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ANNUAL INDEPENDENT AUDIT GUIDELINES FOR EDUCATION COLLABORATIVES

Fiscal Year 2022

[Massachusetts General Laws Chapter 40, Section 4E](#) and companion [Regulations on Education Collaboratives, 603 CMR 50.00](#), require that each education collaborative annually ensures that an independent audit is conducted of its accounts, consistent with generally accepted governmental auditing standards and consistent with guidelines issued by the Department of Elementary and Secondary Education (Department). These Annual Independent Audit Guidelines for Education Collaboratives (Guidelines) are provided to assist collaboratives in fulfilling the audit requirement and **should be shared with your independent auditors to ensure the submission of a complete independent audit report.**

These Guidelines outline the financial statements to be audited, specific additional disclosures, requirements for acceptance of the annual independent audit report by the collaborative board of directors (board), and instructions for submission to the Department. In accordance with M.G.L. c. 40, § 4E; 603 CMR 50.08(2), an education collaborative shall submit an annual independent audit report to the collaborative board of directors for discussion and approval. Upon approval by the collaborative board of directors and no later than January 1st of each year.

Audited Financial Statements

The collaborative must annually prepare financial statements that meet the requirements of 603 CMR 50.07(11). The collaborative's accounts, financial statements, accompanying notes, and supplemental schedules must be audited on an annual basis in accordance with the requirements cited above. In addition to the audited financial statements, accompanying notes, management letters and/or memos to the board, the submission must provide the following seven additional disclosures for the fiscal year ending June 30, 2022:

- 1. The names, duties, and total compensation of the five most highly compensated employees.***
Include the name, a general statement of duties, and total compensation for each of the five highest compensated employees.
- 2. Transactions between the collaborative and any related for-profit or non-profit organization.***
Report on the amount and nature of each transaction or indicate that the collaborative had no transactions with a related for-profit or non-profit organization, as defined in M.G.L. c. 40, § 4E. Rental and lease agreements between the collaborative and school districts, charter school boards, and/or municipalities should be reported in disclosure 6.

3. Amounts expended on services for individuals aged 22 years and older.

Indicate the amounts expended or indicate that the collaborative did not expend funds on services for individuals aged 22 years and older.

4. Amounts expended on administration and overhead.

The amounts must include both administration and overhead. Both categories of expenditures must be labeled to clearly indicate the category of cost addressed.

5. Accounts held by the collaborative that may be spent at the discretion of another person/entity.

Report on the amount and the purpose of each account, as well as the legal authority for holding the account, or indicate that the collaborative held no such accounts. Accounts or funds held by the collaborative on behalf of a school committee as prepayment for tuition or services, as permitted by M.G.L. c. 40, § 4E(h), must be identifiable in the financial statements and in the audit report, but should **not** be reported in this category.

6. Transactions or contracts related to purchase, sale, rental or lease of real property.

Include a description of each transaction or contract related to the purchase, sale, rental or lease of real property, or indicate that no such transactions or contracts existed. This component must list rental and lease agreements between the collaborative and school districts, charter school boards, and/or municipalities. Note that the description of each transaction or contract must indicate whether good or services were exchanged and/or payments were made toward the sale, rental or lease of real property.

7. Annual Determination and Disclosure of Cumulative Surplus.

In accordance with 603 CMR 50.07(9), Limitation on Surplus Funds and Department [guidance](#), at the close of the fiscal year, unexpended general funds may be carried forward and used in subsequent budget cycles. These unexpended general funds are determined to be the current surplus. Cumulative surplus is derived by adding prior year surplus funds to the current year surplus funds. The collaborative agreement shall include a limitation the amount of cumulative surplus funds that may be maintained by the collaborative. The collaborative board of directors shall annually approve by majority vote the dollar amount designated as cumulative surplus. The board of directors shall vote annually to retain the cumulative surplus funds for the collaborative's use or return all, or some portion, of the funds to the member districts. The collaborative agreement shall address how and under what conditions such surplus funds may be returned to member districts or credited to support programs and services offered to member districts and how such funds will be allocated to such member district(s) upon the withdrawal of a member district or the termination of the collaborative. The determination of surplus funds shall not include funds deposited in a capital reserve as provided for in 603 CMR 50.07(10), funds deposited in trust in accordance with M.G.L. c. 32B, § 20, or funds prepaid to the collaborative for tuition or services in accordance with M.G.L. c. 40, § 4E. In no event shall such cumulative surplus funds exceed 25 percent of the previous fiscal year's general fund expenditures¹.

In order for the board to make this determination, the financial statements and independent audit report must clearly identify:

- a. the amount of previous years' cumulative surplus;
- b. the amount of FY22 unexpended general funds (FY22 surplus); and
- c. the amount of FY22 general fund expenditures.

The Department has created an Excel worksheet and provided the formula to assist collaborative leaders and their boards in ensuring that their audit reports identify the information needed to make the annual cumulative surplus determinations required by collaborative law and regulations.

¹ The surplus determination will be completed in FY23 therefore the determination of the cumulative surplus must be calculated as a percentage of the collaborative's FY22 (previous fiscal year's), general fund expenditures.

We ask that you **complete and include** the worksheet provided on page 6 of this document, with the upload of your FY22 submission.

The seven additional disclosures listed above must be reported in a separate section or addendum to the audited financial statements, and each must be referenced using the terminology set forth above. In the interest of providing full disclosure to the public and to the agencies that review the annual independent audit report, the report must affirmatively state if any of the first six additional disclosures are inapplicable to the collaborative.

Audit reports that do not address all the requirements of the law, regulations, and these Guidelines, will be considered incomplete by the Department and as such will be considered as part of the Department's audit risk protocol for prioritizing onsite financial reviews.

Related Requirements

A collaborative that provides social service programs as defined in M.G.L. c. 7, § 22N shall adhere to the uniform system of financial accounting, allocation, reporting and auditing requirements of the Massachusetts Executive Office of Administration and Finance, Operational Services Division (OSD) (603 CMR 50.08(3)).

Other Department Reviews

The Department's Audit and Compliance Unit will review each independent audit report and related documentation and may be in contact with individual collaboratives following that review. Collaboratives are advised that the Department, the Office of the State Auditor, and the Department of Revenue may review or audit any part of a collaborative's records to ascertain whether the student, personnel, and financial data reported by a collaborative are accurate, to ensure that the collaborative is complying with the applicable laws and regulations, to determine whether the collaborative is maintaining effective controls over revenues, expenditures, assets and liabilities, and to corroborate and augment information provided in other reporting documents (M.G.L. c. 40, § 4E; 603 CMR 50.09(2)).

Collaborative Board Acceptance and Submission

The collaborative board must discuss and vote to accept the annual independent audit report and accompanying documentation at an open meeting. Upon acceptance and no later than January 1, 2023, each collaborative board must file the following documents with the Department, the Office of the State Auditor, and the chair of each member school committee and charter school board:

- independent audit report, including the components noted above,
- financial statements,
- related management letters, and
- documentation of the collaborative board's acceptance of the final independent audit report in the form of a signed certification from the board chair or the approved meeting minutes. (M.G.L. c. 40 § 4E (d), 603 CMR 50.08(2)).


PLEASE NOTE THAT JANUARY 1ST IS A STATUTORY DEADLINE AND CANNOT BE WAIVED BY THE DEPARTMENT.

Posting Requirements

Each collaborative must publish the approved annual independent audit report (and the annual report), in an accessible format on the collaborative website. M.G.L. c. 40, § 4E and CMR 603 CMR 50.08(1) anticipate that the required annual independent audit report and the annual report be presented together; therefore, please ensure that they are posted on your website in the same location. If there is a request by the public for a copy of the annual independent audit report, the annual report must also be provided.

Electronic Submission through the Department's Security Portal

All annual independent audit reports are to be submitted electronically to the Department after October 1, 2022, and no later than January 1, 2023, by following these directions from your internet browser:

1. Navigate to the  [landing page](#).
2. Enter your username and password.
3. Select **Application List** at top of the page.
4. Select **Drop Box Central** from the center of the page.
5. Select **Education Collaboratives*** from the Drop Box list and select the **Next** button.
6. Select **Browse** to find and select the FY22 Annual Independent Audit Report on your computer.
7. Select the **Upload File** button to transmit your document.

If you are unable to access any of these fields, you may not have the necessary security clearance and should contact your collaborative's directory administrator in order to gain access to the portal.

Once your submission has been received, you will receive an email confirming receipt of the document(s), the date, and the time of submission. Please email any questions regarding this submission to the educationcollaborativeteam@mass.gov.

***PLEASE DO NOT UPLOAD ANY FILES TO THE *REGIONAL GOVERNANCE* DROPBOX.**

Cumulative Surplus

To activate the worksheet **double click inside the table** on page 6, or right-click, then choose Open Worksheet Object. Add the requested information to the worksheet, **including page numbers** that show where the values you have entered, can be located within the FY22 financial statements (FS). Formulas have been embedded within certain fields, to assist with the calculation of the FY22 cumulative surplus and its corresponding percentage of the collaborative's reported FY22 general fund expenditures. The worksheet provided should be completed and uploaded to the Department's Security Portal along with the FY22 Annual Independent Audit Report submission.

As a reminder, payments made to the Massachusetts State Retirement System (MSRS) and the Massachusetts Teachers Retirement System (MTRS) on behalf of employees, should be recorded as both revenue and expenditures in the financial statements, and are not to be included in the determination of the percentage of the FY22 General Fund expenditures or the cumulative surplus. For a detailed description of how to calculate cumulative surplus, please visit the Department's [Education Collaboratives' website](#) to review the updated guidance on education collaboratives' use of surplus funds.

[Enter Collaborative Name Here]

Surplus Calculation			
Fiscal Year 2022	Enter values below		Page in FY22 FS
(A) Surplus as of June 30, 2021		[Enter value]	(A) p.
<i>(Breakdown of use of 2021 surplus)</i>			
B(1) used to support the FY22 budget	[Enter value]		
B(2) issued as credits to member districts	[Enter value]		
B(3) issued as a check(s) to member district(s)	[Enter value]		
B(4) deposited to a restricted account(s)	[Enter value]		
(B) Board voted uses of surplus funds during FY22	<i>(total from B1:B4)</i>	\$ -	(B) p.
(C) Unexpended FY22 General Funds		[Enter value]	(C) p.
(D) Cumulative Surplus as of June 30, 2022	(A) - (B) + (C) = (D)	#VALUE!	(D) p.
(E) FY22 Total General Fund Expenditures		[Enter value]	(E) p.
(F) Cumulative Surplus Percentage	(D) ÷ (E)	#VALUE!	(F) p.
CUMULATIVE SURPLUS REDUCTION			
Allowable uses of surplus - in excess of the 25% limit			
(G) Cumulative surplus as of June 30, 2022		#VALUE!	
	25% limit (allowed)	#VALUE!	
(H) Cumulative Surplus REDUCTIONS			
(H)1 Credited to member districts for tuition, services, etc.	[Enter value]		
(H)2 Deposited to an established trust and/or reserve fund	[Enter value]		
(H)3 Returned (check) to school districts/towns	[Enter value]		
	Total Reductions	\$ -	
	FY22 Cumulative Surplus Percentage after Reductions	#VALUE!	