

**SOUTHERN WORCESTER COUNTY
EDUCATIONAL COLLABORATIVE**

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE

BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As Management of the Southern Worcester County Educational Collaborative, we offer readers of the Collaborative's financial statements this narrative overview and analysis of financial activities of the Collaborative for the fiscal year ended . 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 \$4,750,006 (net position). Of this amount, \$33,097 is invested in capital assets, net of related debt. The deficit in net position is a result of an Other Postemployment Benefits (OPEB) obligation liability in the amount of \$5,308,179 and deferred inflows of resources related to OPEB of \$910,851.

The total assets of the Collaborative are \$2,243,529 of which \$2,210,432 are current assets.

The total revenues of the Collaborative for fiscal year 2021 are \$9,109,393, an increase of \$359,335 (4.1%) increase over fiscal year 2020 .

The total expenses of the Collaborative for fiscal year 2021 are \$9,389,176 a decrease of \$24,335 (.3%) over fiscal year 2020 .

The overall financial position of the Collaborative decreased by \$279,783 (6%).

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 position presents information on all of the Collaborative's assets and liabilities, with the difference between the two as net position. 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 net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of 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 to 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 9 through 12.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Collaborative programs. The reporting focus is on net position and changes in net position presented in fiduciary fund statements. Since by definition these assets are being held for the benefit of a third party (retiree health insurance participants) and cannot be used to address activities or obligations of the Collaborative, these funds are reported separately from that of the Collaborative's government-wide activities.

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 33 of this report.

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 general fund revenues are \$7,196,018, under budget by \$399,776, primarily due to a decrease in tuition income being less than anticipated. Actual expenditures are \$7,307,465 under budget by \$276,593.

Government-Wide Financial Analysis

	2021	2020	Change	%
Cash	\$ 1,792,224	\$ 1,830,770	\$ (38,546)	-2.11%
Other current assets	418,208	1,152,625	(734,417)	-63.72%
Capital assets	33,097	37,504	(4,407)	-11.75%
Total assets	<u>2,243,529</u>	<u>3,020,899</u>	<u>(777,370)</u>	<u>-25.73%</u>
Current liabilities	765,505	1,427,021	(661,516)	-46.36%
OPEB liabilities	6,219,030	6,055,101	163,929	2.71%
Other liabilities	9,000	9,000	-	0.00%
Total liabilities	<u>6,993,535</u>	<u>7,491,122</u>	<u>(497,587)</u>	<u>-6.64%</u>
Net investment in capital assets	33,097	37,504	(4,407)	-11.75%
Unrestricted net position	(4,783,103)	(4,507,727)	(275,376)	6.11%
Total net position	<u>(4,750,006)</u>	<u>(4,470,223)</u>	<u>279,783)</u>	<u>6.26%</u>
Charges for services	974,530	783,975	190,555	24.31%
Tuitions	6,111,861	6,109,359	2,502	.04%
Operating grants and contributions	1,913,375	1,771,799	141,576	7.99%
Member dues	60,000	60,000	-	0.00%
Investment earnings	49,627	24,925	24,702	99.11%
Total revenue	<u>9,109,393</u>	<u>8,750,058</u>	<u>359,335</u>	<u>4.11%</u>
Administrative expenses	547,029	501,389	45,640	9.1%
Program expenses	8,842,147	8,912,122	(69,975)	-.79%
Operating expenses	<u>9,389,176</u>	<u>9,413,511</u>	<u>(24,335)</u>	<u>-.26%</u>
Changes in net position	<u>\$ (279,783)</u>	<u>\$ (663,453)</u>	<u>\$ (383,670)</u>	<u>-57.83%</u>

Fiscal Year 2021

The Collaborative has appropriated a balanced annual budget for FY2022. 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 purpose and financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Office at the Southern Worcester County Educational Collaborative, P. O. Box 517, Southbridge, MA 01550.

Bruce D. Norling, CPA, P.C.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of 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 (the Collaborative) as of and for the year ended June 30, 2021, 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the Collaborative as of June 30, 2021, and the respective changes in financial

position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; schedule of revenues, expenditures and changes in fund balances – budget and actual – general fund; schedule of changes in the total OPEB liability and related ratios; schedule of the Collaborative's proportionate share of the net pension liability; and schedule of pension contributions on pages 1 through 4 and pages 34 through 37 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 the Collaborative's basic financial statements. The supplementary Information Required by MGL Chapter 40 Section 4E on pages 38-39 is presented for purposes of additional analysis and is not a required part of the financial statements. This supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2021, on our consideration of the Collaborative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Collaborative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Collaborative's internal control over financial reporting and compliance.

Bruce D. Norling, CPA, P.C.

October 18, 2021

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
STATEMENT OF NET POSITION
JUNE 30, 2021**

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash and equivalents	\$ 1,792,224
Accounts receivable	327,382
Prepaid expenses	<u>90,826</u>
Total current assets	<u>2,210,432</u>
Noncurrent Assets	
Capital assets, net of accumulated depreciation	<u>33,097</u>
Total noncurrent assets	<u>33,097</u>
Total assets	<u>2,243,529</u>
LIABILITIES	
Current Liabilities	
Accounts payable	2,790
Accrued payroll	374,420
Other accrued liabilities	33,320
Unearned revenue	<u>354,976</u>
Total current liabilities	<u>765,506</u>
Noncurrent Liabilities	
Net OPEB Liability	5,308,179
Accrued employee benefits	<u>9,000</u>
Total noncurrent liabilities	<u>5,317,179</u>
Total liabilities	<u>6,082,685</u>
Deferred Inflows of Resources Related to OPEB	910,851
Total liabilities and deferred inflows of resources related to OPEB	<u>6,993,536</u>
NET POSITION	
Invested in capital assets, net of related debt	33,097
Restricted	
Unrestricted (deficit)	<u>(4,783,103)</u>
Total net position	<u>\$ (4,750,006)</u>

See accompanying notes to financial statements

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	Program Revenue				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Primary government					
Governmental Activities					
Administration	\$ 547,029	\$ -	\$ -	\$ -	\$ (547,029)
Instruction	4,148,252	272,328	-	-	(3,875,924)
Student support	65,522	-	-	-	(65,522)
Maintenance	56,601	-	-	-	(56,601)
Rent	452,534	-	-	-	(452,534)
Telephone and utilities	39,477	-	-	-	(39,477)
Employee benefits	3,154,045	-	1,913,375	-	(1,240,670)
Fixed assets/technology	97,772	-	-	-	(97,772)
Insurance	107,991	-	-	-	(107,991)
Wages and benefits - technicians	666,561	666,561	-	-	-
Transportation	35,641	35,641	-	-	-
Depreciation	17,751	-	-	-	(17,751)
	\$ 9,389,176	\$ 974,530	\$ 1,913,375	\$ -	\$ (6,501,271)
Total governmental activities					
General revenues:					
Membership dues					60,000
Tuition income					6,111,861
Investment earnings					49,627
					6,221,488
Total general revenues					
Change in net position					
					(279,783)
					(4,470,223)
					Net position - beginning of year
					Net position - end of year \$ (4,750,006)

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2021

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,792,224	\$ -	\$ 1,792,224
Accounts receivable	327,382	-	327,382
Prepaid expenses	<u>90,826</u>	<u>-</u>	<u>90,826</u>
Total assets	<u>\$ 2,210,432</u>	<u>\$ -</u>	<u>\$ 2,210,432</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,790	\$ -	\$ 2,790
Accrued payroll	374,420	-	374,420
Other accrued liabilities	33,320	-	33,320
Capital lease payable	-	-	-
Unearned revenue	<u>354,976</u>	<u>-</u>	<u>354,976</u>
Total liabilities	<u>765,506</u>	<u>-</u>	<u>765,506</u>
Fund balances:			
Nonspendable			
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>1,444,926</u>	<u>-</u>	<u>1,444,926</u>
Total fund balances	<u>1,444,926</u>	<u>-</u>	<u>1,444,926</u>
Total liabilities and fund balances	<u>\$ 2,210,432</u>	<u>\$ -</u>	<u>\$ 2,210,432</u>

See accompanying notes to financial statements

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021**

Total fund balance, governmental funds	\$	1,444,926
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Amounts reported for governmental activities in 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.		33,097
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Some liabilities (such as Notes Payable, Capital Lease Contract Payable, Long-Term Compensated Absences, and Bonds Payable) 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 Position.		<u>(6,228,029)</u>
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Net Position of Governmental Activities in the Statement of Net Position.	\$	<u><u>(4,750,006)</u></u>
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**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Tuition income	\$ 6,111,861	\$ -	\$ 6,111,861
Membership dues	60,000	-	60,000
Supplementary and other income	943,570	-	943,570
Governmental income	1,913,375	-	1,913,375
Summer program	30,960	-	30,960
Interest income	49,627	-	49,627
	<u>9,109,393</u>	<u>-</u>	<u>9,109,393</u>
EXPENDITURES			
Administration	547,029	-	547,029
Instruction	4,148,252	-	4,148,252
Student support	65,522	-	65,522
Maintenance	56,601	-	56,601
Rent	452,534	-	452,534
Telephone and utilities	39,477	-	39,477
Employee benefits	2,990,116	-	2,990,116
Fixed assets/technology	111,116	-	111,116
Insurance	107,991	-	107,991
Wages and benefits - technicians	666,561	-	666,561
Transportation	35,641	-	35,641
	<u>9,220,840</u>	<u>-</u>	<u>9,220,840</u>
Total expenditures	<u>9,220,840</u>	<u>-</u>	<u>9,220,840</u>
Excess of revenues over expenditures	<u>(111,447)</u>	<u>-</u>	<u>(111,447)</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	-	-	-
Transfers to OPEB Trust	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(111,447)	-	(111,447)
Fund balances - beginning of year	1,556,373	-	1,556,373
Fund balances - end of year	<u>\$ 1,444,926</u>	<u>\$ -</u>	<u>\$ 1,444,926</u>

See accompanying notes to financial statements

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Net change in fund balances - total governmental funds:	\$	(111,447)
<p>Amounts reported for Governmental Activities in Statement of Activities are different because:</p> <p>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 expenses. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.</p> <p>This is the amount of capital outlays of \$13344 less depreciation of \$17,751 in the current period.</p>		
		(4,407)
<p>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:</p>		
Change in Sick leave buyback not reflected on Governmental funds		
Change in OPEB liability not reflected on Governmental funds		(163,929)
Change in net position of governmental activities	\$	(279,783)

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2021**

ASSETS

	OTHER POSTEMPLOYMENT BENEFITS TRUST	AGENCY FUNDS- STUDENT ACTIVITIES
CURRENT:		
Investments:		
Money Market	\$ 2,949	\$ -
Mutual Funds- Equity	481,605	-
Mutual Funds - Fixed Income	244,236	-
Cash	-	2,860
Total Assets	728,790	2,860

LIABILITIES

CURRENT:		
Amounts Held for Students	\$ -	\$ 2,860
Total Liabilities	-	2,860

NET POSITION

Net position held in trust for other purposes	728,790	-
Total net position	\$ 728,790	\$ -

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
OTHER POSTEMPLOYMENT BENEFITS TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

JUNE 30, 2021

Additions:

Contributions	\$ -
Investment Return	<u>142,780</u>
Total Additions	<u>142,780</u>

Deductions:

Retiree health insurance expense	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Position	<u>142,780</u>
Net Position - Beginning of Year	586,010
Net Position - End of Year	<u><u>\$ 728,790</u></u>

See accompanying notes to financial statements

SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Southern Worcester County Educational Collaborative (the Collaborative) is an educational collaborative established under Massachusetts General Laws, Chapter 40, Section 4E and Board of Education policy and an agreement between School Committees of the Towns of Auburn, Grafton, Leicester, Millbury, Oxford, Northbridge, North Brookfield, Southbridge, Sutton, Uxbridge, Webster, the Dudley-Charlton Regional School District, the Quaboag Regional School District, the Spencer-East Brookfield Regional School District, and the Tantasqua/Union 61 Regional School District. The Collaborative was formed in 1975 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.

B. Financial Reporting Entity

The Collaborative's basic financial statements include the accounts of all Collaborative operations. The criteria for including organizations as component units within the Collaborative's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Report Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Collaborative holds the corporate powers of the organization
- The Collaborative appoints a voting majority of the organization's Board
- The Collaborative is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Collaborative
- There is fiscal dependency by the organization on the Collaborative

Based on the aforementioned criteria, The Southern Worcester County Educational Collaborative has no component units.

C. Basis of Presentation

Government-Wide Financial Statements

SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the 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. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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 tuitions 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 general fund is always considered a major fund.

Nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds' financial statements. For example, a special revenue fund is used to account for the proceeds of specific revenue sources (other than capital projects or permanent funds) that are restricted by law or administrative action to expenditures for specified purposes. The Collaborative determined it has no nonmajor governmental funds.

SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Collaborative programs. The reporting focus is on net position and changes in net position presented in fiduciary fund statements. The following is a description of the fiduciary funds of the Collaborative:

Other Post-Employment Benefits Trust Fund accounts for resources legally held in trust for the purpose of accumulating resources to fund future health insurance benefits for retired employees of the Collaborative. Since these funds cannot be used for providing the Collaborative services, they are excluded from the Collaborative's government-wide activities.

The Agency Fund is used to hold funds on behalf of parties other than the Collaborative. This consists primarily of funds related to student activities. Agency funds are custodial in nature and do not involve measurement of results of operations.

D. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations on their use either through the enabling legislations adopted by the Collaborative or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

E. 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:

Non-spendable – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are 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 are imposed by law through constitutional provisions or enabling legislation (Massachusetts General Laws or Collaborative Agreement).

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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 purpose 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 purpose 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 the 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 by the Collaborative Board, are separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is 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 the 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 restricted fund balance classifications could be used.

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F. 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 and fund financial statements for proprietary funds 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 position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental and fiduciary 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.

The Collaborative considers revenues as available if they are collected with 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement costs, claims and judgments are recorded only when payment is due. The revenues susceptible to accrual are tuitions, program service fees, reimbursable income, interest income and intergovernmental revenues. All other governmental fund revenue is recognized when received.

G. 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.

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H. Fair Value Measurements

The Collaborative measures assets, with the exception of capital assets, and liabilities according to the hierarchy established by GAAP. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based upon valuation inputs, which are the assumptions that market participants would use when pricing an asset or a liability, including assumptions about risk. The following levels are considered:

Level 1: Quoted prices in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2: Pricing inputs that are directly observable for an asset or a liability (included quoted prices for similar assets or liabilities), as well as inputs that are not directly observable for an asset or a liability.

Level 3: Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Collaborative considers most assets and liabilities to be reported as Level 1 inputs.

I. Cash, Cash Equivalents, and Investments

The Collaborative considers cash and cash equivalents to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or be sold to generate cash. Generally, investments are reported according to the fair value hierarchy established by GAAP.

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J. Inventories of Supplies

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

K. Interfund Receivable and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Massachusetts State Employees’ Retirement System (MSERS) and Massachusetts Teachers’ Retirement System (MTRS) and additions to/deductions from MSERS’ and MTRS’ fiduciary net position have been determined on the same basis as they are reported by MSERS and MTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred inflows of resources related to OPEB and OPEB expense information has been determined based on an actuarial valuation of the Collaborative’s OPEB Plan.

N. Longevity Stipends

Professionals and Para-Professionals can be compensated for longevity after 10 years of employment. For Governmental Funds, vested or accumulated longevity stipends that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities.

O. Encumbrances and Continuing Appropriations

Encumbrance accounting, under which purchase orders, contracts and other commitments for fund expenditures are recorded in order to reserve portions of the applicable appropriation, is employed in the governmental funds. Open encumbrances at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

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P. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Q. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. 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 market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$2,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Leasehold Improvements	15 Years
Furniture and Equipment	5-10 Years

R. Claims and Judgments

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

S. Reconciliation of Government-Wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position for governmental activities as shown on the government-wide statement of net position is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements, which comprise the reconciliation difference, stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

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T. Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis. At June 30, 2021, no allowance for doubtful accounts has been reported as management feels accounts receivable are all collectible.

U. Adoption of New Accounting Pronouncements

During the current year, the Collaborative adopted GASB No. 84, Fiduciary Activities. The adoption of this standard did not have a material effect on the Collaborative's financial statements.

2. DEPOSITS AND INVESTMENTS

State and local statutes place certain limitations on the nature of deposits and investments available to the Collaborative. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization or insurance protection by the financial institutions involved. Investments can be made in securities unconditionally guaranteed by the U.S. Government with maturities of 90 days or less which are collateralized by such securities. The Collaborative also has the authority to purchase units in the Massachusetts Municipal Depository Trust (MMDT), a pooled fund managed for the Commonwealth.

The Collaborative has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments in relation to the Collaborative's restricted investments in the Permanent Funds.

The Collaborative maintains a cash and investment pool that is available for use by all funds with unrestricted cash and investments. At June 30, 2021, the Collaborative had no investments.

Deposits – Custodial Credit Risk

Custodial credit 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, 2021, all of the Collaborative's bank accounts were fully insured by the FDIC up to \$250,000 and the balance insured by the DIF, leaving none of the Collaborative's bank balances as uninsured or uncollateralized and, therefore exposed to custodial credit risk.

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Custodial Credit Risk – Investments

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.

Interest Rate Risk of Debt Securities – Investments

Interest rate risk of debt securities for investments 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.

Credit Risk of Debt Securities – Investments

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

3. PENSION PLANS

The Collaborative sponsors two retirement plans for its employees.

Massachusetts State Employees' Retirement System

Plan Description and Provisions

The Collaborative provides pension benefits for substantially all employees except certain administrative employees, professional employees and teachers, through 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. Benefit payments are based upon 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 after January 1, 1978, (3) voluntarily left Collaborative employment on or after that date, and (4) left accumulated annuity deductions in the Fund.

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The MSERS issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission.

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 6.1%.

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

Annual Pension Cost

The Collaborative's required and actual contributions to MSERS were \$117,430. Pension expense to the Commonwealth of Massachusetts for the Collaborative amounted to \$742,611. Therefore, \$625,181 is reflected as 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 nonemployer is legally responsible for the entire past service cost related to the Collaboratives.

Massachusetts Teachers' Retirement System, a Noncontributing Employer Plan

Plan Description and Provisions

Certain employees of the Collaborative participate individually in a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board.

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Benefit provisions and contribution requirements are established by state law. Eligibility requirements for participation are as follows:

- The employees must be employed on at least a half-time basis in a contracted professional position within the public school system located in Massachusetts.
- The employee must be certified by the Massachusetts Department of Education for a position which requires certification.

The Massachusetts Teachers' Retirement System (MTRS) issues a publicly available financial report.

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, employee benefits 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 – 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 amounted to \$1,288,197 in fiscal year 2021 and this amount is reflected as 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

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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 proportion and proportionate share of the pension plans' net pension liability is disclosed in the supplemental schedule on page 36.

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, 2021, the Collaborative recognized pension expense and revenue of \$625,181 (MSERS) and \$1,288,197 (MTRS).

For both MSERS and MTRS, the net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liabilities were determined by actuarial valuations as January 1, 2020 rolled forward to June 30, 2020.

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 January 1, 2020, the Collaborative's proportion was 0.0290% for MSERS and 0.0365% for MTRS.

Actuarial assumptions

The total pension liability in the January 1, 2020 actuarial valuations for MSERS and MTRS was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- 1.(a) 7.15% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% (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 and 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 reflects RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016 set forward 1 year.

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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 MP-2016 (gender distinct).

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, 2021 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	39%	4.9%
Core Fixed Income	15	1.3
Private Equity	13	8.2
Portfolio Completion Strategies	11	3.9
Real Estate	10	3.6
Value Added Fixed Income	8	4.7
Timber/Natural Resources	4	4.1
Total	<u>100%</u>	

Discount rate -

The discount rate used to measure the total pension liability was 7.15%. 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.

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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 7.15 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 (6.15 percent) or 1-percentage point higher (8.15 percent) than the current rate:

Collaborative's proportionate share of the net pension liability	1% Decrease (6.2%)	Discount Rate (7.2%)	1% Increase (8.2%)
MTRS	\$12,938,567	\$10,429,511	\$8,370,148
MSERS	\$6,554,188	\$4,974,482	\$3,676,087

Pension plan fiduciary net position - The Plan Fiduciary Net Position as a percentage of the Total Pension Liability is 50.67% for MTRS and 62.48% for MSERS.

4. CAPITAL ASSETS

Capital asset activity for the year ended was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 182,980	\$ -	\$ -	\$ 182,980
Furniture and equipment	<u>184,948</u>	<u>13,344</u>	<u>-</u>	<u>198,291</u>
Total capital assets, being depreciated	<u>367,928</u>	<u>13,344</u>	<u>-</u>	<u>381,272</u>
Less accumulated depreciation for:				
Leasehold improvements	151,297	11,317	-	162,613
Furniture and equipment	<u>179,126</u>	<u>6,435</u>	<u>-</u>	<u>185,562</u>
Total accumulated depreciation	<u>330,423</u>	<u>17,752</u>	<u>-</u>	<u>348,175</u>
Total capital assets, being depreciated, net	<u>37,505</u>	<u>(4,408)</u>	<u>-</u>	<u>33,907</u>
Governmental activities capital, assets net of accumulated depreciation	\$ <u>37,505</u>	\$ <u>(4,408)</u>	\$ <u>-</u>	\$ <u>33,907</u>

Depreciation expense is not allocated to programs of the primary government but is shown as a separate line item in the statement of activities.

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5. INVESTMENTS

In FY19, the Collaborative contributed \$575,000 to a public employee retirement trust account with the Treasurer of the Collaborative as trustee, on behalf of its retirees' health insurance trust fund. The trust does not issue a separate financial report and its financial activities are reported in the fiduciary financial statements. The trustee invests the funds in mutual funds. As of June 30, 2021, the balance in this investment consisted of the following:

Description	Level 1	Total
Money Market	\$ 2,949	\$ 2,949
Mutual Funds - Equity	481,605	481,605
Mutual Funds - Fixed Income	<u>244,236</u>	<u>244,236</u>
Total	\$ 728,790	\$ 728,790

There were \$142,780 in realized gains during the year ended June 30, 2021.

6. LONG-TERM OBLIGATIONS

Transactions for the year ended June 30, 2021 are summarized as follows:

	<u>Balance</u> <u>July 1</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>June 30</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Type Activities</u>					
Employee Benefits	<u>\$ 9,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,000</u>	<u>\$ -</u>
Total Governmental Activities	<u>\$ 9,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,000</u>	<u>\$ -</u>

7. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustments 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.

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8. LEASE COMMITMENTS

The Collaborative rents classrooms and administrative office space at several locations. Rent expense under these leases was \$452,534 for the year ended June 30, 2021.

The Collaborative leases vans for transporting students. For the year ended June 30, 2021, expense under these leases was \$30,750. The Collaborative also leases office equipment. Expense under these leases amounted to \$9,986 for the year ended .

Future lease commitments are as follows:

Fiscal Year	Equipment	Vans	Space	Total
2022		3,354	458,207	461,561
2023			462,845	462,845
2024			353,595	353,595
2025			121,290	121,290
Total	\$ 0	\$ 3,354	\$ 1,395,937	\$ 1,399,291

9. RISK FINANCING

The Collaborative is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; workers compensation claims; errors and omissions; and natural disasters for which the Collaborative carries commercial insurance.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the OPEB Plan

Plan Description – The Collaborative’s defined benefit Other Post Employment Benefit (OPEB) plan (hereinafter referred to as the “Plan”) provides OPEB for all permanent full-time employees. The Plan is a single-employer defined benefit OPEB plan administered by the Collaborative. Chapter 32B of the Massachusetts General Law (MGL) assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a standalone financial report since there are no assets legally segregated in a trust for the sole purpose of paying benefits under the Plan.

Benefits Provided – The Plan provides medical insurance coverage for its retirees and their survivors. The benefit terms provide for payment of 50% of health insurance premiums. An employee is eligible to retire under this plan upon attainment of age 55 and 15 years of service.

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Employees Covered by Benefit Terms.

At June 30, 2021, plan membership consisted of the following:

Active employees	88
Inactive employees or beneficiaries currently receiving benefits	<u>23</u>
Total	<u>111</u>

Funding Policy – The contribution requirements of plan members and the Collaborative are established and may be amended through Collaborative ordinances. The Collaborative currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis.

Total OPEB Liability

The Collaborative’s total OPEB liability of \$6,036,969 was measured as of June 30, 2021, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs - The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3%
Investment rate of return	6.1%, net of OPEB plan investment expense, including inflation
Single equivalent discount rate	3.5%, net of OPEB investment expense, including inflation
Healthcare cost trend rates	4.5%
Retirees’ share of benefit related costs	50% of projected health care premiums costs

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Tables projected generationally with scale MP and a base year 2016 for males and females.

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 included assumptions about future employment, mortality, and the healthcare cost trend.

The schedule of changes in the total OPEB liability and related ratios presented in the required supplementary information following the financial statements,

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the total OPEB liability

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following presents the Net OPEB Liability as of the June 30, 2021 measurement date 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:

	<u>1% Decrease 2.5%</u>	<u>Current Discount Rate 3.5%</u>	<u>1% Increase 4.5%</u>
OPEB liability as of June 30, 2021	\$7,193,306	\$6,036,969	\$5,126,017

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

The following presents the net OPEB liability as of June 30, 2021, calculated using the trend rate of 4.5% per year, as well as what the Net OPEB Liability would be if it were calculated using a trend rate that is 1-percentage-point lower (3.5% per year) or 1-percentage-point higher (5.5% per year) than the current rate:

	<u>1% Decrease 3.5%</u>	<u>Current Discount Rate 4.5%</u>	<u>1% Increase 5.5%</u>
OPEB liability as of June 30, 2021	\$4,974,847	\$6,036,969	\$7,434,727

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the Collaborative recognized OPEB expense of \$163,929. The Plan's deferred (inflows) of resources arise from the recognition of the effects of differences between actual and expected experience. The amount reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year ended June 30:	
2022	(221,357)
2023	(221,357)
2024	(221,358)
2025	(226,587)
2026	(93,117)
2027	<u>72,925</u>
Total	<u><u>\$ (910,851)</u></u>

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

GASB Statement #74

GASB Statement #74 is associated with reporting of the OPEB plan as of the reporting date, June 30, 2021. As of June 30, 2021, the Collaborative maintained \$728,790 in the OPEB Trust Fund. For the Plan’s fiscal year ending June 30, 2020 contributions and benefit payments have been reported on the pay-as-you go basis.

Net OPEB Liability

In Accordance with GASB Statement #74, the Collaborative recognizes a net OPEB liability measured as the portion of the actuarial present value of projected benefit payments that is attributable to the past periods of employee services, net of the OPEB plan’s fiduciary net position. The Collaborative’s net OPEB liability recognized as of the Plan reporting date of June 30, 2021 is presented in the following table:

Total OPEB Liability	\$ 6,036,969
Fiduciary Net Position	<u>728,790</u>
Net OPEB Liability	\$ 5,308,179

11. FUND BALANCES

Fund balance is classified as non-spendable, 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 governmental 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>	<u>Nonmajor</u>	<u>Total</u>
<u>Committed to:</u>			
OPEB Reserve	-	-	-
<u>Unassigned:</u>	<u>1,444,926</u>	-	<u>1,444,926</u>
Total Fund Balances	<u>\$1,444,926</u>	<u>\$ -</u>	<u>\$1,444,926</u>

12. EVALUATION OF SUBSEQUENT EVENTS

The Collaborative has evaluated subsequent events through October 18, 2021, the date the financial statements were available to be issued.

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

The COVID-19 pandemic has continued to develop in 2021. The Collaborative has taken a number of measures to monitor and mitigate the effects of COVID-19, including safety and health measures for employees and securing personal protective equipment and technology to support staff, providers and clients. At this stage, the impact on operating results has not been significant. The Collaborative will continue to follow the various government policies and advice and, in parallel, will do its utmost to continue operations in the best and safest way possible without jeopardizing the health of its employees. Future potential impacts are unknown.

SUPPLEMENTARY INFORMATION

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Position (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tuition Income	\$ 6,529,544	\$ 6,529,544	\$ 6,111,861	\$ (417,683)
Membership dues	60,000	60,000	60,000	-
Supplementary and other income	940,580	940,580	943,570	2,990
Summer program	47,670	47,670	30,960	(16,710)
Interest income	18,000	18,000	49,627	31,627
Total revenues	<u>7,595,794</u>	<u>7,595,794</u>	<u>7,196,018</u>	<u>(399,776)</u>
EXPENDITURES				
Administration	704,034	704,034	547,029	157,005
Instruction	4,155,342	4,155,342	4,148,252	7,090
Student support	41,195	41,195	65,522	(24,327)
Maintenance	41,303	41,303	56,601	(15,298)
Rent	452,536	452,536	452,534	2
Telephone and utilities	37,100	37,100	39,477	(2,377)
Employee benefits	1,227,135	1,227,135	1,076,741	150,394
Fixed assets/technology	130,447	130,447	111,116	19,331
Insurance	93,409	93,409	107,991	(14,582)
Wages and benefits - technicians	667,185	667,185	666,561	624
Transportation	34,372	34,372	35,641	(1,269)
Total expenditures	<u>7,584,058</u>	<u>7,584,058</u>	<u>7,307,465</u>	<u>276,593</u>
Excess of revenues over expenditures	<u>11,736</u>	<u>11,736</u>	<u>(111,447)</u>	<u>(123,183)</u>
OTHER FINANCING SOURCES (USES)				
Use of unreserved surplus	-	-	-	-
Transfers in (out)	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>\$ 11,736</u>	<u>\$ 11,736</u>	<u>\$ (111,447)</u>	<u>\$ (123,183)</u>

Notes to schedule:

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 then, based upon enrollment data, assesses the member and non-member districts in accordance with the terms of the agreement. An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2021 approved expenditure budget for the general fund was \$7,128,163. The above schedule presents a comparison of budgetary data to actual results. The differences between the General Fund and the budget basis is the recognition in the General Fund of grossing up of revenues and expenses to reflect On Behalf Teacher's Retirement paid by the Commonwealth of Massachusetts. Deficits, if any, are raised in the subsequent year's budget process.

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 above schedule to provide meaningful comparison of actual results with budget.

Reconciliation of the budget basis to the General Fund GAAP basis is provided below:

	<u>Revenue</u>	<u>Expenditures</u>	<u>Excess (Deficit)</u>
Budget basis	7,196,018	7,307,465	(111,447)
Recognized on-behalf pension payments	1,913,375	1,913,375	
GAAP Basis	<u>9,109,393</u>	<u>9,220,840</u>	(111,447)

**SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2020**

Measurement Date June 30, 2021

Total OPEB Liability		
Service cost	\$	315,763
Interest		214,681
Differences between expected and actual experience		510,469
Benefit payments		<u>(109,353)</u>
Net change in total OPEB liability	\$	931,560
Total OPEB liability - beginning		5,105,409
Change in estimates		<u>-</u>
Total OPEB liability - ending	\$	<u><u>6,036,969</u></u>
Covered-employee payroll	\$	4,707,182
Total OPEB liability as a percentage of covered-employee payroll		128.3%

See independent auditors' report on supplementary information.

SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
 SCHEDULE OF THE COLLABORATIVE'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 JUNE 30, 2020

	June 30, 2020		June 30, 2019		June 30, 2018		June 30, 2017		June 30, 2016		June 30, 2015		June 30, 2014	
	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS
Collaborative's proportion of the net pension liability	0.0365%	0.0290%	0.0391%	0.0278%	0.0374%	0.0269%	0.0347%	0.0342%	0.0335%	0.0436%	0.0253%	0.0611%	0.0278%	0.0655%
Collaborative's proportionate share of the net pension liability	\$ 10,429,511	\$ 4,974,482	\$ 9,860,380	\$ 4,066,976	\$ 8,875,715	\$ 3,560,611	\$ 7,947,886	\$ 4,388,699	\$ 7,484,366	\$ 6,014,160	\$ 6,260,071	\$ 4,430,420	\$ 4,422,772	\$ 4,863,877
Collaborative's covered-employee payroll	\$ 2,473,116	\$ 2,096,964	\$ 3,341,575	\$ 1,777,286	\$ 3,240,393	\$ 1,729,375	\$ 2,762,050	\$ 1,930,554	\$ 2,232,656	\$ 2,429,375	\$ 1,714,264	\$ 3,341,982	\$ 2,138,596	\$ 3,470,732
Collaborative's proportionate share of the net pension liability as a percentage of its covered-employee payroll	422%	237.22%	295.08%	228.83%	273.91%	205.89%	287.75%	227.33%	335.22%	247.56%	365.18%	132.57%	206.81%	140.14%
Plan fiduciary net position as a percentage of the total pension liability	50.67%	62.48%	53.95%	66.28%	54.84%	67.91%	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, 2020, 2019, 2018, 2017, 2016, 2015 and 2014.

Schedule Presentation
 This schedule is intended to present information for 10 years. Until a 10-year trend is completed, information is presented for those years for which information is available.

SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2020

	June 30, 2020		June 30, 2019		June 30, 2018		June 30, 2017		June 30, 2016		June 30, 2015		June 30, 2014	
	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS	MTRS	MSERS
Contractually required contribution	\$ -	\$ 117,430	\$ 99,528	\$ 96,845	\$ -	\$ 108,111	\$ -	\$ 136,045	\$ -	\$ 187,151	\$ -	\$ 194,361	\$ -	\$ 194,361
Contributions in relation to the contractually required contribution	\$ -	\$ 117,430	\$ 99,528	\$ 96,845	\$ -	\$ 108,111	\$ -	\$ 136,045	\$ -	\$ 187,151	\$ -	\$ 187,151	\$ -	\$ 194,361
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collaborative's covered-employee payroll	\$ -	\$ 2,086,964	\$ 1,777,286	\$ 1,729,375	\$ 3,240,393	\$ 1,930,554	\$ 2,232,656	\$ 2,429,375	\$ 1,714,264	\$ 3,341,962	\$ 2,138,586	\$ 3,470,732	\$ 2,138,586	\$ 3,470,732
Contributions as a percentage of covered-employee payroll	0%	5.6%	5.6%	5.6%	0%	5.6%	0.0%	5.6%	0.0%	5.6%	0%	5.6%	0%	5.6%

Notes to Required Supplemental 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, 2020, 2019, 2018, 2017, 2016, 2015 and 2014

Schedule Presentation
This schedule is intended to present information for 10 years. Until a 10-year trend is completed, information is presented for those years for which information is available

Contributors
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 nonemployer is legally responsible for the entire past service cost related to the collaborative and therefore has a 100% special funding situation

SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
Supplemental Schedule - Information Required by MGL Chapter 40 Section 4E
JUNE 30, 2021

The following information is provided to conform to Massachusetts General Law, Chapter 40, Section 4E which establishes the requirements for the formation and administration of Educational Collaboratives in Massachusetts.

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

Annual contract for the lease of classroom space in Southbridge, from E & M Realty

225,616

Long-term lease for classroom space and office space at Rt. 131, Dudley, MA from G & B Realty

226,919

Total rent paid for real estate

\$ 452,534

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

Name	Position	Salary
Lundwall, Arnold	Executive Director	\$ 135,000
Todd, Dennis	Director of Special Services	117,000
Love, John	Business Administrator	108,000
Croteau, Jeffrey	Principal	108,000
Hersey, Kristine	Principal	<u>106,000</u>
	Total	<u>\$ 574,000</u>

4. The amounts expended on administration and overhead: \$547,029

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

7. Surplus Funds cannot exceed 25% of general fund expenditures.

SOUTHERN WORCESTER COUNTY EDUCATIONAL COLLABORATIVE
Supplemental Schedule - Information Required by MGL Chapter 40 Section 4E
JUNE 30, 2021

FY21 Cumulative Surplus Calculation Worksheet		SWCEC	
Enter values below			Page in FY20 FS ²
(A)	Voted Cumulative Surplus as of 6/30/20	\$ 1,556,373	(A) _____
(B)	Amount of (A) used to support the FY20 Budget	(B)1 \$ <input style="width: 100%;" type="text"/>	
	Amount of (A) returned to member districts	(B)2 \$ <input style="width: 100%;" type="text" value="-"/>	
		(B)1 + (B)2 = (B)	\$ _____ (B)
(C)	Unexpended FY21 General Funds	\$ (111,447)	(C) <u>11</u>
(D)	Cumulative Surplus as of 6/30/20	(A) - (B) + (C) = (D) \$ 1,444,926	(D) _____
(E)	FY21 Total General Fund Expenditures	\$ 7,307,465	(E) <u>34</u>
(F)	Cumulative Surplus Percentage	(D) ÷ (E) 19.77%	(F) _____

Bruce D. Norling, CPA, P.C.

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
Southern Worcester County Educational Collaborative
Dudley, Massachusetts

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, each major fund, and the aggregate remaining fund information of Southern Worcester County Educational Collaborative, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Collaborative's basic financial statements, and have issued our report thereon dated October 18, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Collaborative's financial statements are free of 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.

Bruce D. Norling, CPA, P.C

October 18, 2021