

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

**BASIC FINANCIAL STATEMENTS
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2018

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

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JUNE 30, 2018

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**Business Advisors
Certified Public Accountants**

Independent Auditors' Report

To the Board of Directors
Central Massachusetts Collaborative

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund, of Central Massachusetts Collaborative (formerly Central Massachusetts Special Education 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. We have audited the accompanying financial statements of the government activities of Central Massachusetts 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the government activities of Central Massachusetts 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 described in Notes 2 and 9 to the financial statements, in 2018, the Collaborative adopted new accounting guidance, *GASB 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 on pages 3– 5; the budgetary comparison information on page 32; schedule of changes in the Collaborative's net OPEB liability; schedule of the Collaborative's proportionate share of the net pension liability; and schedule of pension contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Massachusetts Collaborative's basic financial statements. The supplementary information on pages 37-39 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018, on our consideration of Central Massachusetts 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 Central Massachusetts 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 Central Massachusetts Collaborative's internal control over financial reporting and compliance.

Parsons, Kotteloff, King & Co., LLC

Franklin, Massachusetts
November 26, 2018

CENTRAL MASSACHUSETTS COLLABORATIVE

(formerly Central Massachusetts Special Education Collaborative)

MANAGEMENT'S DISCUSSION & ANALYSIS

YEAR ENDED JUNE 30, 2018

The following discussion and analysis of the Central Massachusetts Collaborative (the Collaborative) financial performance provides an overview of the Collaborative's financial activities for the fiscal year ended June 30, 2018 and summarized comparative information for 2017. The Collaborative complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements. Please read it in conjunction with the Collaborative's financial statements, which follow.

OVERVIEW OF THE FINANCIAL REPORTS

This discussion and analysis is intended to serve as an introduction to the Collaborative's financial reports, which consist of a series of financial statements and other information as follows:

- **Management's Discussion and Analysis** introduces the basic financial statements and provides an analytical overview of the Collaborative's financial activities.
- **Government-wide financial statements** consist of the Statement of Net Position and the Statement of Activities. These provide both short-term and long-term information about the Collaborative's overall financial status.
- **Fund basis financial statements** focus on individual parts of the Collaborative, reporting the Collaborative's operations in more detail than the government-wide statements.
 - **Governmental funds statements** tell how basic services were financed in the short-term as well as what remains for future spending.
 - **Fiduciary funds statements** provide information about the financial relationships in which the Collaborative acts solely as a trustee or agent for the benefit of others to whom the resources belong.
- **Notes to the financial statements** explain some of the information in the statements and provide more detailed data.
- **Supplementary information** includes both additional financial information which provides more detail support of the basis financial statements and information required by the Massachusetts Department of Elementary and Secondary Education.

Government-wide Statements

The government-wide statements (*statement of net position* and *statement of activities*) report information about the Collaborative as a whole using accounting methods similar to those used by private sector companies.

- The **Statement of Net Position** presents information on all of the Collaborative's assets and liabilities with the difference between the two reported as *net position*. It is one way of measuring the Collaborative's financial health or position.
- The **Statement of Activities** presents information showing how the Collaborative's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid.

Over time, increases or decreases in the Collaborative's net position is an indicator of whether its financial position is improving or deteriorating. The reader will also need to consider other non-financial factors such as changes in economic conditions when evaluating the overall financial health of the Collaborative.

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

MANAGEMENT'S DISCUSSION & ANALYSIS

YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL REPORTS (Continued)

Fund Financial Statements

Funds are accounting devices used to keep track of specific sources of funding and spending in particular categories: governmental funds, proprietary funds, and fiduciary funds. Presently, the Collaborative has only governmental and fiduciary funds.

- **Governmental funds** – The Collaborative's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Collaborative's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) is provided following the governmental funds statements that explains the relationship (or differences) between these two types of financial statement presentations.
- **Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Collaborative's own programs. Fiduciary funds (Retiree Health Insurance Trust) are presented after the **Governmental funds** statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following summarized **Statement of Net Position** is for the fiscal year 2018 with comparative information from fiscal year 2017. Liabilities exceeded assets by \$16 million at the close of 2018, primarily due to the actuarially determined liability for postemployment benefits (OPEB) which totaled \$18 million as of June 30, 2018.

The net position invested in capital assets reflects capital budget funding provided by the Department of Public Health for furniture and equipment for the Recovery High School, which opened in fiscal year 2016.

	June 30, 2018	June 30, 2017
Current assets, i.e. cash, accounts receivable and prepaid expenses	\$ 3,646,091	\$ 4,334,256
Capital assets	93,699	134,723
Total assets	<u>\$ 3,739,790</u>	<u>\$ 4,468,979</u>
Current liabilities, i.e. warrants payable and accrued expenses	\$ 1,696,101	\$ 1,648,788
Non-current liabilities	18,002,742	4,821,136
Total liabilities	<u>\$ 19,698,843</u>	<u>\$ 6,469,924</u>
Net position:		
Invested in capital assets	\$ 93,699	\$ 134,723
Unrestricted	<u>(16,052,752)</u>	<u>(2,135,668)</u>
Total net position	<u>\$(15,959,053)</u>	<u>\$(2,000,945)</u>

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

MANAGEMENT'S DISCUSSION & ANALYSIS

YEAR ENDED JUNE 30, 2018

As indicated in the following summarized *Statement of Activities*, net assets decreased by \$13,958,108 during fiscal year 2018. Revenue from charges for student services increased by 9.7% due to a combination of increases in tuition and enrollments. Expenses for student services increased by 29.9%. The majority of the increase in student service expense is due to the adoption of GASB 75 governing the calculation of the OPEB liability and related expense.

	Year ended June 30, 2018	Year ended June 30, 2017	%
			Change
Revenues:			
Charges for student services	\$17,056,950	\$15,549,307	+9.7%
Grants & contributions	579,068	645,081	
Administrative revenue	-	-	
Intergovernmental	3,517,151	3,243,206	
Other	13,176	121	
Technology services	38,488	-	
Interest income	<u>3,826</u>	<u>4,446</u>	
Total revenues	<u>21,208,659</u>	<u>19,442,161</u>	
Expenses:			
Student services	19,483,862	15,000,759	+29.9%
General and administrative	2,464,334	2,025,541	
Depreciation	41,024	41,024	
Intergovernmental	<u>3,517,151</u>	<u>3,243,206</u>	
Total expenses	<u>25,506,371</u>	<u>20,310,530</u>	
Change in net position	(4,297,712)	(868,369)	
Net position – beginning	<u>(2,000,945)</u>	<u>(1,132,576)</u>	
	(6,298,657)	(2,000,945)	
Cumulative effect of change in accounting principle	<u>(9,660,396)</u>	-	
Net position - ending	<u>\$(15,959,053)</u>	<u>\$(2,000,945)</u>	

GENERAL FUND BUDGETARY HIGHLIGHTS

The budget for fiscal year 2018 was developed with the use of \$580k of cumulative surplus funds. In 2018, actual revenues were higher than budgeted amounts by approximately \$174k, primarily due to additional student tuition as a result of increased enrollment. Operating expenditures were higher than budgeted amounts by approximately \$352k primarily due to technology, instructional materials and equipment purchases approved by the Board of Directors.

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 the Business Office of the Collaborative.

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities
CURRENT ASSETS:	
Cash	\$ 2,180,732
Accounts receivable	1,433,936
Due from Health Insurance Trust	<u>31,423</u>
Total current assets	<u>3,646,091</u>
 PROPERTY, PLANT AND EQUIPMENT:	
Capital assets	196,259
Accumulated depreciation	<u>(102,560)</u>
Net property, plant and equipment	<u>93,699</u>
Total assets	<u>\$ 3,739,790</u>
 CURRENT LIABILITIES:	
Warrants payable and accrued expenses	\$ 1,679,101
Deferred revenue	<u>17,000</u>
Total current liabilities	<u>1,696,101</u>
 NON-CURRENT LIABILITIES:	
Net OPEB Liability	<u>18,002,742</u>
Total liabilities	<u>19,698,843</u>
 NET POSITION:	
Invested in capital assets	93,699
Unrestricted	<u>(16,052,752)</u>
Total net position	<u>(15,959,053)</u>
Total liabilities and net position	<u>\$ 3,739,790</u>

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

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	Charges for Expenses	Program Revenues Charges for Services	Grants & Contributions	Total
Governmental Activities:				
Student services	\$ 19,483,862	\$ 17,056,950	\$ 579,068	\$ (1,847,844)
General and administrative	2,464,334	-	-	(2,464,334)
Depreciation	41,024	-	-	(41,024)
Intergovernmental revenue/expense	<u>3,517,151</u>	<u>3,517,151</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>\$ 25,506,371</u>	<u>\$ 20,574,101</u>	<u>\$ 579,068</u>	(4,353,202)
General revenue:				
Interest				3,826
Technology Services				38,488
Miscellaneous				<u>13,176</u>
Total General Revenue				<u>55,490</u>
Change in Net Position				(4,297,712)
NET POSITION, BEGINNING OF YEAR				<u>(2,000,945)</u>
Cumulative effect of change in accounting principle				(6,298,657)
				<u>(9,660,396)</u>
NET POSITION, END OF YEAR				<u><u>\$ (15,959,053)</u></u>

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

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2018

ASSETS:

Cash	\$2,180,732
Accounts receivable	1,433,936
Due from Health Insurance Trust	<u>31,423</u>
Total assets	<u>\$3,646,091</u>

LIABILITIES:

Accounts payable and accrued expenses	\$1,679,101
Deferred revenue	<u>17,000</u>
Total liabilities	<u>1,696,101</u>

FUND BALANCES:

Restricted	23,882
Cumulative surplus (Unassigned)	<u>1,926,108</u>
Total fund balances	<u>1,949,990</u>
Total liabilities and fund balances	<u>\$3,646,091</u>

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

CENTRAL MASSACHUSETTS COLLABORATIVE

(formerly Central Massachusetts Special Education Collaborative)

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

FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Government Contracts	Nonmajor Fund	Total
REVENUES:				
Student services	\$17,056,949	\$555,203	\$23,865	\$17,636,017
Intergovernmental revenue	3,517,151	-	-	3,517,151
Interest	3,826	-	-	3,826
Technology Service revenue	38,488	-	-	38,488
Other revenue	1,961	-	11,215	13,176
Total revenues	<u>\$20,618,375</u>	<u>\$555,203</u>	<u>\$35,080</u>	<u>\$21,208,658</u>
EXPENDITURES:				
Administration	1,489,138	-	6,787	1,495,925
Central MA Academy	2,631,291	-	-	2,631,291
Central MA Prep	1,828,122	-	-	1,828,122
Clinical Services	338,842	-	-	338,842
Goddard Academy	3,269,073	-	-	3,269,073
Hartwell Learning Center	3,216,252	-	3,238	3,219,490
Recovery High School	408,982	555,203	2,603	966,788
Summer Program	126,102	-	-	126,102
THRIVE	2,001,922	-	-	2,001,922
Woodward Day School	1,857,032	-	250	1,857,282
Development expenses	11,774	-	-	11,774
Board approved surplus expense	680,374	-	-	680,374
Intergovernmental expense	3,517,151	-	-	3,517,151
Total expenditures	<u>\$21,376,055</u>	<u>\$555,203</u>	<u>\$12,878</u>	<u>\$21,944,136</u>
Revenue over (under) expenditures	(757,680)	-	22,202	(735,478)
FUND BALANCES, BEGINNING OF YEAR	2,683,788	1,680	-	2,685,468
FUND BALANCES, END OF YEAR	<u>\$ 1,926,108</u>	<u>\$ 1,680</u>	<u>\$22,202</u>	<u>\$ 1,949,990</u>

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

CENTRAL MASSACHUSETTS COLLABORATIVE

(formerly Central Massachusetts Special Education Collaborative)

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

Total fund balances, governmental funds	\$ 1,949,990
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	93,699
The other postemployment benefit (OPEB) liability is not a current obligation and therefore is not reported in this fund financial statement, but is reported in the governmental activities of the Statement of Net Position.	<u>(18,002,742)</u>
Net Position of Governmental Activities in the Statement of Net Position	<u><u>\$(15,959,053)</u></u>

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

CENTRAL MASSACHUSETTS COLLABORATIVE

(formerly Central Massachusetts Special Education Collaborative)

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

FOR THE YEAR ENDED JUNE 30, 2018

Net changes in fund balances -governmental funds \$ (735,478)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period. (41,024)

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.

Current year change in other postemployment benefits (OPEB) accrual (3,521,210)

Changes in net position of governmental activities \$(4,297,712)

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

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	<u>Retirees' Health Insurance Trust Fund</u>
ASSETS	
Cash and investments	<u>\$883,528</u>
Total assets	<u>\$883,528</u>
LIABILITIES	
Due to Central Massachusetts Collaborative	<u>\$ 31,423</u>
NET POSITION	
Restricted for Postemployment Health Benefits	<u>852,105</u>
Total liabilities and net position	<u>\$883,528</u>

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

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Retirees' Health Insurance Trust Fund</u>
ADDITIONS:	
Central Massachusetts Collaborative contributions	\$ -
Interest income	<u>2,165</u>
Total additions	<u>2,165</u>
DEDUCTIONS:	
Administrative expenses	-
Benefits to retirees and beneficiaries	<u>31,423</u>
Total deductions	<u>31,423</u>
Decrease in net position	(29,258)
NET POSITION, BEGINNING OF YEAR	<u>881,363</u>
NET POSITION, END OF YEAR	<u>\$852,105</u>

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

CENTRAL MASSACHUSETTS COLLABORATIVE

(formerly Central Massachusetts Special Education Collaborative)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(1) NATURE OF ORGANIZATION AND REPORTING ENTITY

(a) *Organization*

The Central Massachusetts Special Education Collaborative (the Collaborative) was established in 1975 and operates under the provisions of Massachusetts general laws Chapter 40, Section 4E as amended by Chapter 797 of the acts of 1974. The Collaborative includes the City of Worcester and Town of Webster, which are separate legal entities with their own governing bodies. Their operations are not a part of the Collaborative's financial statements. The Collaborative name was legally changed to the Central Massachusetts Collaborative during the fiscal year ended June 30, 2018.

Assessments: Under the terms of the Collaborative agreement, each member community should be annually assessed for administrative costs. Member Towns were assessed \$14,139,238 for fiscal year 2018 as approved by Board of Directors.

The Collaborative provides educational, clinical and therapeutic services to children in grades kindergarten through twelve for public school districts in central Massachusetts on a tuition basis or assessment fee basis to cover direct operation expenditures. The Board of Directors may also allow non-member communities to participate in specific programs on a cost reimbursement basis.

(b) *Reporting Entity*

As required by accounting principles generally accepted in the United States of America (GAAP) and in accordance with the Governmental Accounting Standards Board, the accompanying financial statements present the Central Massachusetts Collaborative and its component units. Component units are included in the reporting entity if their operational and financial relationships with the Collaborative are significant. Pursuant to these criteria, the Collaborative did not identify any component units requiring inclusion in the accompanying financial statements.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation*

Government-wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through assessments to member towns, intergovernmental revenues and other non-exchange revenues. The Collaborative did not have any business type activity in 2018.

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Presentation (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Collaborative does not allocate indirect expenses to functions in the statement of activities. Program revenues included (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Assessments and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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 by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund balance, revenues and expenditures.

Government Activities

Government funds are identified as either general, or fiduciary 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.

Fiduciary funds are used to account for resources legally held in trust. The Collaborative has one Fiduciary Fund. All resources of the fund, including any earnings on invested resources, must be used to support the payment of Other Post-Employment Benefits (OPEB) expenditures.

(b) Basis of Accounting

The Collaborative's Statement of Net Position and Statement of Activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gain, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The modified accrual basis of accounting is followed by the governmental funds, proprietary funds and agency 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, judgments, compensated absences and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Accounting (Continued)

State general aid and other entitlements are recognized as revenue in the period the Collaborative is 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. Amounts owed to the Collaborative, which are not available are recorded as receivables and unearned revenue. 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.

Charges for services provided to other education agencies and private parties are recognized as revenue when services are provided.

(c) Measurement Focus

On the Statement of Net Position and Statement of Activities governmental activities and business-type activities are presented using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting.

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 government wide 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.

(d) Accounts Receivable

Trade accounts receivable consist of amounts due from municipalities for program services, less an allowance for doubtful accounts, if needed. No allowance for doubtful accounts was deemed necessary as of June 30, 2018 based on management's assessment of the current status of individual receivables. It is the Collaborative's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Budgets

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting as the General Fund.

(f) Compensated Absences and Other Employee Benefit Amounts

The Collaborative's policies allow no carryover of vacation or sick pay.

(g) Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the Collaborative's financial statements as expense when the related liabilities are incurred. There were no claims or judgments at year-end that require reporting in the financial statements.

(h) Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

(i) Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

Net investment in capital assets – Consists of capital assets including restricted capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributed 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 are not included in the calculation of net investment in capital assets. The Collaborative has no bonded debt on capital assets on June 30, 2018.

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors of laws or regulations of other governments or, (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) *Equity Classifications (Continued)*

Governmental Fund Statements

Governmental Fund equity is classified as fund balance. Fund Balance for the Governmental Fund financial statements is classified as one of the following five categories:

Nonspendable: Fund balances that cannot be spent because they are either:

Not in Spendable Form: Generally, amounts that are not expected to be converted to cash, such as inventories or prepaid amounts. This classification would also include some long-term amounts such as property acquired for resale or the long-term portion of loans receivable, or

Legally or Contractually Required to be Maintained Intact: Amounts that are required to be maintained intact, such as the principal of a permanent fund.

Restricted: Amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints. (External constraints might be imposed by creditors, grantors, contributors, or even the laws or regulations of other governments.)

Committed: Amounts that can be used only for specific purposes because of a formal action by the government's highest level of decision-making authority (School Committee). This classification might also include contractual obligations if existing resources have been committed for use in satisfying those contractual requirements.

Assigned: Amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a finance committee), or by an official to whom that authority has been given.

Unassigned: This is the residual classification for the General Fund- everything that is not in another classification or in another fund. The General Fund is the only governmental fund that can report a positive unassigned fund balance. Other governmental funds might have a negative unassigned fund balance as a result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Collaborative's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance.

(j) *Allocation of Costs*

Directly identifiable costs are charged to student services 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.

CENTRAL MASSACHUSETTS COLLABORATIVE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) *Use of Estimates*

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported revenues and expenses. Accordingly, actual results may differ from those estimates.

(l) *Adoption of New Accounting Pronouncement*

The Collaborative has adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). The Collaborative implemented this statement for FY18. This change in accounting principle had the following effects on the Collaborative's financial statements:

- Increased the net OPEB liability and restated net position with an adjustment for the cumulative effect of this change in accounting principle of \$9.7 million. Significant new note disclosures and new required supplementary information.

(3) CONCENTRATIONS

(a) *Cash and Cash Equivalents*

Cash and investments of Collaborative funds are restricted by state statutes. Massachusetts General Law authorizes the Collaborative to invest in term deposits, Certificates of Deposit, in trust companies, national banks, savings banks or in obligations issued by the U.S. Government or one of its agencies.

The carrying amount of the Collaborative's deposits is separately displayed on the balance sheet as cash. The carrying amount represents reconciled book balances.

	June 30, 2018	
	Carrying Amount	Bank Balance
Governmental Activities	\$2,180,732	\$2,709,318
Fiduciary – Type Activities	\$883,528	\$883,528

Deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000 and deposits, including Certificates of Deposits in Massachusetts-chartered savings banks, are insured in full above the FDIC limit from the Depositors Insurance Fund (DIF) of Massachusetts. The Collaborative did not have any cash equivalents at June 30, 2018.

(b) *Employees*

A collective bargaining agreement was negotiated with the Instructional Assistants during fiscal year 2016. During the same fiscal year, the members of the union voted to disclaim the union contract and the negotiated collective bargaining agreement became null and void on December 16, 2016. As of June 30, 2018 and 2017, no member of the workforce is covered under a collective bargaining agreement.

CENTRAL MASSACHUSETTS COLLABORATIVE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(4) CAPITAL ASSETS

Capital assets consist of furniture and equipment purchased for the Recovery High School program during fiscal years 2016 and 2015 with funds from the Commonwealth of Massachusetts Department of Public Health. The high school program opened in September of 2015 and the assets were subject to depreciation beginning in fiscal year 2016. Property and equipment are recorded at cost, if purchased or at fair market value at the date of donation. Depreciation is computed on the straight-line basis over the estimated useful life of the asset.

	Beginning Balance	Increases	Decreases	Ending Balance
Furniture & equipment	\$196,259	\$ -	\$ -	\$196,259
Less: accumulated depreciation	<u>61,536</u>	<u>41,024</u>	<u>-</u>	<u>102,560</u>
Capital assets, net	<u>\$134,723</u>	<u>\$(41,024)</u>	<u>\$ -</u>	<u>\$ 93,699</u>

Depreciation expense for the year ended June 30, 2018 totaled \$41,024 and was not allocated to governmental functions. It appears unallocated on the statement of activities.

(5) CUMULATIVE SURPLUS

In accordance with Massachusetts regulation 603 C.M.R. 50.07, the Collaborative has determined that its Cumulative Surplus as of June 30, 2018 is equal to the Unassigned General Fund Balance of \$1,926,108. The Collaborative Agreement stipulates that the Board will retain no more than 25 percent of the previous year's (i.e. year under audit's) general fund expenditures, which is equal to \$4,467,670, in cumulative surplus.

(6) RETIREMENT BENEFIT PLAN

The Collaborative sponsors two retirement plans for its employees.

Massachusetts State Employees' Retirement System

Plan Description and Provisions

Non-teacher personnel participate in the Massachusetts State Employees' Retirement System (MSERS), a cost sharing multiple-employer defined benefit plan established under the Massachusetts Contributory Retirement Law. Benefit provisions and contribution requirements are established by state law. MSERS provides retirement benefits up to a maximum of 80% of a member's highest three-year average annual compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any consecutive five years, whichever is greater, in terms of compensation. Benefit payments are based upon member's age, length of creditable services, level of compensation, and group classification.

CENTRAL MASSACHUSETTS COLLABORATIVE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(6) RETIREMENT BENEFIT PLAN (Continued)

Members of the system become fully vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The Plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years creditable service, (2) was on the Collaborative payroll after January 1, 1978, (3) voluntarily left Collaborative employment on or after that date, and (4) left accumulated annuity deductions in the Fund. MSERS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Contributions

Plan members are required to contribute to the MSERS at rates ranging from 5% to 11% of their annual covered compensation, on a pre-tax basis. The Collaborative is required to contribute at an actuarially determined rate that is apportioned among employees based on active current payroll. The contribution requirements of plan members are established and may be amended by the MSERS Board of Trustees. The Collaborative's current contribution rate is 5.6%.

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

Annual Pension Cost

The Collaborative's required and actual contributions to MSERS were \$138,806. Pension expense to the Commonwealth of Massachusetts for the Collaborative amounted to \$737,764. Therefore, \$598,958 is reflected as intergovernmental revenues and corresponding expenditures in the Collaborative's financial statements for the portion of the Commonwealth's pension expense not required to be paid by the Collaborative. Collaboratives contribute amounts equal to the normal cost of employees' benefits at a rate established by the Public Employees' Retirement Administration Commission (PERAC), currently 5.6% of covered payroll. Legally, the Collaboratives are only responsible for contributing the annual normal cost of their employees' benefits (i.e. the present value of the benefits earned by those employees in any given year) and are not legally responsible for the past service cost attributable to those employees or previously retired employees of the Collaboratives. The Commonwealth as a non-employer is legally responsible for the entire past service cost related to the Collaboratives.

Massachusetts Teachers' Retirement System

Plan Description and Provisions

Teachers and certain administrative personnel participate in the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan administered by the Massachusetts Teachers' Retirement Board. Benefit provisions and contribution requirements are established by state law. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. Additional information can be obtained on the state website.

CENTRAL MASSACHUSETTS COLLABORATIVE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(6) RETIREMENT BENEFIT PLAN (Continued)

Contributions

Participation in the plan requires that members contribute a fixed percentage of their compensation each pay period depending upon the date of employment. Employee contributions vest immediately. After 10 years of service, employer contributions become fully vested. After 20 years, or upon having attained the age of 55 with at least 10 years of service, employees are eligible to receive benefits under the plan. Benefits are based on the average of the three highest-salaried years of the employee service and are determined in a manner similar to the provisions of MSERS.

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

The Collaborative has no obligation to contribute to the MTRS. All pension benefits and expenses paid by the Teachers' Retirement Board to employees of the Collaborative are funded by the Commonwealth of Massachusetts. Pension expense to the Commonwealth of Massachusetts for the Collaborative was \$2,918,193 for fiscal 2018, and this amount is reflected as intergovernmental revenues and corresponding expenditures in the Collaborative's financial statements.

Pension Liabilities and Pension Expense

The Collaborative is considered to be a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth of Massachusetts is a non-employer contributing entity for MTRS and MSERS. Therefore, the Collaborative is required to disclose, but not record, the portion of the non-employer contributing entities' share of the collective net pension liability that is associated with the employer. The Collaborative's proportionate share of the net pension liability was \$27,959,293 for MTRS and \$5,701,733 for MSERS. For both MTRS and MSERS, the net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liabilities were determined by actuarial valuations as of January 1, 2017 rolled forward to June 30, 2017. The Collaborative's proportion of the net pension liability was based on a projection of the Collaborative's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2017, the Collaborative's proportion was .044% for MSERS and .122% for MTRS. As a special funding situation, the Collaborative must recognize its portion of the collective pension expense as both a revenue and pension expense. As indicated above, for the year ended June 30, 2018, the Collaborative recognized intergovernmental pension expense and revenue of \$598,958 (MSERS) and \$2,918,193 (MTRS).

CENTRAL MASSACHUSETTS COLLABORATIVE

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(6) RETIREMENT BENEFIT PLAN (Continued)

Actuarial Assumptions

The total pension liability in the January 1, 2017 actuarial valuations for MSERS and MTRS were determined using the following actuarial assumptions, applied to all periods included in the measurement:

1. (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% (MSERS) and 4.0% to 7.5% (MTRS) depending on group and length of service.
3. Mortality rates were as follows:

MSERS:

- Pre-retirement – reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females
- Post-retirement – reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 set forward 1 year for females
- Disability – the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

MTRS:

- Pre-retirement – reflects RP-2014 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct)
- Post-retirement – reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct)
- Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years

Investment assets of MSERS and 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:

CENTRAL MASSACHUSETTS COLLABORATIVE

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(6) RETIREMENT BENEFIT PLAN (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	40%	5.0%
Portfolio Completion Strategies	13	3.6
Core Fixed Income	12	1.1
Private Equity	11	6.6
Value Added Fixed Income	10	3.8
Real Estate	10	3.6
Timber/Natural Resources	4	3.2
Hedge Funds	<u>0</u>	3.6
Total	<u>100%</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.

Sensitivity of the Collaborative's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Collaborative's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Collaborative's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

<u>Collaborative's Proportionate Share of Net Pension Liability</u>	<u>1 % Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
MTRS	\$34,726,229	\$27,959,293	\$22,227,044
MSERS	\$7,765,523	\$5,701,733	\$4,039,301

Pension Plan Fiduciary Net Position

The Plan Fiduciary Net Position as a percentage of the Total Pension Liability is 54.25% for MTRS and 67.21% for MSERS.

CENTRAL MASSACHUSETTS COLLABORATIVE

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(7) LEASE DISCLOSURES

The Collaborative rents classroom and office space as a tenant-at-will from Worcester and surrounding communities on an annual basis. The Collaborative also rents classroom space via two non-cancelable operating leases. The following summarizes rent by location.

Location	Rental Space	Annual Rent
Worcester – 14 New Bond Street	School Building & Offices	\$1,945,961
Worcester – 20 Rockdale Street	School Building	\$585,309
West Boylston – 100 Hartwell Street	School Building	\$40,543
Worcester – 11 McKeon Road	School Building	\$160,055
Worcester -190 Fremont Street	School Building	\$113,892

Rent expense, which is allocated to the respective programs, totaled \$2,845,761 for the fiscal year ended June 30, 2018.

During fiscal year 2018, the Collaborative was obligated by three triple net lease agreements for classroom and office space. The lease terms expire on 12/31/21, 7/31/25, and 8/31/27, respectively. The leases require the Collaborative to pay the property taxes, utilities and insurance premiums related to the rental space. Future minimum lease payments for the three buildings are as follows:

June 30, 2019	\$ 2,585,579
June 30, 2020	2,644,396
June 30, 2021	2,743,032
June 30, 2022	2,764,141
June 30, 2023	2,787,179
Thereafter	<u>11,039,566</u>
	<u>\$24,563,893</u>

In addition, the Collaborative leases copy equipment and vehicles. Future minimum lease payments, by year and in the aggregate, under non-cancelable operating equipment leases with initial or remaining terms of one year or more consisted of the following at June 30, 2018:

Fiscal year end	Amount
June 30, 2019	\$ 74,772
June 30, 2020	60,251
June 30, 2021	54,642
June 30, 2022	<u>23,813</u>
Total Minimum Lease Payments	<u>\$213,478</u>

Rent expense for operating leases for fiscal 2018 totaled \$46,634.

CENTRAL MASSACHUSETTS COLLABORATIVE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(7) RISK MANAGEMENT

The Collaborative is exposed to various risks of loss related to torts: theft of, damage to, or destruction of assets; errors and omissions; workers compensation and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded insurance coverage. There were no significant changes in coverage compared to the prior year.

(8) COMMITMENTS AND CONTINGENCIES

The Collaborative has several three-year employment contracts with various employees. These contracts expire on or before June 30, 2020 and do not include clauses requiring severance pay.

From time to time, the Collaborative may be party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Collaborative's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Collaborative's financial position or results of operations.

The Collaborative has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances if any, would be immaterial.

CENTRAL MASSACHUSETTS COLLABORATIVE

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(9) OTHER POST-EMPLOYMENT BENEFITS PAYABLE (OPEB)

Plan Description

The Collaborative's defined benefit OPEB plan, Central Massachusetts Collaborative Retirees' Health Insurance Trust Fund ("the Plan"), provides OPEB to eligible employees who retire from CMC who are participants in either the MSERS or MTRS. The Plan is a single-employer defined benefit OPEB plan administered by the CMC Board of Directors. The Plan does not issue a publicly available financial report. The Collaborative will pay 99% of health care benefits for retirees and their spouses who retired prior to 1991. For those who retired subsequent to that date, the Collaborative will pay 75% of health care benefits. The Plan assets are held in an irrevocable trust. Beginning in fiscal year 2014, the Collaborative eliminated reimbursements for Medicare Part B premiums for Medicare eligible retirees.

Plan Assets

Plan assets are reported at fair value. The assets are invested in term deposit accounts in a savings bank insured fully by the Federal Deposit Insurance Corporation and the Depositors Insurance Fund. Net investment income includes interest earned on the accounts.

Funding Policy

The Collaborative required contributions are based on projected pay-as-you-go financing. Employees are not required to contribute to the Plan. The cost of administering the Plan is paid by the Collaborative. The Collaborative provided required contributions of \$31,423 in fiscal year 2018 toward the annual Other Post-Employment Benefit (OPEB) cost, comprised of benefit payments made on behalf of retirees (net of reinsurance), administrative expenses, and reinsurance payments, and net of retiree contributions. In addition, the irrevocable trust earned \$2,165 in interest.

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	7
Active employees	<u>211</u>
	<u>218</u>

Net OPEB Liability

The Collaborative's net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The projected OPEB liability as of June 30, 2018 reflects the projected pay-as-you-go results for fiscal year July 1, 2017 to June 30, 2018.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(9) OTHER POST-EMPLOYMENT BENEFITS PAYABLE (OPEB) (Continued)

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

Salary increases	3.0 percent
Expected return on assets	3.5 percent
Healthcare cost trend rates	8% per year graded down yearly to ultimate rate of 5.0% per year

Mortality rates were based on the RP-2014 Healthy Male and Female tables with mortality improvements using Projection Scale AA for 3.5 years.

The actuarial assumptions are estimates as to the occurrence of future events impacting the costs of the plan such as mortality rates, withdrawal rates, medical trend rates, retirement ages, rates of investment earnings, etc. The assumptions were chosen to anticipate the long-term experiences of the plan.

Changes in the Net OPEB Liability for the Fiscal Year ending June 30, 2018

		<u>Increase (Decrease)</u>	
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance as of 7/1/2017 <i>(restated for GASB 75)</i>	\$17,583,683	\$953,451	\$16,630,232
Changes for the year:			
Service cost	805,951	-	805,951
Interest on total OPEB liability	614,599	-	614,599
Change in expected to actual	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	-	-
Contributions-employees	-	-	-
Net investment income	-	624	(624)
Benefit payments	(47,416)	-	(47,416)
Administrative expense	-	-	-
Net changes	1,373,134	624	1,372,510
Balance at 6/30/2018	\$18,956,817	\$954,075	\$18,002,742

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(9) OTHER POST-EMPLOYMENT BENEFITS PAYABLE (OPEB) (Continued)

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

The following presents the Net OPEB Liability as of June 30, 2018 calculated using the discount rate of 3.5%, as well as what the Net OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5%) or 1-percentage-point higher (4.5%) than the current discount rate:

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Plan's Net OPEB Liability as of June 30, 2018	\$26,533,553	\$18,002,742	\$12,522,288

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

The following presents the Net OPEB Liability as of June 30, 2018 calculated using the trend rate of 8%, graded down by .5% per year to an ultimate rate of 5%, as well as what the Net OPEB Liability would be if it were calculated using a trend rate that is 1-percentage-point lower (4%) or 1-percentage-point higher (6%) than the current rate:

	Trend Rate 1% Decrease	Current Valuation Discount Rate	Trend Rate 1% Increase
Plan's Net OPEB Liability as of June 30, 2018	\$12,273,295	\$18,002,742	\$27,539,068

OPEB plan fiduciary net position

Detailed plan information about the OPEB plan's fiduciary net positions is available in the fiduciary statements included in these financial statements.

CENTRAL MASSACHUSETTS COLLABORATIVE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(10) SUBSEQUENT EVENTS

In June 2018, Webster Public Schools informed the Collaborative that they were withdrawing as a member from the Collaborative effective July 1, 2019.

The Collaborative evaluated subsequent events through November 26, 2018, which is the date the financial statements were available to be issued.

CENTRAL MASSACHUSETTS COLLABORATIVE
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REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

CENTRAL MASSACHUSETTS COLLABORATIVE

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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF THE GENERAL FUND - BUDGET AND ACTUAL - BUDGETARY BASIS

FOR THE YEAR ENDED JUNE 30, 2018

	Original/Final Budget	Actual Budgetary Amounts	Variance Favorable (Unfavorable)
REVENUES:			
Programs and Assessments	\$17,518,728	\$17,612,678	\$ 93,950
Interest (Unbudgeted)		3,826	3,826
Other revenue (Unbudgeted)		64,953	64,953
Total revenues	17,518,728	17,681,457	162,729
EXPENDITURES:			
Operational:			
Insurance – Workers' Comp and Liability	215,000	241,211	(26,211)
Administrative expenses	82,933	762,259	(679,326)
Instructional expenses	190,905	396,733	(205,828)
Non-instructional expenses	358,421	421,910	(63,489)
Occupancy	3,456,845	3,219,407	237,438
Transportation	60,500	63,909	(3,409)
Total operational expenditures	4,364,604	5,105,429	(740,825)
Personnel:			
Wages and salaries	10,895,710	11,418,567	(522,857)
Employee benefits	2,258,414	1,892,939	365,475
Total salaries and benefits	13,154,124	13,311,506	(157,382)
Total expenditures	17,518,728	18,416,935	(898,207)
Revenue over (under) expenditures	\$ -	\$ (735,478)	\$ (735,478)
FUND BALANCES AT BEGINNING OF YEAR	2,685,468	2,685,468	
FUND BALANCES AT END OF YEAR	\$ 2,685,468	\$ 1,949,990	

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

CENTRAL MASSACHUSETTS COLLABORATIVE

(formerly Central Massachusetts Special Education Collaborative)

SCHEDULE OF CHANGES IN THE COLLABORATIVE'S NET OPEB LIABILITY

FOR THE YEAR ENDED JUNE 30, 2018

	<u>6/30/2018</u> (valuation as of July 1, 2017)
Total OPEB Liability (TOL)	
Service cost	\$ 805,951
Interest on TOL	614,599
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	<u>(47,416)</u>
Net change in total OPEB liability	1,373,134
Total OPEB liability – beginning <i>(restated for GASB 75)</i>	<u>17,583,683</u>
Total OPEB liability – ending (a)	<u>\$18,956,817</u>
 Plan fiduciary Net Position	
Contributions - employer	\$ -
Net investment income	624
Benefit payments	<u>-</u>
Net change in plan fiduciary net position	624
Plan fiduciary net position - beginning	<u>953,451</u>
Plan fiduciary net position – ending (b)	<u>\$ 954,075</u>
 Collaborative's net OPEB liability – ending (a)-(b)	<u>\$18,002,742</u>
 Plan fiduciary net position as a percentage of total OPEB liability	5.03%
Total Annual Compensation based on Valuation Census Information (covered-employee payroll)	\$10,434,305
Collaborative's net OPEB liability as a percentage of covered-employee payroll	172.53%
 Actuarially determined Pay-As-You-Go contribution	\$ 47,416
Contributions in relation to actuarially determined contribution	-
Contribution deficiency	<u>\$ (47,416)</u>
 Contributions as a percentage of covered-employee payroll	0%

Notes to Schedule:

The *Total OPEB liability – beginning* balance was restated in accordance with GASB 75. The restatement included a change in the discount rate from 4% to 3.5%; a change in actuarial cost methods from Projected Unit Credit to Entry Age Normal as a Percentage of Payroll; a change in the number of employees valued; a change in the retirement eligibility formula and the use of a new mortality table.

The *Plan fiduciary net position – ending (b)* of \$954,075 agrees to the cash balance of the Retirees' Health Insurance Trust Fund as of June 30, 2017 because the OPEB valuation was prepared as of July 1, 2017.

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

SCHEDULE OF THE COLLABORATIVE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

JUNE 30, 2018

Measurement Date	June 30, 2017		June 30, 2016		June 30, 2015		June 30, 2014	
	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS
Collaborative's proportion of the net pension liability	.1222%	.0445%	.1149%	.0389%	.1134%	.0383%	.1109%	.0347%
Collaborative's proportionate share of the net pension liability	\$27,959,293	\$5,701,733	\$25,688,426	\$5,357,234	\$23,242,456	\$4,360,172	\$17,624,690	\$2,577,228
Collaborative's covered-employee payroll	\$8,328,510	\$2,478,679	\$7,568,124	\$2,164,018	\$7,217,470	\$2,193,215	\$6,810,784	\$1,839,036
Collaborative's proportionate share of the net pension liability as a percentage of its covered-employee payroll	335.71%	230.03%	339.43%	247.56%	322.03%	198.80%	258.78%	140.14%
Plan fiduciary net position as a percentage of the total pension liability	54.25%	67.21%	52.73%	63.48%	55.38%	67.87%	61.64%	76.32%

Notes to Required Supplementary Information

MTRS is the Massachusetts Teachers' Retirement System

MSERS is the Massachusetts State Employees' Retirement System

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.

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

SCHEDULE OF PENSION CONTRIBUTIONS

JUNE 30, 2018

Measurement Date	June 30, 2017		June 30, 2016		June 30, 2015		June 30, 2014	
	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS
Contractually required contribution	\$ -	\$ 138,806	\$ -	\$ 121,185	\$ -	\$ 122,815	\$ -	\$ 102,986
Contributions in relation to the contractually required contribution	\$ -	\$ 138,806	\$ -	\$ 121,185	\$ -	\$ 122,815	\$ -	\$ 102,986
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collaborative's covered-employee payroll	\$8,328,510	\$2,478,679	\$7,568,124	\$2,164,018	\$7,217,470	\$2,193,215	\$6,810,784	\$1,839,036
Contributions as a percentage of covered-employee payroll	0%	5.6%	0%	5.6%	0%	5.6%	0%	5.6%

Notes to Required Supplementary Information

MTRS is the Massachusetts Teachers' Retirement System
MSERS is the Massachusetts State Employees' Retirement System

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 Administration Commission (PERAC) for MSERS. No contribution is required for MTRS. The Commonwealth of Massachusetts As a non-employer is legally responsible for the entire past service cost related to the Collaborative and therefore has a 100% special funding situation.

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

SUPPLEMENTARY INFORMATION
JUNE 30, 2018

CENTRAL MASSACHUSETTS COLLABORATIVE

(formerly Central Massachusetts Special Education Collaborative)

DISCLOSURES REQUIRED BY CHAPTER 43 OF THE ACTS OF 2012 OF THE MASSACHUSETTS GENERAL LAWS

FOR THE YEAR ENDED JUNE 30, 2018

Transactions between the education collaborative and any related for-profit or non-profit organization:

None

Transactions or contracts related to the purchase, sales, rental or lease of real property:

See Note 7

The duties and total compensation of the 5 most highly compensated employees:

Name & Title	Primary Duties	Compensation
Michael Tempesta, Executive Director	Responsible for the overall supervision and administration of the Collaborative. Provides leadership in the development and operations of educational programs, budget development, resource allocation and all services offered to member districts. Implements all policies and procedures approved by the Board of Directors.	\$138,441
Ann O'Leary-Ortiz, Program Director	Responsible for exercising vision and providing leadership that appropriately involves staff, parents, students and community partners to identify and accomplish the program's mission and goals.	\$114,500
Jessica Pitsillides, Program Director	Responsible for exercising vision and providing leadership that appropriately involves staff, parents, students and community partners to identify and accomplish the program's mission and goals.	\$113,500
Michael Kelly, Program Director	Responsible for exercising vision and providing leadership that appropriately involves staff, parents, students and community partners to identify and accomplish the program's mission and goals.	\$113,220
Beverly Tefft, Director of Finance & Operations	Responsible for planning, organizing and directing the business and financial operations of the Collaborative.	\$110,366

The amounts expended on administration and overhead:

Administration and overhead \$1,495,925

Any accounts held by the collaborative that may be spent at the discretion of another person or entity:

None

The amounts expended on services age 22 and older:

None

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

DISCLOSURES REQUIRED BY CHAPTER 43 OF THE ACTS OF 2012
OF THE MASSACHUSETTS GENERAL LAWS

ANNUAL DETERMINATION AND DISCLOSURE OF CUMULATIVE SURPLUS
FOR THE YEAR ENDED JUNE 30, 2018

Cumulative Surplus Calculation		Page(s) in	
FY18		financial	
		statements	
(A) Voted Cumulative Surplus as of 6/30/17	2,683,788 (A)		
(B) 1 Amount of (A) used to support the FY18 Budget	(B)1 757,680		
2 Amount of (A) returned to member districts	(B)2 -		
	(B)1 + (B)2 = (B)	757,680 (B)	p. 9
(C) Unexpended FY18 General Funds	(C) -		
(D) Cumulative Surplus as of 6/30/18	(A) - (B) + (C) = (D)	1,926,108 (D)	
(E) FY18 Total General Fund Expenditures	(E) 17,858,904		p. 9
(F) Cumulative Surplus Percentage	(D) ÷ (E)	10.79% (F)	p. 9

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

SCHEDULE OF TREASURER'S CASH

JUNE 30, 2018

COMPOSITION OF CASH AT YEAR END:

Interest Bearing Accounts:

Cash is comprised of:

Hometown Bank (4 accounts)	\$ 883,528
Bancorp Bank	2,049
Webster First Federal Credit Union (5 bank accounts)	<u>2,178,683</u>
TOTAL CASH	<u>\$3,064,260</u>

Presentation of cash in accompanying statements:

Government Funds	\$2,180,732
Health-Insurance Trust Fund	<u>883,528</u>
TOTAL CASH	<u>\$3,064,260</u>

CENTRAL MASSACHUSETTS COLLABORATIVE
(formerly Central Massachusetts Special Education Collaborative)

AUDITORS' REPORT PURSUANT TO GOVERNMENT

AUDITING STANDARDS

FOR THE YEAR ENDED JUNE 30, 2018



PAVENTO, RATCLIFFE,
RENZI & CO., LLC

Business Advisors
Certified Public Accountants

**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
Central Massachusetts Collaborative

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Central Massachusetts Collaborative (formerly Central Massachusetts Special Education Collaborative), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities for the year then ended and the related notes to the financial statements, and have issued our report thereon dated November 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Massachusetts 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Central Massachusetts Collaborative's internal control. Accordingly, we do not express an opinion on the effectiveness of Central Massachusetts 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 Central Massachusetts Collaborative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pavento, Ratcliffe, Renzi & Co., LLC

Franklin, Massachusetts
November 26, 2018