversight of Education Collaboratives, each collaborative board shall meet not fewer than six times annually.

Condition: In our testing of compliance with the above law, we noted that during the year ended June 30, 2018, the Board of Directors of the Collaborative only met five times.

Cause: Additional board meetings had been scheduled during the year but a quorum was not able to be obtained for the additional board meetings that had been scheduled.

Effect: The Collaborative did not meet the guidelines set forth in Massachusetts Session Law, Chapter 43, relative to the frequency of Board of Directors' meetings. Although the Commissioner of Elementary and Secondary Education may sanction a collaborative that engages in practices that impede the viability of programmatic quality or significant malfeasance, it is unlikely that missing one board meeting would meet these criteria. Since the Collaborative is mandated to adhere to all pertinent laws and regulations, it is incumbent on the Board of Directors to meet six times a year to be fully compliant with the Law.

Recommendation: In the future, more than six board meetings should be scheduled each year to make sure that at least six meetings are held. In addition, if a meeting needs to be cancelled because a quorum is not present, it should be rescheduled to a later date and not just cancelled.

Views of Responsible Officials and Corrective Action Plans: We agree with the Auditors' recommendation. We will schedule more than six meetings during a fiscal year and we will make sure that all meetings have a quorum. If a quorum is not obtained, then the meeting will be rescheduled instead of cancelled.