

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Southern Worcester County  
Educational Collaborative  
Dudley, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Worcester County Educational Collaborative as of and for the year ended June 30, 2012, which collectively comprise the Collaborative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Southern Worcester County Educational Collaborative's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Worcester County Educational Collaborative at June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2012 on our consideration of the Southern Worcester County Educational Collaborative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

*Certified Public Accountants*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southern Worcester County Educational Collaborative's financial statements taken as a whole. The supplementary information found on page 27 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information found on page 27 is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 taken as a whole.

*Borgatti Harrison & Co.*

Borgatti Harrison & Co.

Framingham, Massachusetts  
September 21, 2012

## **Management's Discussion and Analysis**

As Management of The Southern Worcester County Educational Collaborative, we offer readers of the Collaborative financial statements this narrative overview and analysis of financial activities of the Collaborative for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our basic statements and notes to the basic statements.

### **Financial Highlights**

The liabilities of The Southern Worcester County Educational Collaborative exceeded its assets at the close of the fiscal year by \$(823,221) (net assets). Of this amount, \$124,464 is for invested in capital assets, net of related debt. The deficit in net assets is a result of an Other Postemployment Benefits Obligation liability in the amount of \$1,995,255.

The total assets of the Collaborative are \$1,691,343, of which, \$1,566,879 are current assets.

The total revenues of the Collaborative for fiscal 2011 were \$8,743,666, a decrease of \$138,375 (1.6%) over fiscal 2011.

The total expenses of the Collaborative for fiscal 2011 were \$9,035,009, a decrease of \$92,897 (1.0%) over fiscal 2011.

The overall financial position of the Collaborative is stable. The change in net assets for the fiscal year amounts to a decrease of \$291,343 (54.77%). This was principally from a \$681,304 net OPEB obligation that was recognized by the Collaborative as a result of Government Accounting Standards Board (GASB) Statement 45. The \$681,304 net OPEB obligation represents the difference between the Collaborative's annual required contribution for other post employment benefits (principally health insurance) and the Collaborative's pay-as-you-go funding for retiree benefits.

### **Overview of Financial Statements**

This overview 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.

### **Government-Wide Financial Statements:**

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

The statement of net assets presents information on all of the Collaborative's assets and liabilities, with the difference between the two reports as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as the underlying event giving rise to the change occurs, regardless of the timing of 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.

Both of the government-wide financial statements distinguish functions that are principally supported by member tuitions and intergovernmental revenues (government activities). The governmental activities include general government, pension benefits, property and liability insurance, employee benefits, claims and judgments, and interest.

### **Fund Financial Statements:**

A fund is a grouping of related accounts or a single account that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds are governmental funds.

### **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 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 evaluating a government'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 activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Southern Worcester County Educational Collaborative adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 6 through 12.

**Notes to the Financial Statements:**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 26 of this report. An index of the notes appears on page 14.

**Financial Analysis of Governmental Funds:**

As noted earlier, the Collaborative uses fund accounting to ensure and demonstrate compliance with local, state and federal requirements.

**Governmental Funds-** The focus of the Collaborative 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 financial requirements.

In particular, undesignated fund balance may serve as a useful measure of the Collaborative's net resources available for spending at the end of the fiscal year.

**General Fund Budgetary Highlights:**

Actual revenues were \$8,510,638, over budget by \$994,228, primarily due to tuition fees being more than anticipated.

Actual expenditures were \$8,096,361, over budget by \$579,951, primarily in salaries and the related insurance and benefits, in reaction to the increase in revenues.

**Government-Wide Financial Analysis:**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Governmental liabilities exceeded assets by \$(823,221) at the close of FY 2012, a decrease of \$291,343 (54.78%). As previously noted, \$1,995,255 is attributable to the recording of the OPEB liability as required by GASB 45.

	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>%</b>
Cash	\$ 916,860	\$ 671,222	\$ 245,638	0.366
Other current assets	650,019	429,853	220,166	0.512
Capital assets	124,464	151,780	(27,316)	-0.180
<b>Total assets</b>	<b>1,691,343</b>	<b>1,252,855</b>	<b>438,488</b>	<b>0.350</b>
Current liabilities	501,309	449,782	51,527	0.115
OPEB obligation	1,995,255	1,313,951	681,304	-
Other liabilities	18,000	21,000	(3,000)	0.000
<b>Total liabilities</b>	<b>2,514,564</b>	<b>1,784,733</b>	<b>732,831</b>	<b>0.411</b>
Restricted net assets	-	-	-	
Net investment in capital assets	124,464	151,780	(27,316)	-0.180
Unrestricted net assets	(947,685)	(683,658)	(264,027)	0.386
<b>Total net assets</b>	<b>(823,221)</b>	<b>(531,878)</b>	<b>(291,343)</b>	<b>0.548</b>
Charges for services	2,304,391	2,315,324	(10,933)	-0.005
Tuitions	6,148,108	6,353,774	(205,666)	-0.032
Operating grants and contributions	233,028	153,498	79,530	0.518
Member dues	56,000	56,000	-	0.000
Other income	2,139	3,445	(1,306)	-0.379
Operating expenses	9,035,009	9,127,906	(92,897)	-0.010
<b>Change in net assets</b>	<b>(291,343)</b>	<b>(245,865)</b>	<b>(45,478)</b>	<b>0.185</b>

### **Fiscal Year 2013**

The Collaborative has appropriated a balanced annual budget for FY 2013 of \$5,165,593. The Collaborative anticipates that revenue and expenses will be in line with the current fiscal year.

### **Requests for information:**

This financial report is designed to provide a general overview of The Southern Worcester County Educational Collaborative finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Business Officer at The Southern Worcester County Educational Collaborative, P.O. Box 517, Southbridge, MA 01550.



SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<b><u>Governmental Activities</u></b>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 916,860
Accounts receivable, net	494,370
Prepaid expenses	<u>155,649</u>
Total current assets	<u>1,566,879</u>
<b>Noncurrent assets</b>	
Capital assets, net of accumulated depreciation	<u>124,464</u>
Total noncurrent assets	<u>124,464</u>
Total assets	<u>1,691,343</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	100,141
Accrued payroll	364,634
Other accrued liabilities	<u>36,534</u>
Total current liabilities	<u>501,309</u>
<b>Noncurrent liabilities</b>	
Other postemployment benefits obligation	1,995,255
Compensated absences	<u>18,000</u>
Total noncurrent liabilities	<u>2,013,255</u>
Total liabilities	<u>2,514,564</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	124,464
Unrestricted	<u>(947,685)</u>
Total Net Assets	\$ (823,221) =====

See accompanying notes to financial statements

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating Grants</u> <u>and</u> <u>Contributions</u>	<u>Capital Grants</u> <u>and</u> <u>Contributions</u>	<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Assets</u>
<u>Primary Government</u>					
Government Activities					
Administration	\$ 563,696	\$ -	-	-	\$ (563,696)
Instruction	3,255,398	-	-	-	(3,255,398)
Student support	3,490	-	-	-	(3,490)
Maintenance	72,225	-	-	-	(72,225)
Rent	417,108	-	-	-	(417,108)
Telephone and utilities	20,493	-	-	-	(20,493)
Employee benefits	1,920,719	-	233,028	-	(1,687,691)
Fixed assets/technology	45,209	-	-	-	(45,209)
Insurance	179,638	-	-	-	(179,638)
Wages and benefits - technicians	1,561,347	1,366,711	-	-	(194,636)
Wages and benefits - transportation	594,079	594,079	-	-	-
Transportation	343,601	343,601	-	-	-
Bad debts expense	12,412	-	-	-	(12,412)
Depreciation	45,594	-	-	-	(45,594)
	<u>9,035,009</u>	<u>2,304,391</u>	<u>233,028</u>	<u>-</u>	<u>(6,497,590)</u>
Total governmental activities					
General revenues:					
Membership dues					56,000
Tuitions					6,148,108
Unrestricted investment earnings					2,139
Other income					-
Total general revenues					<u>6,206,247</u>
Change in net assets					(291,343)
Net assets, beginning of year					<u>(531,878)</u>
Net assets, end of year					\$ (823,221)

See accompanying notes to financial statements

SOUTHERN WORCESTER COUNTY  
 EDUCATIONAL COLLABORATIVE

BALANCE SHEET  
 GOVERNMENTAL FUNDS

JUNE 30, 2012

	<u>General Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 916,860	\$ -	\$ 916,860
Accounts receivable, net of allowance for uncollectible accounts	494,370	-	494,370
Prepaid expenses	<u>155,649</u>	<u>-</u>	<u>155,649</u>
 Total assets	 \$1,566,879 =====	 \$ - =====	 \$1,566,879 =====
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 100,141	\$ -	\$ 100,141
Accrued payroll	364,634	-	364,634
Other accrued liabilities	<u>36,534</u>	<u>-</u>	<u>36,534</u>
 Total liabilities	 <u>501,309</u>	 <u>-</u>	 <u>501,309</u>
Fund balances:			
Nonspendable	155,649	-	155,649
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>909,921</u>	<u>-</u>	<u>909,921</u>
 Total fund balances	 <u>1,065,570</u>	 <u>-</u>	 <u>1,065,570</u>
 Total liabilities and fund balances	 \$1,566,879 =====	 \$ - =====	 \$1,566,879 =====

See accompanying notes to financial statements

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total fund balance, governmental funds	\$1,065,570
Amounts reported for governmental activities in the Statement of Net Assets 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 Assets	124,464
Some liabilities, (such as Notes Payable, Capital Leases, Compensated Absences), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets	<u>(2,013,255)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	\$ (823,221) =====

See accompanying notes to financial statements

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

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

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>		<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Tuitions	\$6,148,108	\$ -		\$6,148,108
Membership dues	56,000	-		56,000
Governmental income	233,028	-		233,028
Supplementary and other income	2,219,875	-		2,219,875
Summer program	84,516	-		84,516
Interest income	<u>2,139</u>	<u>-</u>		<u>2,139</u>
Total revenues	<u>8,743,666</u>	<u>-</u>		<u>8,743,666</u>
<b>EXPENDITURES</b>				
Administration	563,696	-		563,696
Instruction	3,258,398	-		3,258,398
Student support	3,490	-		3,490
Maintenance	72,225	-		72,225
Rent	417,108	-		417,108
Telephone and utilities	20,493	-		20,493
Employee benefits	1,239,415	-		1,239,415
Fixed assets/technology	63,487	-		63,487
Insurance	179,638	-		179,638
Wages and benefits - technicians	1,561,347	-		1,561,347
Wages and benefits - transportation	594,079	-		594,079
Transportation	343,601	-		343,601
Bad Debts expense	<u>12,412</u>	<u>-</u>		<u>12,412</u>
Total expenditures	<u>8,329,389</u>	<u>-</u>		<u>8,329,389</u>
Excess (deficiency) of revenues over expenditures	<u>414,277</u>	<u>-</u>		<u>414,277</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	<u>-</u>	<u>-</u>		<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>		<u>-</u>
Net change in fund balances	414,277	-		414,277
Fund balances - beginning of year	<u>651,293</u>	<u>-</u>		<u>651,293</u>
Fund balances - end of year	\$1,065,570	\$ -		\$1,065,570
	=====	=====		=====

See accompanying notes to financial statements

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

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

FOR THE YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$ 414,277

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  
amount by which capital outlays (\$18,278) exceeded  
depreciation (\$45,594) in the current period (27,316)

Some expenses reported in the Statement of Activities do  
not require the use of current financial resources and  
these are not reported as expenditures in governmental  
funds:

Net change in postemployment benefits liability (681,304)  
Compensated absences not reflected on Governmental  
funds, net change 3,000

Change in net assets of governmental activities \$ (291,343)  
=====

See accompanying notes to financial statements

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET TO ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	Final Budget-
				Positive (Negative)
<b>REVENUES</b>				
Tuition	\$5,060,510	\$5,060,510	\$6,148,108	\$1,087,598
Membership dues	56,000	56,000	56,000	-
Supplementary and other income	2,339,900	2,339,900	2,219,875	(120,025)
Summer program	60,000	60,000	84,516	24,516
Interest income	-	-	2,139	2,139
	<u>7,516,410</u>	<u>7,516,410</u>	<u>8,510,638</u>	<u>994,228</u>
<b>EXPENDITURES</b>				
Administration	461,426	461,426	563,696	(102,270)
Instruction	3,512,477	3,512,477	3,258,398	254,079
Student support	10,000	10,000	3,490	6,510
Maintenance	156,237	156,237	72,225	84,012
Rent	402,708	402,708	417,108	(14,400)
Telephone and utilities	29,218	29,218	20,493	8,725
Employee benefits	1,057,633	1,057,633	1,006,387	51,246
Fixed assets/technology	76,055	76,055	63,487	12,568
Insurance	114,286	114,286	179,638	(65,352)
Wages and benefits - technicians	817,442	817,442	1,561,347	(743,905)
Wages and benefits - transportation	620,928	620,928	594,079	26,849
Transportation	258,000	258,000	343,601	(85,601)
Bad debts expense	-	-	12,412	(12,412)
	<u>7,516,410</u>	<u>7,516,410</u>	<u>8,096,361</u>	<u>(579,951)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>414,277</u>	<u>414,277</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Use of unreserved surplus	-	-	-	-
Transfers in(out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	414,277	414,277
Fund balances - beginning of year	<u>651,293</u>	<u>651,293</u>	<u>651,293</u>	<u>-</u>
Fund balances - end of year	\$ 651,293	\$ 651,293	\$1,065,570	\$ 414,277
	*****	*****	*****	*****

See accompanying notes to financial statements

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

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SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Southern Worcester Educational Collaborative (Collaborative) is an educational collaborative established under Massachusetts General Laws, Chapter 40, Section 4E and Board of Education Policy and an agreement between the School Committees of the Towns of Auburn, Grafton, Leicester, Millbury, Oxford, Northbridge, North Brookfield, Sutton, and the Dudley-Charlton Regional School District, Quaboag Regional School District, Spencer-East Brookfield Regional School District, and Tantasqua/Union 61 Regional School District. The Collaborative was formed with the purpose of analyzing and implementing programs and services for school age children with special needs when such programs and services are best served by a Collaborative effort.

The accounting and reporting policies of the Collaborative relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

B. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all activities of the Collaborative.

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

Fund Financial Statements:

The Collaborative segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements present each major fund as a separate column; all non-major funds are aggregated and presented in a single column.

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

Governmental funds are those funds through which most governmental activities typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Collaborative has presented the following major governmental funds:

General Fund - This fund is the main operating fund of the Collaborative. It is used to account for all financial resources not accounted for in other funds. All member tuition and other fees that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, insurance and benefits and other costs that are not paid through other funds are paid from the general fund.

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

Special Revenue Fund - This fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

C. Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations on their use either through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

D. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Collaborative is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Collaborative Agreement).

SOUTHERN WORCESTER COUNTY  
EDUCATIONAL COLLABORATIVE

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

Enabling legislation authorizes the Collaborative to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Collaborative can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of Collaborative Board. Those committed amounts cannot be used for any other purpose unless the Collaborative Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classifications may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by Collaborative Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Collaborative for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by Collaborative Board or a Collaborative official delegated that authority by Collaborative Agreement or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Collaborative applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

SOUTHERN WORCESTER COUNTY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

E. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; 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.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "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. The revenues susceptible to accrual are tuition, program service fees, reimbursable income, interest income and intergovernmental income. All other governmental fund revenue are recorded when received.

F. Budgetary Control

The Board of Directors annually determines the amount to be raised (after deducting the amount of anticipated revenues from other sources, including surplus revenue, if any) to maintain and operate the Collaborative during the next fiscal year and apportions the amount among the member districts in accordance with the terms of the agreement.

The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

G. Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash and cash investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements.

SOUTHERN WORCESTER COUNTY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less are also considered to be "cash equivalents".

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

H. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Inventories of supplies

Supplies are considered to be expenditures at the time of purchase and are not included in the statement of financial position as inventories.

J. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations.

K. Claims and Judgments

Estimated losses from judgments and claims are recorded in the financial statements as a liability and as an expense if the loss is probable and amounts can be reasonably estimated.

L. Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis and was \$0 at June 30, 2011.

M. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

SOUTHERN WORCESTER COUNTY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

Assets capitalized have an original cost of \$2,000 or more and over three years of useful life. Depreciation is calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Furniture and Equipment	5 - 10 years
Leasehold Improvements	15 years

2 - DEPOSITS AND INVESTMENTS

Deposits - Custodial Risk

Custodial risk for deposits is the risk that, in the event of a bank failure, the Collaborative's deposits may not be recovered. The Collaborative does not have a policy for custodial credit risk of deposits. As of June 30, 2012, \$ -0- of the Collaborative's bank balance of \$1,095,073 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Collaborative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Collaborative does not have a policy for custodial credit risk of investments.

Investments - Interest Rate Risk of Debt Securities

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

Investments - Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Collaborative does not have a policy for credit risk of debt securities.

3 - PENSION PLANS

Plan Description and Provisions

The Collaborative provides pension benefits for substantially all employees except certain administrative employees, professional employees and teachers, through the Massachusetts Retirement System (MRS), a Cost-Sharing Multiple Employer Employee Retirement System established under the Massachusetts Contributory Retirement Law.

SOUTHERN WORCESTER COUNTY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

The system provides for retirement benefits up to a maximum of 80% of a member's highest three year average annual compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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 on January 1, 1978, (3) voluntarily left Collaborative employment on or after that date, and (4) left accumulated annuity deductions in the Fund.

The Massachusetts Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for MRS.

**Funding Policy**

Active plan members contribute either 5, 7, 8, 9, or 11% of their gross regular compensation depending on the date upon which their membership began, on a pre-tax basis. Individuals whose membership became effective on or after January 1, 1979 contribute an additional 2% of regular compensation over \$30,000. The Collaborative is required to contribute at an actuarially determined rate; the current rate is 7.8% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the MRS Board of Trustees.

**Annual Pension Cost**

For 2012, the Collaborative's annual pension cost of \$247,230 was equal to the Collaborative's required and actual contributions. The periodic employer contributions to the retirement system are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded on a schedule that ends no later than the year 2040. The annual amortization of the unfunded actuarial liability increases each year by no more than 7.5%. The funding strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The significant actuarial assumptions used in the determination of the standardized measure of the pension benefit obligation and contribution are summarized below:

\* The rate of return on the investment of present and future assets is 8% per year, compounded annually.

\* Future pension payments reflect an assumption of a 4.5% salary increase per year.

SOUTHERN WORCESTER COUNTY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

\* Additional projected salary increases of 1.5% a year attributable to longevity/merit.

\* Future pension payments reflect no post-retirement benefit increases.

Three Year Trend Information

Fiscal Year <u>Funding</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contribution</u>
2010	\$ 269,935	100%
2011	233,438	100%
2012	247,230	100%

Certain employees of the Collaborative participate individually in a contributory retirement plan administered by the Massachusetts Teacher's Retirement Board. The Collaborative does not contribute to this plan. All pension benefits and expenses paid by the Teachers Retirement Board are funded by the Commonwealth of Massachusetts. Payments made by the Commonwealth of Massachusetts on behalf of the Collaborative amounted to \$133,028 and are reflected as revenues and corresponding expenditures in the Collaborative's special revenue funds.

4 - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the Collaborative. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Collaborative expects such amounts, if any, to be immaterial.

5 - BUDGETARY BASIS OF ACCOUNTING

The Collaborative prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the Collaborative's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund to provide a meaningful comparison of actual results with the budget.

Adjustments necessary to convert the General Fund's excess of revenues over expenditures on the budget basis to a GAAP basis are provided below:

Excess of revenues over expenditures - budget basis	\$ 414,277
Record revenue recognized for MTR on-behalf payments	233,028
Record expenditures recognized for MTR on-behalf payments	<u>(233,028)</u>

Excess of revenues over expenditures - GAAP basis	\$ 414,277
	=====



SOUTHERN WORCESTER COUNTY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

6 - LONG-TERM OBLIGATIONS

Transactions for the year ended June 30, 2012 are summarized as follows:

	Balance <u>July 1</u>	Issues or <u>Additions</u>	Payments or <u>Expenditures</u>	Balance <u>June 30</u>	Due Within <u>One Year</u>
<u>Governmental Type Activities</u>					
Compensated Absences	\$ 21,000	\$ -	\$ 3,000	\$ 18,000	\$ -
Total governmental activities	\$ 21,000	\$ -	\$ 3,000	\$ 18,000	\$ -
	*****	*****	*****	*****	*****

7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated				
Furniture and equipment	\$ 352,120	\$ 16,733	\$ -	\$ 368,853
Leasehold improvements	154,179	1,545	-	155,724
Total capital assets, being depreciated	506,299	18,278	-	524,577
Less accumulated depreciation for:				
Furniture and equipment	308,574	35,212	-	343,786
Leasehold improvements	45,945	10,382	-	56,327
Total accumulated depreciation	354,519	45,594	-	400,113
Total capital assets, being depreciated, net	151,780	(27,316)	-	124,464
Governmental activities capital assets, net	\$ 151,780	\$ (27,316)	\$ -	\$ 124,464
	*****	*****	*****	*****

Depreciation expense was not charged to various functions but shown as a separate line item in the statement of activities.

8 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

**Plan Description** - The Collaborative provides health insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates is accomplished by vote of the Board of Directors. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

SOUTHERN WORCESTER COUNTY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

The number of participants as of July 1, 2009, the latest actuarial valuation, is as follows:

Active employees.....	140
Retired employees and beneficiaries.....	<u>0</u>
 Total	 140 ===

**Funding Policy** - The contribution requirements of the Plan and the Collaborative is established by the Board of Directors. The current required health insurance contribution rates of Plan members and the Collaborative are 50% and 50%, respectively. The Collaborative currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis.

**Annual OPEB and Net OPEB Obligation** - The Collaborative's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Collaborative's annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the Collaborative's net OPEB obligation are summarized in the following table:

Normal cost	\$ 383,560
Amortization of unfunded actuarial accrued liability	252,669
Interest on OPEB obligation	<u>78,006</u>
	714,235
Contributions made	<u>32,931</u>
	681,304
Increase in net OPEB obligation	681,304
Net OPEB obligation, beginning of year	<u>1,313,951</u>
	\$1,995,255
Net OPEB obligation, end of year	\$1,995,255 =====

Trend information regarding annual pension cost, the percentage of the annual pension cost contributed and the net pension obligation is as follows:

Percentage of Fiscal Year <u>Ended</u>	<u>Annual</u> OPEB Cost	<u>Annual OPEB</u> Cost Contributed	<u>Net OPEB</u> Obligation
6/30/2010	\$ 657,601	1.43%	\$ 648,176
6/30/2011	\$ 687,138	3.11%	\$1,313,951
6/30/2012	\$ 714,235	4.61%	\$1,995,255

SOUTHERN WORCESTER COUNTY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

**Funded Status and Funding Progress** - The funded status of the Plan at July 1, 2009, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAAL as a Percentage of Covered Payroll ((B-A)/C)
07/1/09	\$ -	\$4,543,935	\$4,543,935	-	\$4,882,412	93.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2009
Actuarial cost method:	Projected Unit Credit
Amortization method:	Projected Unit Credit
Remaining amortization period:	30 Years
Interest discount rate:	4.0%
Healthcare/medical cost trend rate:	9% decreasing by 1% to an ultimate level of 5% per year in fiscal 2014

9 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 21, 2012, the date which the financial statements were available to be issued.

SOUTHERN WORCESTER COUNTY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

10 - OPERATING LEASES

The Collaborative has operating leases as follows:

The Collaborative lease Vans for transporting students. Rent expense for 2012 amounted to \$208,896.

The collaborative leases classroom space at several locations from its members. Rent expense for 2012 amounted to \$417,108.

The Collaborative lease office equipment. Rent expense for 2012 amounted to \$21,025.

11 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Collaborative is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
<u>Nonspendable:</u>			
Prepaid expenses	\$ <u>155,649</u>	\$ <u>-</u>	\$ <u>155,649</u>
Total nonspendable	<u>155,649</u>	<u>-</u>	<u>155,649</u>
<u>Restricted For:</u>			
	<u>-</u>	<u>-</u>	<u>-</u>
<u>Committed To:</u>			
	<u>-</u>	<u>-</u>	<u>-</u>
<u>Assigned To:</u>			
	<u>-</u>	<u>-</u>	<u>-</u>
<u>Unassigned:</u>			
	<u>909,921</u>	<u>-</u>	<u>909,921</u>
Total Fund Balances	\$1,065,570 =====	\$ - =====	\$1,065,921 =====

SUPPLEMENTARY INFORMATION

SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE

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

JUNE 30, 2012

1. Transactions between the Collaborative and any related for-profit or non-profit organization:

None.

2. Transactions or contracts related to the purchase, sale, rental or lease of real property:

- \* Annual contracts for the lease of classroom space from member school districts at the following locations:

Spencer-East Brookfield	\$ 32,000
* Long-term lease for classroom space in Southbridge from E & M Realty	190,828
* Long-term lease for classroom and office space at Rt 131, Dudley from G & B Realty	<u>194,280</u>
	\$ 417,108
	=====

3. The names, duties and total compensation of the five most highly compensated employees:

Beth Gonyea, Executive Director	\$ 106,080
Scott Parker, Director	96,167
Stephen Duff, Dean of Students	89,924
Melissa Manzi, SPE Coordinator	80,706
Sherry Holmes, Business Administrator	77,250

4. The amounts expended of administration and overhead:

\$ 563,696  
=====

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

None.

6. The amounts expended on services for individuals age 22 and older:

None.